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Sino-Forest Corporation

(a company existing under the laws of Canada with limited liability)

US\$600,000,000

6¼% Guaranteed Senior Notes due 2017



This Canadian Offering Memorandum constitutes an offering of the securities described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This Canadian Offering Memorandum is not, and under no circumstances is it to be construed as, an advertisement or a public offering of the securities referred to in this document in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this Canadian Offering Memorandum or the merits of the securities described herein and any representation to the contrary is an offence.

Joint Global Coordinators and Lead Bookrunning Managers

BofA Merrill Lynch

Credit Suisse

The date of this Canadian Offering Memorandum is October 14, 2010

CANADIAN OFFERING MEMORANDUM

(British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador)

This Canadian Offering Memorandum relates to an offering (the "Offering") of US\$600,000,000 of 6¼% guaranteed senior notes due 2017 (the "Notes") by Sino-Forest Corporation (the "Company"). The Offering will be made (i) within the United States to qualified institutional buyers in reliance on Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act"), and (ii) outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act, including in **British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador** (collectively, the "Canadian Provinces"), to purchasers that are: (x) "accredited investors" as defined in section 1.1 of National Instrument 45-106 — *Prospectus and Registration Exemptions* ("NI 45-106") and, (y) are purchasing Notes from a dealer duly registered under applicable Canadian securities laws or, if such purchasers are purchasing from an "international dealer" as described in section 8.18 of National Instrument 31-103 *Registration Requirements and Exemptions* ("NI 31-103"), the purchaser is a "permitted client" as defined in section 1.1 of NI 31-103 (each such purchaser being a "Canadian Investor" and collectively, the "Canadian Investors").

Attached hereto and forming part of this Canadian Offering Memorandum is an offering memorandum dated October 14, 2010 (the "Offering Memorandum") relating to the Offering. Except as otherwise provided herein, capitalized and other terms used within this Canadian Offering Memorandum without definition have the meanings assigned to them in the Offering Memorandum. The offering of the Notes in Canada is being made solely by this Canadian Offering Memorandum and any decision to purchase the Notes should be based on information contained within this document. No person has been authorized to give any information or to make any representations concerning this Offering other than as contained herein.

Canadian Investors are advised that the information contained within the Offering Memorandum has not been prepared with regard to matters that may be of particular concern to Canadian Investors. Accordingly, Canadian Investors should consult with their own legal and financial advisers concerning the information contained within the Offering Memorandum and as to the suitability of an investment in the Notes in their particular circumstances.

This Canadian Offering Memorandum constitutes an offering of the Notes described herein in the Canadian Provinces only and is for the confidential use of only those persons to whom it is delivered by Banc of America Securities LLC and Credit Suisse Securities (USA) LLC (collectively, the "Initial Purchasers") or the Company in connection with the offering of the Notes therein. The Company and the Initial Purchasers reserve the right to reject all or part of any offer to purchase the Notes for any reason or allocate to any purchaser less than all of the Notes for which it has subscribed.

Investing in the Notes involves a degree of risk. Canadian Investors should refer to the sections entitled "Risk Factors" in the Offering Memorandum for additional information and should also review the section entitled "Transfer Restrictions" in the Offering Memorandum regarding restrictions on their ability to transfer the Notes.

Canadian investors are advised that, except where the contrary is indicated, all references to dollars contained in this Canadian Offering Memorandum are to U.S. dollars and that the Notes are denominated in U.S. dollars. Accordingly, the Canadian dollar value of the Notes will fluctuate with changes in the rate of exchange between the Canadian dollar and the U.S. dollar.

RESPONSIBILITY

Except as otherwise expressly required by applicable law or as agreed to by contract, no representation, warranty or undertaking (express or implied) is made and no responsibilities or liabilities of any kind or nature whatsoever are accepted by the Company or the Initial Purchasers as to the accuracy or completeness of the information contained within this Canadian Offering Memorandum or any other information provided in connection with this Offering.

RESALE RESTRICTIONS

The distribution of the Notes in the Canadian Provinces is being made on a private placement basis only and is exempt from the requirement that the Company prepare and file a prospectus with the relevant regulatory authorities in the Canadian Provinces. Accordingly, any resale of the Notes must be made in accordance with applicable securities laws in the Canadian Provinces, which may require resales to be made in accordance with prospectus and dealer registration requirements or exemptions therefrom. These resale restrictions may under certain circumstances apply to resales of the Notes outside of Canada. Canadian Investors are advised to seek legal advice prior to any resale of the Notes and should refer to "Transfer Restrictions-Canadian Restrictions" in the Offering Memorandum.

In addition to any other legend, the certificates evidencing the Notes issued to Canadian Investors will contain the following restrictive legend:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE WHICH IS FOUR MONTHS AND A DAY AFTER THE ORIGINAL ISSUE DATE.

Canadian Investors are advised that the Company is not required and does not intend to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Notes to the public in any province or territory of Canada in connection with this Offering.

REPRESENTATIONS OF PURCHASERS

Each Canadian Investor who purchases the Notes will be deemed to have represented to the Company and the Initial Purchasers that:

- (a) the offer and sale of the Notes in the Canadian Provinces were made to the purchaser exclusively through the Canadian Offering Memorandum;
- (b) the purchaser has reviewed and acknowledges the terms referred to above under the section entitled "Resale Restrictions" and agrees not to resell the Notes except in compliance with applicable resale restrictions in the Canadian Provinces and any foreign resale restrictions and acknowledges and hereby agrees to the representations as set forth in the section entitled "Transfer Restrictions" in the Offering Memorandum;
- (c) the purchaser is purchasing as principal, or is deemed to be purchasing as principal in accordance with applicable securities laws of the province in which the purchaser is resident, for its own account and not as agent for the benefit of another person;
- (d) the purchaser, or any ultimate purchaser for which the purchaser is acting as agent:
 - (i) is an "accredited investor" as defined in section 1.1 of NI 45-106, and (ii) is purchasing Notes from a dealer duly registered under applicable Canadian securities laws or, if the purchaser is purchasing from an "international dealer" as described in section 8.18 of NI 31-103, the purchaser is a "permitted client" as defined in section 1.1 of NI 31-103; and

- (e) the purchaser is not a person created or used solely to purchase or hold the Notes as an "accredited investor" as described in paragraph (m) of the definition of "accredited investor" in section 1.1 of NI 45-106.

In addition, each Canadian Investor resident in Ontario who purchases the Notes will be deemed to have represented to the Company and the Initial Purchasers that the purchaser:

- (a) has been notified by the Company that:
 - (i) the Company may be required to provide personal information pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any Notes purchased) ("**personal information**"), which Form 45-106F1 may be required to be filed by the Company under NI 45-106;
 - (ii) such personal information may be delivered to the Ontario Securities Commission (the "**OSC**") in accordance with NI 45-106;
 - (iii) such personal information is collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario;
 - (iv) such personal information is collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and
 - (v) the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administrative Support Clerk at the OSC, Suite 1903, Box 55, 20 Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-3684, Facsimile: (416) 593-8122; and
- (b) has authorized the indirect collection of the personal information by the OSC.

Furthermore, each Canadian Investor who purchases the Notes hereby acknowledges that its name, address, telephone number and other specified information, including the number of Notes it has purchased and the aggregate purchase price paid by the purchaser, may be disclosed to other Canadian securities regulatory authorities and may become available to the public in accordance with the requirements of applicable Canadian laws. By purchasing the Notes, each Canadian Investor consents to the disclosure of such information.

TAXATION AND ELIGIBILITY FOR INVESTMENT

Canadian Investors should consult their own legal and tax advisers with respect to the tax consequences of an investment in the Notes in their particular circumstances and with respect to the eligibility of the Notes for investment under relevant Canadian federal and provincial legislation and regulations and should review the section entitled "**Taxation — Canada**" in the Offering Memorandum.

FORWARD LOOKING INFORMATION

The Offering Memorandum contains certain statements as to future plans, prospects and operations in future years. These statements are based on the Company's current business plan and the underlying assumptions therefor, which may change from time to time. Canadian Investors are referred to the section entitled "Forward-Looking Statements" in the Offering Memorandum for a summary of the factors that could cause actual results to vary from any forward looking information contained in the Offering Memorandum and the policy of the Company with respect to updating investors as to any developments with respect to such information. On receipt of this Canadian Offering Memorandum, each Canadian Investor is deemed to have acknowledged and agreed that disclosure in the Offering

Memorandum with respect to forward looking statements or information is not material in the context of the Offering and acceptable.

Canadian Investors are advised that the Offering is being made using disclosure documents prepared in accordance with non-Canadian securities laws. Prospective purchasers should be aware that these requirements may differ significantly from those in the province of Ontario.

RIGHTS OF ACTION FOR DAMAGES OR RESCISSION

Securities legislation in certain of the Canadian provinces provides certain purchasers of securities pursuant to an offering memorandum (such as this Canadian Offering Memorandum) with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum and any amendment thereto contains a "misrepresentation", as defined in the applicable securities legislation. A "misrepresentation" is generally defined in the applicable securities legislation to mean an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

The following is a summary of the rights of action for damages or rescission, or both, available to certain purchasers resident in Ontario, Saskatchewan, Manitoba, Nova Scotia, New Brunswick, Newfoundland and Labrador, and Prince Edward Island.

Ontario

In Ontario, where there is reliance on the exemption from the prospectus requirements contained in section 2.3 of NI 45-106 (the "accredited investor exemption"), section 130.1 of the *Securities Act* (Ontario) (the "Ontario Act") provides that every purchaser of securities pursuant to an offering memorandum (such as this Canadian Offering Memorandum) shall have a statutory right of action for damages or rescission against the issuer and any selling security holder on whose behalf the distribution is made in the event that the offering memorandum contains a misrepresentation, as defined in the Ontario Act. A purchaser who purchases securities offered by the offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and any selling security holder provided that:

- (a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages as against the issuer and the selling security holders, if any;
- (b) the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the misrepresentation;
- (c) the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that they prove do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon;
- (d) the issuer and the selling security holders, if any, will not be liable for a misrepresentation in forward-looking information ("FLI") if they prove that:
 - (i) the offering memorandum contains, proximate to the FLI, reasonable cautionary language identifying the FLI as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection set out in the FLI, and a statement of material factors

or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the FLI; and

- (ii) the issuer had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the FLI; and
- (e) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the Ontario Act provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of:
 - (i) 180 days after the date that the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - (ii) three years after the date of the transaction that gave rise to the cause of action.

This Canadian Offering Memorandum is being delivered in reliance on the accredited investor exemption from the prospectus requirements contained under section 2.3 of NI 45-106. The rights referred to in section 130.1 of the Ontario Act do not apply in respect of an offering memorandum (such as this Canadian Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the accredited investor exemption if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank (each as defined in section 1.1 of NI 45-106);
- (b) the Business Development Bank of Canada incorporated under the *Business Development Bank of Canada Act* (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

The foregoing summary is subject to the express provisions of the Ontario Act and the rules, regulations and other instruments thereunder, and reference should be made to the complete text of such provisions. Such provisions may contain limitations and statutory defences on which the Company may rely. The enforceability of these rights may be limited as described below under the section entitled "Enforcement of Legal Rights".

The rights of action discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law.

Saskatchewan

In Saskatchewan, section 138 of *The Securities Act, 1988* (Saskatchewan), as amended (the "Saskatchewan Act") provides that where an offering memorandum (such as this Canadian Offering Memorandum) or any amendment to it is sent or delivered to a purchaser and it contains a misrepresentation (as defined in the Saskatchewan Act), a purchaser who purchases a security covered by the offering memorandum or any amendment to it has, without regard to whether the purchaser

relied on the misrepresentation, a right of action for rescission against the issuer or a selling security holder on whose behalf the distribution is made or has a right of action for damages against:

- (a) the issuer or a selling security holder on whose behalf the distribution is made;
- (b) every promoter and director of the issuer or the selling security holder, as the case may be, at the time the offering memorandum or any amendment to it was sent or delivered;
- (c) every person or company whose consent has been filed respecting the offering, but only with respect to reports, opinions or statements that have been made by them;
- (d) every person who or company that, in addition to the persons or companies mentioned in (a) to (c) above, signed the offering memorandum or the amendment to the offering memorandum; and
- (e) every person who or company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum.

Such rights of rescission and damages are subject to certain limitations including the following:

- (a) if the purchaser elects to exercise its right of rescission against the issuer or selling security holder, it shall have no right of action for damages against that party;
- (b) in an action for damages, a defendant will not be liable for all or any portion of the damages that he, she or it proves do not represent the depreciation in value of the securities resulting from the misrepresentation relied on;
- (c) no person or company, other than the issuer or a selling security holder, will be liable for any part of the offering memorandum or any amendment to it not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation;
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered to the public;
- (e) no person or company is liable in an action for rescission or damages if that person or company proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (f) no person or company, other than the issuer or selling security holder, is liable for any part of the offering memorandum or the amendment to the offering memorandum purporting to be made on the person's or company's own authority as an expert or purporting to be a copy of or an extract from the person's or company's own report, opinion or statement as an expert, unless the person or company failed to conduct a reasonable investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation or believed there had been a misrepresentation;
- (g) a person who or a company that sells securities on behalf of the issuer or selling security holder under the offering memorandum or amendment to the offering memorandum is not liable if that person or company can establish that he, she or it cannot reasonably be expected to have had knowledge of any misrepresentation in the offering memorandum or the amendment to the offering memorandum; and

- (h) no person or company is liable in an action for rescission or damages for a misrepresentation in forward-looking information if the person or company proves that:
 - (i) with respect to the document containing the forward-looking information, proximate to that information there is contained reasonable cautionary language identifying the forward-looking information as such, and identifying material factors that could cause actual results to differ materially from a conclusion, forecast or projection in the forward-looking information, and a statement of the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information; and
 - (ii) the person or company had a reasonable basis for drawing the conclusions or making the forecasts and projections set out in the forward-looking information.

In addition, no person or company, other than the issuer or selling security holder, will be liable if the person or company proves that:

- (a) the offering memorandum or any amendment to it was sent or delivered without the person's or company's knowledge or consent and that, on becoming aware of it being sent or delivered, that person or company immediately gave reasonable general notice that it was so sent or delivered;
- (b) after the filing of the offering memorandum or the amendment to the offering memorandum and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum or the amendment to the offering memorandum, the person or company withdrew the person's or company's consent to it and gave reasonable general notice of the person's or company's withdrawal and the reason for it;
- (c) with respect to any part of the offering memorandum or any amendment to it purporting to be made on the authority of an expert, or purporting to be a copy of, or an extract from, a report, an opinion or a statement of an expert, that person or company had no reasonable grounds to believe and did not believe that there had been a misrepresentation, the part of the offering memorandum or any amendment to it did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert;
- (d) with respect to any part of the offering memorandum or of the amendment to the offering memorandum purporting to be made on the person's or company's own authority as an expert or purporting to be a copy of or an extract from the person's or company's own report, opinion or statement as an expert that contains a misrepresentation attributable to failure to represent fairly his, her or its report, opinion or statement as an expert: (i) the person or company had, after reasonable investigation, reasonable grounds to believe, and did believe, that the part of the offering memorandum or of the amendment to the offering memorandum fairly represented the person's or company's report, opinion or statement; or (ii) on becoming aware that the part of the offering memorandum or of the amendment to the offering memorandum did not fairly represent the person's or company's report, opinion or statement as an expert, the person or company immediately advised the Saskatchewan Financial Services Commission and gave reasonable general notice that such use had been made of it and that the person or company would not be

responsible for that part of the offering memorandum or of the amendment to the offering memorandum; or

- (e) with respect to a false statement purporting to be a statement made by an official person or contained in what purports to be a copy of or extract from a public official document, the statement was a correct and fair representation of the statement or copy of or extract from the document and the person or company had reasonable grounds to believe, and did believe, that the statement was true.

Similar rights of action for damages and rescission are provided in section 138.1 of the Saskatchewan Act in respect of a misrepresentation in advertising and sales literature disseminated in connection with a trade of securities.

Section 138.2 of the Saskatchewan Act also provides that where an individual makes a verbal statement to a purchaser that contains a misrepresentation relating to the security purchased and the verbal statement is made either before or contemporaneously with the purchase of the security, the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the individual who made the verbal statement. Such rights of damages against the individual who made the verbal statement are subject to certain limitations including the following:

- (a) no individual is liable under this section if: (i) that individual proves that the purchaser purchased the securities with knowledge of the misrepresentation, (ii) that individual can establish that he or she cannot reasonably be expected to have known that his or her statement contained a misrepresentation, or (iii) prior to the purchase of the securities by the purchaser, that individual notified the purchaser that the individual's statement contained a misrepresentation;
- (b) in no case shall the amount recoverable exceed the price at which the securities were offered to the public;
- (c) in an action for damages, the defendant is not liable for all or any portion of the damages that the defendant proves do not represent the depreciation in value of the security resulting from the misrepresentation relied on; and
- (d) the right of action for or damages conferred by this section is in addition to and does not derogate from any other right the purchaser may have at law.

Section 141(1) of the Saskatchewan Act provides a purchaser with the right to void the purchase agreement and to recover all money and other consideration paid by the purchaser to the vendor pursuant to the trade for the securities if the securities are sold by a vendor trading in Saskatchewan in contravention of the Saskatchewan Act, the regulations to the Saskatchewan Act or a decision of the Saskatchewan Financial Services Commission, whether that vendor is trading on his own behalf or by another person or agent on his own behalf.

Section 141(2)(b) of the Saskatchewan Act also provides a right of action for rescission or damages to a purchaser of securities to whom an offering memorandum or any amendment to it was not sent or delivered prior to or at the same time as the purchaser enters into an agreement to purchase the securities, as required by Section 80.1 of the Saskatchewan Act.

The rights of action for damages or rescission under the Saskatchewan Act are in addition to and do not derogate from any other right which a purchaser may have at law.

Not all defences upon which the Company or others may rely are described herein. Please refer to the full text of the Saskatchewan Act for a complete listing.

Section 147 of the Saskatchewan Act provides that no action shall be commenced to enforce any of the foregoing rights more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of any other action, other than an action for rescission, the earlier of:
 - (i) one year after the plaintiff first had knowledge of the facts giving rise to the cause of action; or
 - (ii) six years after the date of the transaction that gave rise to the cause of action.

The Saskatchewan Act also provides a purchaser who has received an amended offering memorandum delivered in accordance with subsection 80.1(3) of the Saskatchewan Act the right to withdraw from the agreement to purchase the securities by delivering a notice to the person who or company that is selling the securities, indicating the purchaser's intention not to be bound by the purchase agreement, provided such notice is delivered by the purchaser within two business days of receiving the amended offering memorandum.

Manitoba

In Manitoba, *The Securities Act* (Manitoba) (the "**Manitoba Act**") provides that where an offering memorandum (such as this Canadian Offering Memorandum) or an amendment thereto contains a misrepresentation, a purchaser who purchases a security offered by the offering memorandum (such as this Canadian Offering Memorandum) is deemed to have relied on the representation if it was a misrepresentation at the time of purchase, and the purchaser has:

- (a) a right of action for damages against (i) the issuer, (ii) every director of the issuer at the date of the offering memorandum, and (iii) every person or company who signed the offering memorandum; and
- (b) a right of rescission against the issuer.

If the purchaser chooses to exercise a right of rescission against the issuer, the purchaser has no right of action for damages against a person or company referred to above.

If a misrepresentation is contained in a record incorporated by reference in, or is deemed to be incorporated into, an offering memorandum (such as this Canadian Offering Memorandum), the misrepresentation is deemed to be contained in the offering memorandum.

When a misrepresentation is contained in an offering memorandum (such as this Canadian Offering Memorandum), no person or company is liable:

- (a) if the person or company proves that the purchaser had knowledge of the misrepresentation;
- (b) other than with respect to the issuer, if the person or company proves:
 - (i) that the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent, and
 - (ii) that, after becoming aware that it was sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the person's or company's knowledge and consent;
- (c) other than with respect to the issuer, if the person or company proves that, after becoming aware of the misrepresentation, the person or company withdrew the

person's or company's consent to the offering memorandum and gave reasonable notice to the issuer of the withdrawal and the reason for it;

- (d) other than with respect to the issuer, if, with respect to any part of the offering memorandum purporting to be made on the authority of an expert or to be a copy of, or an extract from, an expert's report, opinion or statement, the person or company proves that the person or company did not have any reasonable grounds to believe and did not believe that:
 - (i) there had been a misrepresentation, or
 - (ii) the relevant part of the offering memorandum:
 - (A) did not fairly represent the expert's report, opinion or statement, or
 - (B) was not a fair copy of, or an extract from, the expert's report, opinion or statement; or
- (e) other than with respect to the issuer, with respect to any part of the offering memorandum not purporting to be made on an expert's authority and not purporting to be a copy of, or an extract from, an expert's report, opinion or statement, unless the person or company:
 - (i) did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation, or
 - (ii) believed there had been a misrepresentation.

The amount recoverable shall not exceed the price at which the securities were offered under the offering memorandum. In an action for damages, the defendant is not liable for all or any part of the damages that the defendant proves do not represent the depreciation in value of the security as a result of the misrepresentation.

All or any one or more of the persons or companies that are found to be liable or accept liability in an action for damages are jointly and severally liable. A defendant who is found liable to pay a sum in damages may recover a contribution, in whole or in part, from a person who is jointly and severally liable to make the same payment in the same cause of action unless, in all circumstances of the case, the court is satisfied that it would not be just and equitable.

When the Manitoba Act or a regulation under the Manitoba Act requires a dealer, offeror or company to send an offering memorandum to purchasers of a security, a purchaser has an additional right of rescission or a right of action for damages against a dealer, offeror or company who fails to send an offering memorandum within the prescribed time.

A purchaser of a security to whom an offering memorandum (such as this Canadian Offering Memorandum) is required to be sent may rescind the contract to purchase the security by sending a written notice of rescission to the issuer not later than midnight on the second day, excluding Saturdays and holidays, after the purchaser signs the agreement to purchase the securities.

The amount the purchaser is entitled to recover when exercising the right to rescind for failure to send an offering memorandum (such as this Canadian Offering Memorandum) as and when required shall not exceed the net asset value of the securities purchased, at the time the right to rescind is exercised.

No action may be commenced to enforce a right:

- (a) in the case of an action for rescission, more than 180 days after the day of the transaction that gave rise to the cause of action; or

- (b) in any other case, more than the earlier of
 - (i) 180 days after the day that the plaintiff first had knowledge of the facts giving rise to the cause of action, or
 - (ii) two years after the day of the transaction that gave rise to the cause of action.

The rights of action for rescission or damages conferred are in addition to and do not derogate from any other right that the purchaser may have at law.

Nova Scotia

In Nova Scotia, the *Securities Act* (Nova Scotia) (the "Nova Scotia Act") provides that where an offering memorandum (such as this Canadian Offering Memorandum) or an amendment thereto contains a misrepresentation, the purchaser will be deemed to have relied on the misrepresentation, if it was a misrepresentation at the time of purchasing and the purchaser shall, subject to certain limitations and defences, have a statutory right of action for damages against the seller of the securities and, subject to certain additional defences, every director of the seller at the date of the offering memorandum and every person who signed the offering memorandum, or alternatively, so long as such purchaser is the owner of such securities, at the purchaser's election, for rescission in which case the purchaser shall have no right of action for damages against any of the seller, its directors at the date of the offering memorandum, or any other person who signed same.

These rights of action are subject to certain limitations, including, among other things, that:

- (a) the company will not be held liable if the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (c) in no case will the amount recoverable by a purchaser exceed the price at which the securities were offered under the offering memorandum or any amendment thereto.

The Nova Scotia Act provides that no person is liable if it is proven that the offering memorandum or any amendment thereto was sent or delivered to the purchaser without the person's knowledge or consent and that, on becoming aware of its delivery, the person gave reasonable general notice that it was delivered without the person's knowledge or consent, or after the delivery of the offering memorandum or any amendment thereto and before the purchase of the securities by the purchaser, on becoming aware of any misrepresentation in the offering memorandum or any amendment thereto, the person withdrew consent to it and gave reasonable general notice of the withdrawal and the reason for it. This provision does not apply if the seller of securities is also the issuer.

With respect to any part of an offering memorandum or any amendment thereto purporting to be made on the authority of an expert, or to be a copy of, or an extract from, a report, an opinion or a statement of an expert which contains a misrepresentation, no person will be liable if the person had no reasonable grounds to believe and did not believe that there had been a misrepresentation, or the relevant part of the offering memorandum or any amendment thereto did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert. This provision does not apply if the seller of securities is also the issuer.

The Nova Scotia Act also provides that no person is liable with respect to any part of an offering memorandum or any amendment thereto not purporting to be made on the authority of an

expert, or to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation or believed that there had been a misrepresentation. This provision does not apply if the seller of securities is also the issuer.

No action to enforce the foregoing rights may be commenced more than 120 days after the date on which payment was made for the securities or after the date on which the initial payment for the securities was made, where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

New Brunswick

In New Brunswick, the *Securities Act* (New Brunswick) (the "**New Brunswick Act**") provides that where an offering memorandum (such as this Canadian Offering Memorandum) or an amendment thereto contains a misrepresentation, the purchaser who purchases a security offered by an offering memorandum (such as this Canadian Offering Memorandum) is deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and the purchaser has a right of action for damages against the issuer and a selling security holder on whose behalf the distribution is made or may elect to exercise a right of rescission, in which case they shall have no right of action for damages.

These rights of action are subject to certain limitations including among other things, that:

- (a) in an action for rescission or damages, a person will not be liable if it proves that the purchaser purchased the securities with knowledge of the misrepresentation;
- (b) in an action for damages, the defendant is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- (c) in no case shall the amount recoverable under the right of action described herein exceed the price at which the securities were offered.

No action to enforce a right of rescission may be commenced more than 180 days after the date of the transaction that gave rise to the cause of action and in the case of any action other than an action for rescission, such action shall be commenced before the earlier of: (a) one year after the purchaser first had knowledge of the facts giving rise to the cause of action; and (b) six years after the date of the transaction that gave rise to the cause of action.

Newfoundland and Labrador

In Newfoundland and Labrador, the *Securities Act* (Newfoundland and Labrador) (the "**Newfoundland Act**") provides that where an offering memorandum (such as this Canadian Offering Memorandum) or an amendment thereto contains a misrepresentation, a purchaser to whom the offering memorandum has been delivered and who purchases a security offered by an offering memorandum (such as this Canadian Offering Memorandum), the purchaser has, without regard to whether the purchaser relied on the misrepresentation, a right of action for damages against the issuer and, subject to certain additional defences, against directors of the issuer at the date of the offering memorandum and every person or company who has signed the offering memorandum, but may elect to exercise a right of rescission against the issuer. Where a right of rescission is exercised, a purchaser shall have no right of action for damages against the issuer, the directors of the issuer at the date of the offering memorandum and the persons who signed the offering memorandum.

A defendant in an action:

- (a) is not liable for all or any portion of the damages that it proves do not represent the depreciation in value of the security as a result of the misrepresentation relied upon;
- (b) is not liable where the defendant proves that the purchaser had knowledge of the misrepresentation; and
- (c) in no case shall the amount recoverable under the right of action exceed the price at which the securities were offered.

Where a misrepresentation is contained in an offering memorandum, a person or company, other than the issuer, shall not be liable:

- (a) where the person or company proves that the offering memorandum was sent to the purchaser without the person's or company's knowledge or consent and that, on becoming aware of it being sent, the person or company promptly gave reasonable notice to the issuer that it was sent without the person's or company's knowledge or consent;
- (b) where on becoming aware of any misrepresentation in the offering memorandum, the person or company proves they withdrew the person's or company's consent to the offering memorandum, and gave reasonable notice to the issuer of the withdrawal and the reason for it;
- (c) if, with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, the person or company proves they had no reasonable grounds to believe and did not believe that there had been a misrepresentation or the relevant part of the offering memorandum did not fairly represent the report, opinion or statement of the expert, or was not a fair copy of, or an extract from, the report, opinion or statement of the expert, or
- (d) with respect to any part of the offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, opinion or statement of an expert, unless the person or company did not conduct an investigation sufficient to provide reasonable grounds for a belief that there had been no misrepresentation, or believed there had been a misrepresentation.

If a misrepresentation is contained in a record incorporated by reference in, or deemed incorporated into, an offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum.

The right of action for rescission or damages described herein is in addition to and without derogation from any other right the purchaser may have at law.

No action may be commenced to enforce the rights described above more than:

- (a) in the case of an action for rescission, 180 days after the date of the transaction that gave rise to the cause of action; or
- (b) in the case of an action, other than an action for rescission, the earlier of:
 - (i) 180 days after the plaintiff first had knowledge of the facts giving rise to the cause of action, or
 - (ii) three years after the date of the transaction that gave rise to the cause of action.

Prince Edward Island

In Prince Edward Island, the rights of action for rescission or damages are conferred by the *Securities Act* (Prince Edward Island) (the "PEI Act").

Where an offering memorandum (such as this Canadian Offering Memorandum) or an amendment thereto contains a misrepresentation, a purchaser who purchased a security during the period of distribution, without regard to whether the purchaser relied upon such misrepresentation, has a statutory right of action for damages against the issuer, any selling security holder on whose behalf a distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum. Alternatively, the purchaser while still the owner of the securities may elect to exercise a statutory right of action for rescission against the issuer (or any selling security holder on whose behalf a distribution may be made). Where a right of rescission is exercised, a purchaser shall have no right of action for damages against the issuer, any selling security holder on whose behalf a distribution is made, every director of the issuer at the date of the offering memorandum, and every person who signed the offering memorandum.

A misrepresentation in PEI includes an omission to state a material fact that is required to be stated by the PEI Act. If a misrepresentation is contained in a record incorporated by reference in, or deemed to be incorporated into, an offering memorandum, the misrepresentation is deemed to be contained in the offering memorandum.

The statutory rights of action for rescission or damages by a purchaser are subject to the following limitations:

- (a) no action shall be commenced to enforce the right of action for rescission by a purchaser later than 180 days after the date of the transaction that gave rise to the cause of action;
- (b) in the case of any action other than an action for rescission, no action shall be commenced later than:
 - (i) 180 days after the purchaser first had knowledge of the facts giving rise to the cause of action; or
 - (ii) three years after the date of the transaction giving rise to the cause of action, whichever period expires first;
- (c) no person shall be liable if the person proves that the purchaser purchased the security with knowledge of the misrepresentation;
- (d) no person, other than the issuer and selling security holder, shall be liable with respect to any part of an offering memorandum not purporting to be made on the authority of an expert and not purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, unless the person
 - (i) failed to conduct a reasonable investigation to provide reasonable grounds for a belief that there had been no misrepresentation; or
 - (ii) believed that there had been a misrepresentation;
- (e) no person, other than the issuer and the selling security holder, shall be liable if the person proves that:
 - (i) the offering memorandum was sent to the purchaser without the person's knowledge or consent and that, on becoming aware of it being sent, the person

had promptly given reasonable notice to the issuer that it had been sent without the knowledge and consent of the person;

- (ii) the person on becoming aware of the misrepresentation in the offering memorandum, had withdrawn the person's consent to the offering memorandum and had given reasonable notice to the issuer of the withdrawal and the reason for it; or
- (iii) with respect to any part of the offering memorandum purporting to be made on the authority of an expert or purporting to be a copy of, or an extract from, a report, statement or opinion of an expert, the person had no reasonable grounds to believe and did not believe that;
 - (A) there had been a misrepresentation, or
 - (B) the relevant part of the offering memorandum
 - (a) did not fairly represent the report, statement or opinion of the expert, or
 - (b) was not a fair copy of, or an extract from, the report, statement, or opinion of the expert.

In no case shall the amount recoverable in any action exceed the price at which the securities were offered to the purchaser. In an action for damages, the defendant shall not be liable for any damages that the defendant proves do not represent the depreciation in value of securities as a result of the misrepresentation.

A purchaser of a security to whom an offering memorandum is required to be sent may cancel the contract to purchase the security by sending written notice to the issuer by midnight on the second business day after the purchaser signs the agreement to purchase the securities.

The foregoing statutory right of action for rescission or damages conferred is in addition to and without derogation from any other right the purchaser may have at law. This summary is subject to the express conditions of the PEI Act and the regulations and rules made under it, and prospective investors should refer to the complete text of those provisions.

General

The foregoing summaries are subject to the express provisions of the Ontario Act, the Nova Scotia Act, the New Brunswick Act, the Saskatchewan Act, the Manitoba Act, the Newfoundland Act and the PEI Act and the regulations, rules and policy statements thereunder and reference is made thereto for the complete text of such provisions.

The rights of action for rescission or damages described herein are in addition to and without derogation from any other right or remedy that the purchaser may have at law.

British Columbia, Québec and Alberta

Notwithstanding that the *Securities Act* (British Columbia), *Securities Act* (Québec) and the *Securities Act* (Alberta) do not provide or require the Company to provide to purchasers resident in these jurisdictions any rights of action in circumstances where this Canadian Offering Memorandum or any amendment hereto contains a misrepresentation, the Company hereby grants to such purchasers the equivalent rights of action as are set forth above with respect to purchasers resident in Ontario.

ENFORCEMENT OF LEGAL RIGHTS

All or substantially all of the directors and officers of the Company, as well as the experts named herein, may be located outside of Canada and, as a result, it may not be possible for Canadian Investors to effect service of process within Canada upon the Company or such persons. All or a substantial portion of the assets of the Company and such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside of Canada. Canadian Investors should consult with their own legal advisers as to the enforceability of legal rights against the Company or such persons outside Canada.

LANGUAGE OF DOCUMENTS

Upon receipt of this document, each Canadian Investor hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

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Sino-Forest Corporation

(a company existing under the laws of Canada with limited liability)

US\$600,000,000

6¹/₄% Guaranteed Senior Notes due 2017

We are offering an aggregate principal amount of US\$600,000,000 6¹/₄% Guaranteed Senior Notes due 2017 (the "Notes"). The Notes will bear interest at the rate of 6.25% per year, payable semi-annually on April 21 and October 21 of each year, beginning on April 21, 2011. The Notes will mature on October 21, 2017.

We may redeem up to 35% of the Notes using the proceeds of certain of our equity offerings completed before October 21, 2013. We may redeem some or all of the Notes at any time on or after October 21, 2014. The redemption prices are set forth in this Offering Memorandum. We may redeem some or all of the notes prior to October 21, 2014, at a price equal to 100% of the principal amount of the Notes plus a "make-whole" premium. If we experience specific kinds of changes in control, we must offer to purchase the Notes at a price equal to 101% of their principal amount plus unpaid and accrued interest. We may redeem all but not less than all of the Notes at the principal amount plus accrued interest upon certain changes in tax laws.

The Notes are our senior obligations, guaranteed by certain of our existing subsidiaries (the "Subsidiary Guarantors"), other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in the section entitled "Description of the Notes." The guarantees by the Subsidiary Guarantors are referred to as "Subsidiary Guarantees." The Notes will be (1) senior in right of payment to any of our existing and future obligations expressly subordinated in right of payment to the Notes, (2) at least *pari passu* in right of payment against us with all other unsecured, unsubordinated indebtedness of ours (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law), (3) effectively subordinated to our and the Subsidiary Guarantors' other secured obligations (if any), to the extent of the value of the assets serving as security (other than the Collateral (as defined herein)) therefor, and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the pledge of any collateral. The Collateral (as defined herein) pledged for the benefit of the holders of the Notes will be shared with certain other creditors of ours. See "Risk Factors—Risks relating to the Collateral and the Subsidiary Guarantees."

Investing in the Notes involves risks. See "Risk Factors" on page 18.

Price: 100%

plus accrued interest, if any, from October 21, 2010.

We have made an application for the listing of the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Memorandum. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of us, the Subsidiary Guarantors or the Notes. Delivery of the Notes in book-entry form will be made on or about October 21, 2010.

The Notes and the Subsidiary Guarantees are being offered to qualified institutional buyers, as defined in, and in reliance on, Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended (the "Securities Act") and in an offshore transaction to persons other than U.S. persons (each term as defined in Regulation S under the Securities Act ("Regulation S")) in accordance with Regulation S. The Notes and the Subsidiary Guarantees have not been registered under the Securities Act or any other securities laws. The Notes and the Subsidiary Guarantees may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons, or in any other jurisdiction where such registration is required and has not been effected, except in a transaction not subject to, or exempt from, the registration requirements of the Securities Act and any other applicable securities laws. See "Transfer Restrictions."

Joint Global Coordinators and Lead Bookrunning Managers

BofA Merrill Lynch

Credit Suisse

The date of this Offering Memorandum is October 14, 2010.

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This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as of any time after that date.

We, having made all reasonable inquiries, confirm that (i) this Offering Memorandum contains all information with respect to us, our subsidiaries and affiliates referred to in this Offering Memorandum and the Notes (including the Subsidiary Guarantees attached thereto) that is material in the context of the offering; (ii) the statements contained in this Offering Memorandum relating to us and our subsidiaries and affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates and the Notes (including the Subsidiary Guarantees attached thereto), the omission of which would, in the context of the offering, make this document, as a whole, misleading in any material respect; and (v) we have made all reasonable inquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This Offering Memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this Offering Memorandum before making a decision whether to purchase the Notes. You must not use this Offering Memorandum for any other purpose, or disclose any information in this Offering Memorandum to any other person.

You should rely only on the information contained in this Offering Memorandum. We have not, and the Initial Purchasers have not, authorized any other person to provide you with information that is different from what is contained in this Offering Memorandum. This Offering Memorandum may only be used where it is legal to offer and sell these securities. The information appearing in this Offering Memorandum is accurate only as of the date on the front cover of this Offering Memorandum or otherwise as of the date specifically referred to in connection with the particular information. Our business, financial condition, results of operations and prospects may have changed since that date.

You may not construe the contents of this Offering Memorandum as investment, legal or tax advice. You should consult your own professional advisors as to legal, tax, business, financial and related aspects of a purchase of the Notes. In making any investment decision regarding the Notes, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. In addition, there may be legal restrictions on the distribution of this Offering Memorandum or this offering in certain jurisdictions. If you come into possession of this Offering Memorandum, we and the Initial Purchasers require that you inform yourself about and observe any such restrictions. For a further description of certain restrictions on this offering, and the offer, sale or resale of our Notes, see "Plan of Distribution" and "Transfer Restrictions." Neither we nor the Initial Purchasers are making any representation or warranty to any offeree or purchaser of the Notes regarding the legality of an investment in the Notes by such offeree or purchaser under applicable legal investment or similar laws or regulations.

Prospective purchasers are hereby notified that sellers of the securities (the Notes and the Subsidiary Guarantees) may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. No action is being taken to permit a public offering of the Notes in any jurisdiction where action would be required for such purposes.

THE NOTES (INCLUDING THE SUBSIDIARY GUARANTEES ATTACHED THERETO) HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES, ANY OTHER U.S. REGULATORY AUTHORITY OR THE SECURITIES COMMISSION OR OTHER REGULATORY AUTHORITY OF ANY NON-U.S. JURISDICTION, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE

OFFERING OF THE NOTES (INCLUDING THE SUBSIDIARY GUARANTEES ATTACHED THERETO) OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES AND MAY BE A CRIMINAL OFFENSE IN OTHER JURISDICTIONS.

We have provided information contained in this Offering Memorandum and have also relied on other identified sources. The Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and you should not rely on anything contained in this Offering Memorandum as a promise or representation by the Initial Purchasers. By purchasing the Notes offered by this Offering Memorandum, you will be deemed to have acknowledged that you have reviewed this Offering Memorandum and to have made certain acknowledgements, representations and agreements as set forth under the caption "Transfer Restrictions" in this Offering Memorandum. You may not reproduce or distribute this Offering Memorandum, in whole or in part, and you may not disclose any contents or use any information in this Offering Memorandum for any purpose other than considering an investment in our Notes offered hereby. By accepting delivery of this Offering Memorandum, you agree to these terms.

IN CONNECTION WITH THE ISSUE OF THE NOTES, BANC OF AMERICA SECURITIES LLC OR ITS AFFILIATES, AS THE STABILIZING MANAGER (THE "STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER), MAY OVERALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL, IN COMPLIANCE WITH ALL APPLICABLE LAWS AND REGULATORY REQUIREMENTS. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER) WILL UNDERTAKE STABILIZATION ACTIONS. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILIZATION ACTION OF OVERALLOTMENT MUST BE CONDUCTED BY THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILIZING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

THIS OFFERING MEMORANDUM CONTAINS STATISTICAL AND FINANCIAL DATA FROM INDUSTRY PUBLICATIONS AND OTHER THIRD PARTY SOURCES. ALTHOUGH WE BELIEVE THE INFORMATION TO BE CORRECT, WE HAVE NOT INDEPENDENTLY VERIFIED SUCH DATA AND THEREFORE WE CANNOT ASSURE YOU THAT IT IS COMPLETE OR RELIABLE. SUCH DATA MAY ALSO BE PRODUCED ON DIFFERENT BASES FROM THOSE USED IN OTHER COUNTRIES. THEREFORE, DISCUSSIONS OF MATTERS RELATING TO THE PRC, DIFFERENT REGIONS AND MARKETS WITHIN THE PRC, THEIR RESPECTIVE ECONOMIES AND OUR INDUSTRIES IN THIS OFFERING MEMORANDUM ARE SUBJECT TO THE CAVEAT THAT THE STATISTICAL AND OTHER DATA UPON WHICH SUCH DISCUSSIONS ARE BASED MAY BE INCOMPLETE OR UNRELIABLE.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Offering Memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company" and words of similar import, we are referring to Sino-Forest Corporation itself, or to Sino-Forest Corporation and its consolidated subsidiaries, as the context requires.

All references in this Offering Memorandum to "U.S. dollars" and "US\$" are to United States dollars; all references to "Canadian dollars" and "Cdn.\$" are to Canadian dollars; all references to "H.K. dollars" and "HK\$" are to Hong Kong dollars; all references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China, or the "PRC"; and all references to "€" or "Euro" are to Euros. Solely for the convenience of the reader, this Offering Memorandum contains translations of certain Canadian dollar, H.K. dollar and Renminbi amounts into U.S. dollars. All such translations have been made at the rate indicated thereof being the noon buying rate in The City of New York for cable transfers in Canadian dollars or Renminbi, as applicable, as certified for customs purposes by the Federal Reserve Bank of New York on the date indicated thereof. All such H.K. dollar translations have been made at the rate of HK\$7.7573 to US\$1.00 as of October 1, 2010, the linked exchange rate between such currencies under policies of the Hong Kong government in effect as of the date of this Offering Memorandum. On October 1, 2010, the noon buying rate for cable transfers in Renminbi was RMB6.6895 to US\$1.00. On October 1, 2010, the noon buying rate for cable transfers in Canadian dollars was Cdn.\$1.0214 to US\$1.00. See "Exchange Rates." All translations in this Offering Memorandum are provided solely for your convenience, and no representation is made that the Canadian dollar, H.K. dollar or Renminbi amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate.

References to "the People's Republic of China" or to the "PRC," for purposes of this Offering Memorandum, do not include the Hong Kong Special Administrative Region, or Hong Kong, the Macau Special Administrative Region, or Taiwan.

Certain references to PRC laws, regulations and policies include the corresponding Chinese translations.

"PRC government" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

A hectare is a metric unit of area equal to 10,000 square meters or approximately 2.471 acres.

"Cooperative joint venture" or "CJV" means a Sino-foreign cooperative joint venture enterprise with limited liability established in the PRC under the relevant PRC laws and regulations which provides, among other things, that the distribution of profit or loss and the control of the joint venture company is entirely based on the joint venture contract and not on the joint venture parties' contributions to the registered capital of the joint venture.

“Wholly foreign-owned enterprise” or “WFOE” means an enterprise established in the PRC in accordance with the relevant PRC laws, with capital provided solely by foreign investors. Such enterprises do not include branches and offices established in the PRC by foreign enterprises and other economic entities.

Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements. All statements other than statements of historical fact contained in this Offering Memorandum, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future including assumptions regarding expected yields, future wood fibre prices, business and operating strategies, and our ability to operate our production facilities and plantations on a profitable basis. Important risk factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- political, social and economic considerations in the PRC;
- restrictions on foreign currency convertibility and remittance abroad;
- exchange rate fluctuations and changes in interest rates;
- developing legal system in the PRC;
- regulations and restrictions;
- change in policies, laws or regulations in the PRC;
- export tariffs imposed by the governments of timber exportation countries, including Russia;
- governmental approval processes;
- our ability to expand and manage our tree plantations;
- our business and operating strategies;
- our capital expenditure and forestry development plans;
- the amount and nature of, and potential for, future development of our business and new projects, including outside of the PRC;
- our ability to acquire rights to additional standing timber;
- our ability to meet our expected plantation yields;
- our ability to rely on authorized intermediaries, key customers, suppliers and third party service providers;
- our ability to operate our production facilities on a profitable basis;
- our evaluation of our provision for income and related taxes;
- the cyclical nature of the forest products industry, price fluctuations for wood products and logs, and the demand and supply of logs;
- various business opportunities that we may pursue;
- changes in competitive conditions and our ability to compete under these conditions;

- weather conditions, changes in climate, timber growth cycles and natural disasters;
- other operating risks and factors referenced in this Offering Memorandum; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this Offering Memorandum. Management provides forward-looking statements because it believes they provide useful information to readers when considering their investment objectives, and cautions readers that the information may not be appropriate for other purposes. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this Offering Memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur.

AVAILABLE INFORMATION

During any period in which we are not subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to each holder of our Notes, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of our Notes for so long as any such Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act. So long as any of the Notes remains outstanding, we will provide to the Trustee (as defined herein) for forwarding to the holders of the Notes our quarterly and annual financial statements.

ENFORCEMENT OF CIVIL LIABILITIES

We are organized under the federal laws of Canada. All of our directors and officers and certain of the experts named herein reside outside the United States and all or a substantial portion of their assets and substantially all of our assets are located outside the United States. Therefore, it may not be possible for you to effect service of process within the United States against such persons or us or to enforce in the United States judgments rendered against them or us. In addition, you should not assume that the courts of Canada (i) would enforce judgments of U.S. courts obtained in actions against us or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States, or (ii) would enforce, in original actions, claims against us or such persons predicated upon the U.S. federal securities laws.

INDUSTRY AND MARKET DATA

The information regarding markets, market size, market position, growth rates and other industry data pertaining to our business contained in this Offering Memorandum consists of estimates based on data reports compiled by consulting and engineering firms, data from other external sources, such as the PRC State Forestry Administration, and our knowledge of sales and markets. In certain cases, there is no readily external information to validate market-related analyses and estimates, requiring us to rely on internally developed estimates. Some of the market information provided under the heading "PRC Forestry Industry Overview" was taken from the PRC State Forestry Administration's Seventh Enumeration of the Nation's Forest Resources, dated as of November 17, 2009.

While we have compiled, extracted, reproduced or incorporated by reference market or other industry data from external sources, including third parties, analysts or industry or general publications, we have not independently verified that data. Information in this Offering Memorandum which is based on or incorporated by reference from third-party sources has been accurately reproduced and, as far as we are aware and are able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Subject to the foregoing, we cannot assure investors of the accuracy and completeness of, or take any responsibility for, such data. The source of such third-party information is cited whenever such information is used in this Offering Memorandum.

While we believe our internal estimates to be reasonable, such estimates have not been verified by any independent sources and we cannot assure potential investors as to their accuracy or that a third party using different methods to assemble, analyze or compute market data would obtain the same result. We do not intend to, and do not, assume any obligations to update industry or market data set forth in this Offering Memorandum. Finally, behaviour, preferences and trends in the marketplace tend to change. As a result, investors should be aware that data in this Offering Memorandum and estimates based on that data may not be reliable indicators of future results.

PRESENTATION OF FINANCIAL INFORMATION

We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which differ in certain material respects from generally accepted accounting principles in the United States ("U.S. GAAP"), as discussed in the section headed "Summary of Certain Differences between Canadian GAAP and U.S. GAAP" below. Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada.

Our reporting currency is the U.S. dollar.

SUMMARY

This summary does not contain all the information that may be important to you in deciding whether to invest in the Notes. You should read the entire Offering Memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making such decision.

The Company

Overview

We are a leading commercial forest plantation operator in the PRC, with approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Forestry Holdings Limited ("Mandra Holdings") and its subsidiaries) of tree plantations under management located in nine provinces and municipalities across the PRC as of June 30, 2010. In addition, we have entered into long-term master agreements in the provinces of Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou that give us the right to acquire up to approximately 1.3 million to 1.4 million hectares of tree plantations. As of June 30, 2010, we have acquired approximately 486,000 hectares under these agreements. Our principal businesses include ownership and management of forest plantation trees, the sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2009 and for the six-month period ended June 30, 2010, our total revenue was US\$1,238.2 million and US\$556.8 million, respectively, and our EBITDA (as defined herein) was US\$898.3 million and US\$320.2 million, respectively.

Our vision is to become the leading commercial forest plantation operator and the preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices. We have developed our tree plantations in regions that have favorable climate and soil conditions for eucalyptus, pine and Chinese fir plantations and access to key transportation routes and proximity to major population centers and industrial and consumer markets for wood panels, furniture, construction materials, interior decoration and pulp and paper products.

Our business operations are comprised of two core business segments. Our wood fibre operations are our main revenue contributor, while our manufacturing and other operations enable us to enhance the value of our fibre operations by producing downstream products.

Wood Fibre Operations Segment

Our wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. The wood fibre operations accounted for 96.3% and 94.9% of our total revenue for the year ended December 31, 2009 and the six-month period ended June 30, 2010, respectively.

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture value through wood fibre growth during the course of our ownership. Under our planted plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate the trees using improved breeding, planting and silviculture techniques and sell the trees as standing timber. Under our integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods, and under the relevant purchase agreements, we typically require an option to enter into long-term leases, typically for up to 50 years, under which we would be able to plant and subsequently harvest several rotations of trees.

We expect our integrated plantation model to allow us to provide the market with a sustainable source of fibre under our existing long-term master agreements and to generate sustainable cash flow by purchasing mature trees instead of acquiring younger trees and holding them until maturity. We lease the land of harvested plantations on a long-term basis, replant it with higher yielding tree species and apply advanced breeding, planting and silviculture techniques. These advanced techniques are designed to enable us to improve efficiency, grow more uniform trees, lower our operating and harvesting costs, and achieve higher fibre quality and output while minimizing the impact on the environment.

We are pursuing our strategy of migrating to an integrated plantation model, as well as securing access to future purchases of tree plantations. We have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces since September 2006, which have provided us with access to 400,000, 200,000, 150,000, 200,000, 150,000 to 300,000, and 150,000 hectares of standing timber, respectively. As of June 30, 2010, we have acquired approximately 486,000 hectares under these agreements.

In June 2010, we completed the last of a series of acquisitions which resulted in Mandra Holdings becoming our wholly owned subsidiary. The acquisition of Mandra Holdings has given us access to 155,600 hectares of relatively mature plantation trees located primarily in Anhui and Jiangxi Provinces. As a result of this strategic investment, we have further diversified our portfolio of plantations geographically and reduced our cost per cubic meter to less than half of the capped fibre prices under our master agreements.

As of June 30, 2010, approximately 648,300 hectares (89.3%) of our plantations under management were purchased plantations and approximately 77,900 hectares (10.7%) were planted plantations. In the year ended December 31, 2009, we sold approximately 58,350 hectares (53.4%) of plantation fibre from our purchased plantations, 44,057 hectares (40.3%) from our integrated plantations, and 6,782 hectares (6.2%) from our planted plantations, for a total of 109,189 hectares. In the six-month period ended June 30, 2010, we sold approximately 8,134 hectares (37.4%) of plantation fibre from our purchased plantations, 9,644 hectares (44.4%) from our integrated plantations and 3,959 hectares (18.2%) from our planted plantations for a total of 21,737 hectares.

Manufacturing and Other Operations Segment

Our manufacturing and other operations segment complements our wood fibre operations by maximizing the usage and adding value to the upstream fibre. This segment represents our secondary source of revenue and consists of sales of wood-based products, such as engineered wood flooring, sawn timber, finger-joint board, blockboard, plywood, veneer and other wood-based products manufactured at our own production plants. We currently operate manufacturing plants in the provinces of Jiangsu, Heilongjiang, Hunan, Yunnan, Guangdong and Guangxi. We also operate a greenery and nursery business based in Jiangsu Province. For the year ended December 31, 2009 and the six-month period ended June 30, 2010, our manufacturing and other operations represented 3.7% and 5.1%, respectively, of our total revenue.

Growth Opportunities in China

Our fibre is sold in China, which is one of the fastest growing economies in the world, with 8.7% GDP growth in 2009 according to the National Bureau of Statistics of China. Increasing demand for wood products and wood fibre in the PRC continues to drive significant growth in our business. Increased purchasing power by the growing Chinese middle class and the fiscal initiatives implemented by the central government and provincial governments have resulted in significant spending on infrastructure and construction materials, residential and commercial building materials, the production of furniture, interior decoration and pulp and paper products. At the same time, China's restrictions on logging of natural forests, combined with lower volumes of imported logs, have resulted in a chronic wood fibre deficit, which has made it possible for us, as a leading commercial forest plantation operator in the PRC, to capitalize on these significant growth opportunities.

Over the last 15 years we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships have strengthened the development of our business in the past and, coupled with our proven track record and commitment to developing advanced breeding, planting and silviculture techniques applicable in China, will continue to benefit us in expanding our forestry resources in the future.

Our strategy is aligned with the published objectives of the PRC government and State Forestry Administration to increase the country's forestry coverage, productivity and employment in rural areas. In 2006, we expanded our operations in third tier cities and inland regions such as the Hunan and Yunnan Provinces, which aligned our expansion strategy with the PRC government's Eleventh Five-Year Plan (2006-2010) of rural and regional economic development. Leveraging our first mover advantage in these regions, we were able to secure plantations in strategic locations for long-term sustainable re-plantation. We are also pursuing future growth as we seek opportunities to better align our strategy with the PRC government's forestry priorities. State-owned forestry areas cover approximately 73 million hectares in the PRC, one third of which are plantation forests primarily located in southern provinces. The majority of these forestry plantations have low productive yields due to a lack of capital investment and a focus on afforestation and/or reforestation rather than on commercialization. With our proven track record of developing commercial tree plantations and experience working with local forestry bureaus and other PRC authorities, we believe we are well-positioned to improve land use and enhance plantation yields of state-owned forests. We are currently pioneering new ventures with state-owned plantation entities ("SOPs") by forming co-operative entities owned by us and the SOPs (the "Co-op Entities"). The Co-op Entities could represent a cost-effective way to expand our access to fibre and land for replanting, while working closely with the State Forestry Administration to improve fibre output on state-owned plantations with the goal of lessening pressure on the PRC's natural forests and conserving ecosystems and biodiversity.

We believe we are well positioned to benefit from the country's forestry reform and three-year Forestry Revitalization Plan (2010-2012) by collaborating with the PRC forestry authorities and SOPs to develop fast-growing high yielding ("FGHY") plantations to reduce the country's chronic wood deficit. We have gained recognition for our sustainable plantation development practices in the PRC with our portfolio of plantations in the PRC covering approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries) together with the right to acquire approximately another 764,000 to 914,000 hectares under our long-term master agreements, which we expect will help enable us to enter into additional long-term fibre agreements.

Growth opportunities outside China

We are also exploring opportunities to access overseas concession timber, directly or through our subsidiary Omnicorp Limited ("Omnicorp").

The PRC shares a 4,000-kilometre border with Russia, and is the largest importer of Russian logs. Although Russia has the largest forest area in the world, it has relatively low road density and harvesting efficiency. Over the last three years, Russia has been increasing its tariffs on exported logs in an attempt to develop its wood processing industry. We are holding discussions with Russian counterparties in regions where we could potentially co-operate and expand our business operations.

As of the date hereof, we own 59.1% of the voting interest in Omnicorp. Omnicorp indirectly owns 60.4% of the voting interest in Greenheart Resources Holdings Limited ("Greenheart"), and we own the remaining 39.6% of the voting interest in Greenheart through another of our subsidiaries. Greenheart in turn holds approximately 180,000 hectares of a concession forest and harvesting rights in Suriname, South America. We are assisting Omnicorp to maximize the value of its current forestry holdings and expand into other forestry projects.

Our Competitive Strengths

We believe that we have the following strengths:

- **Leading commercial forest plantation operator in the PRC with established track record.** We are a leading commercial forest plantation operator in the PRC with approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries) of tree plantations under management as of June 30, 2010. With a 15 year track record of managing forestry plantations in China, our use of advanced breeding, planting and silviculture techniques has enabled us to become a leading commercial forest plantation operator in the PRC. We believe that we are well positioned to maintain and expand our existing tree plantation resources under our existing long term master agreements and to grow our fibre base through other innovative strategies.

- **First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage our industry foresight.** We were one of the first foreign companies to do business in the PRC's forestry sector and have a strong track record of obtaining, developing and cultivating commercial tree plantations since 1995. We believe that our proven ability to develop fast growing commercial tree plantations in the PRC, our reputation as a reliable partner and supplier of wood fibre and our capital structure position us as a preferred partner for commercialization of forestry plantation management in the PRC. Over the last 15 years, we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships have supported the development of our tree plantation business in the past and will continue to benefit us in expanding our forestry resources in the future.
- **Future growth supported by long-term master agreements at agreed capped prices.** We have entered into long-term master agreements in the Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces that give us the right to acquire up to approximately 1.3 million to 1.4 million hectares of tree plantations with predetermined maximum prices, to the extent permitted under the then applicable PRC laws and regulations, of which we have acquired approximately 486,000 hectares as of June 30, 2010. These agreements allow us to harvest the trees and provide us with the right to enter into long-term leases, typically up to 50 years, to replant the plantations with new improved seedlings. These long-term leases will enable us to benefit from several rotations of higher-yielding, faster growing plantations. We believe we will achieve significant growth by increasing the yields on our existing land leases, acquiring new tree plantations under our master agreements and securing further master agreements.
- **Strong research and development capability, with extensive forestry management expertise in the PRC.** We believe our ability to genetically breed faster-growing plantations and apply advanced silviculture techniques will allow us to shorten the harvest rotation, increase the amount of wood we extract from each hectare of land and improve profitability. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, improve quality of harvested wood, maintain and enhance forest ecosystems and improve land productivity. Over the years, our research and development efforts have allowed us to improve our planting materials and our breeding and propagation methods, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing, and ecological and environmental technology. Our plantation planning and management team has an in-depth understanding of local forestry markets and regulations, with a significant number of our employees and scientists formerly serving with locally renowned universities, local forestry bureaus and/or state-owned plantation farms.
- **Expertise in sustainable plantation development.** Our sustainable plantation management practices in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. We employ advanced forest management practices and adopt prudent environmental management of our tree plantations. Our scientific and conscientious approach to quality plantation management led us to receive the Forest Stewardship Council ("FSC") Certificate for certain areas of our planted plantation in Gaoyao, Guangdong Province, the first commercial tree plantation in the PRC to be granted and hold such accreditation.
- **Diversified revenue and asset base.** Our asset base and revenue are broadly diversified by geographic region, mix of tree species, end-use market served and business segment. Our tree plantations are located in the provinces of Guangdong, Guangxi, Hunan, Yunnan, Heilongjiang, Guizhou, Fujian, Anhui and Jiangxi. Our primary tree species include pine, Chinese fir and eucalyptus plantations, and our wood fibre is ultimately used for infrastructure and construction materials, residential and commercial building materials, furniture, interior decoration and pulp and paper products.
- **Robust capital structure with demonstrated market access.** Despite our significant revenue growth in recent years, we believe we have maintained a robust capital structure with a proven ability to support our financing needs in the capital markets. In July 2008, we completed a US\$345 million convertible notes offering, in June 2009, we completed a Cdn.\$379.5 million equity offering and in December 2009, we completed a US\$460.0 million convertible notes offering and a Cdn.\$367.0 million equity offering.

Our Business Opportunities

We believe we are well-positioned to benefit from the following factors:

- **Strong and growing demand for wood fibre from downstream producers.** We believe that, as an upstream provider of wood fibre for downstream manufacturers, we are well-positioned to benefit from increased demand for, and a limited supply of, wood fibre in the PRC. PRC's leading consumer markets for wood fibre products are generally located in southern, south-western and eastern regions of the PRC in close proximity to our tree plantations. This allows us to efficiently meet the growing demand from these markets while minimizing transportation costs and delivery times.
- **Growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries.** Wood shortage is a persistent phenomenon in the PRC. The shortfall between domestic wood consumption and supply in the PRC was historically supplemented by imports, which comprised approximately 32 million cubic meters of logs in 2006, with approximately 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian government raised round wood export duties from 6.5% to 25% as of April 2008. In light of the expected decrease in natural forest wood supply from within the PRC due to regulatory restrictions on harvesting and outside of the PRC due to rising export duties by the governments of round wood exporting countries and the expected increase in demand for wood, we believe that sustainable tree plantations will play an increasingly important role in satisfying domestic demand in the future.
- **Recent changes in the forestry industry that favor sustainable plantations.** The wood processing industry has in recent years begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter logs into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of our planted plantations. We believe that these developments will benefit us by increasing demand for logs and standing timber from our tree plantations, as well as increasing demand for wood-based products from our manufacturing plants.

Our Strategy

Our strategy is to build on our competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC. We are establishing operations in close proximity to PRC's key regional markets with the ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. We believe the following key initiatives will allow us to successfully execute our strategy:

- **Expand our geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufactured products.** We intend to increase our plantation area under management by investing in current geographic locations and by expanding into other geographic locations through acquisitions and sustainable replanting.
- **Improve the yields of our tree plantations through continued investment in research and development and application of advanced forestry management techniques.** We intend to further develop and improve our forestry breeding and silviculture through genetic improvement, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields and fibre quality. To support these efforts, we intend to continue our investment in our research and development resources, and collaborate with PRC and overseas academic institutions.

- **Practice sustainable and environmentally responsible forestry and manufacturing.** Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our tree plantations.
- **Build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams.** Our downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify our revenue streams.
- **Strengthen management processes and information systems to support the growth of our multi-faceted businesses.** We plan to invest in additional personnel, managers and technology in order to improve our management processes and information systems. As the area of our tree plantations continues to grow, we will have to develop additional systems and management personnel to achieve greater planning and operational control of our plantations. This will allow us to conduct more frequent sampling checks of our timber resources which will, in turn, allow us to better analyze planting statistics, including growth conditions and the quality of our tree plantations. These will also allow us to maintain more stringent controls over our tree plantation management processes.
- **Maintain strategic alignment with PRC government's plans.** We align our strategies with the PRC government's published plans to increase forest coverage and productivity, and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets. With respect to the forestry industry, the State Forestry Administration has announced plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. The PRC government indicated at the UN climate change summit held on September 22, 2009 that China is targeting to increase the country's forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic meters by 2020 to absorb carbon emissions, and increase the proportion of energy generated from biofuels. We anticipate the government will further advance the reform of the collectively-owned plantation rights system and commercialize the management of its state-owned forest plantations. Under our long-term master agreements, we will use the integrated plantation model to focus on replanting and converting plantation lands into fast-growing and high-yielding plantations.

Our Corporate Information

We were formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. Our common shares (the "Common Shares") were listed and posted for trading on the Toronto Stock Exchange ("TSX") on October 12, 1995.

Our articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to our share capital. On June 25, 2002, we filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, we filed articles of amendment to reclassify our class A subordinate-voting shares as Common Shares on a one-for-one basis and to eliminate our authorized class B multiple-voting shares.

We have offices in Toronto, Canada, Hong Kong and the PRC. Our principal executive office is located at Room 3815-29, 38th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong Special Administrative Region, the PRC, and our telephone number is (852) 2877-0078. Our registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, Canada L5B 3C3. Our telephone number at our registered office is (905) 281-8889.

Recent Developments

Co-operative Framework Agreement with China Development Bank Corporation

On July 2, 2010, we, through Sino-Panel (China) Investments Limited ("Sino-Panel China"), one of our indirectly wholly owned subsidiaries, entered into a Co-operative Framework Agreement with China Development Bank Corporation, Guangdong Branch (the "CDB"). Pursuant to the terms of this framework agreement, and subject to specific loan agreements to be entered into by the parties on mutually agreeable terms, we may be able to obtain from the CDB up to RMB10 billion (approximately US\$1.5 billion) of project financing to support Sino-Panel China's projects in the PRC.

Exercise of Convertible Bonds Issued by Omnicorp

On September 27, 2010, we exercised the convertible bonds issued by Omnicorp for 106.2 million ordinary shares of Omnicorp. As of the date hereof, we hold 59.1% of the voting interest in Omnicorp.

SUMMARY OF THE OFFERING

The following is a brief summary of certain terms of this offering. For a more complete description of the terms of the Notes, see the section titled "Description of the Notes" included in this Offering Memorandum.

Issuer	Sino-Forest Corporation (the "Company").
Notes	US\$600.0 million aggregate principal amount of Guaranteed Senior Notes due October 21, 2017.
Offering Price	100% of the principal amount of the Notes, plus accrued interest, if any, from October 21, 2010.
Maturity Date	October 21, 2017.
Interest	The Notes will bear interest from and including the Original Issue Date at the rate of 6.25% per annum, payable semiannually in arrears.
Interest Payment Dates	April 21 and October 21 of each year, commencing April 21, 2011.
Ranking of the Notes	<p>The Notes are:</p> <ul style="list-style-type: none">• general obligations of the Company;• guaranteed by the Subsidiary Guarantors (as defined below) on a senior basis, subject to certain limitations described under the caption "Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees" and "Description of the Notes—The Subsidiary Guarantees";• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;• at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries. <p>Subject to certain limitations described under "Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees," the Notes will:</p> <ul style="list-style-type: none">• be entitled to a first priority lien on the Collateral (subject to any Permitted Liens) pledged by the Company and the Subsidiary Guarantor Pledgors; and

- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees

Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes—The Subsidiary Guarantees—Release of the Subsidiary Guarantees."

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Sino-Panel Holdings Limited (BVI), Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Grandeur Winway Ltd. (BVI), Sinowin Investments Ltd. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio-Science Limited (formerly known as: Sino-Two Limited) (BVI), Sino-Forest Resources Inc. (BVI), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Forest Investments Limited (BVI), Sino-Wood (Guangxi) Limited (HK), Sino-Wood (Jiangxi) Limited (HK), Sino-Wood (Guangdong) Limited (HK), Sino-Wood (Fujian) Limited (HK), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Guangxi) Limited (BVI), Sino-Panel (Yunnan) Limited (BVI), Sino-Panel (North East China) Limited (BVI), Sino-Panel [Xiangxi] Limited (formerly known as: Rich Base Worldwide Limited) (BVI), Sino-Panel [Hunan] Limited (formerly known as Comtech Universal Limited) (BVI), SFR (China) Inc. (BVI), Sino-Panel [Suzhou] Limited (formerly known as: Pacific Harvest Holdings Limited) (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), Sino-Panel (Guangzhou) Limited (BVI), Sino-Panel (North Sea) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (formerly known as Sino-Panel (Jiayu) Ltd.) (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Amplemax Worldwide Limited (BVI), Ace Supreme International Limited (BVI), Express Point Holdings Limited (BVI), Glory Billion International Limited (BVI), Smart Sure Enterprises Limited (BVI), Expert Bonus Investment Limited (BVI), Dynamic Profit Holdings Limited (BVI), Alliance Max Limited (BVI), Brain Force Limited (BVI), General Excel Limited (BVI), Poly Market Limited (BVI), Prime Kinetic Limited (BVI), Trillion Edge Limited (BVI), Sino-Panel (China) Nursery Limited (BVI), Sino-Wood Trading Limited (BVI), Homix Limited (BVI), Sino-Panel Trading Limited (BVI), Sino-Panel (Russia) Limited (BVI), Sino-Forest International (Barbados) Corporation (Barbados), Sino-Global Management Consulting Inc. (BVI), Value Quest International Limited (BVI), Well Keen Worldwide Limited (BVI), Harvest Wonder Worldwide Limited (BVI), Cheer Gold Worldwide Limited (BVI), Regal Win Capital Limited (BVI), Rich Choice Worldwide Limited (BVI) and Mega Harvest International Limited (BVI).

Not all of the Company's Restricted Subsidiaries will guarantee the Notes. Sino-Capital Global Inc. (BVI) (the "Initial Non-Guarantor Subsidiary"), which is among the Company's Subsidiaries that have guaranteed the 2011 Senior Notes, will not be a Subsidiary Guarantor at the date of issue of the Notes. In addition, none of the Company's over 40 significant current operating or other PRC Subsidiaries, or our Initial Unrestricted Subsidiaries (as defined herein), will provide a Subsidiary Guarantee. See "Risk Factors—Risks Related to the Notes—We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries."

Under certain circumstances, we will cause the Initial Non-Guarantor Subsidiary to provide a guarantee of the Notes. See "Description of the Notes—The Subsidiary Guarantees."

Any future Restricted Subsidiary, as defined under "Description of the Notes—Certain Definitions" (other than subsidiaries organized under the laws of the PRC or another jurisdiction that prohibits such Restricted Subsidiary from guaranteeing the payment of the Notes) will provide a guarantee of the Notes immediately upon becoming a Restricted Subsidiary.

Ranking of Subsidiary Guarantees ...

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

In addition, the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to priority rights of such unsecured obligations pursuant to applicable law).

See "Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees."

Unrestricted Subsidiaries..... As of the date of the Indenture, all of the Company's Subsidiaries, except Omnicorp and its subsidiaries, including Greenheart and Silver Mount Group Limited ("Silver Mount"), and Mandra Holdings and its subsidiaries (the "Initial Unrestricted Subsidiaries") will be "Restricted Subsidiaries." Additionally, under the circumstances described below under the caption "~~Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries,~~" the Company will be permitted to designate certain of its other Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Notes.

Omnicorp and its subsidiaries and Mandra Holdings and its subsidiaries represented less than 3% and 7%, respectively, of our total assets as of June 30, 2010.

Security Subject to the terms and conditions of the Amended Intercreditor Agreement described under the caption "Description of the Notes—Security—Intercreditor Agreement" below, the Company has agreed, for the benefit of the Holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors on a first priority basis (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgors under their respective Subsidiary Guarantees.

The initial Subsidiary Guarantor Pledgors will be Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Sinowood Limited (Cayman Islands), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Panel (Asia) Inc. (BVI), Sino-Panel Holdings Limited (BVI), Dynamic Profit Holdings Limited and Sino-Forest International (Barbados) Corporation (Barbados).

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted Pari Passu Secured Indebtedness which would be secured by the Collateral on a pari passu basis with the Notes and the Subsidiary Guarantees. See "Description of the Notes—Security."

Intercreditor Agreement..... The Collateral will be shared with any remaining holders of the 2011 Senior Notes and the holders of the 2014 Senior Notes. Any sharing of the Collateral will be governed by the terms of the Amended Intercreditor Agreement. See "Description of the Notes—Security—Intercreditor Agreement"

Use of Proceeds..... We estimate that the net proceeds from this offering of Notes will be approximately US\$586.0 million. We intend to use the net proceeds of this offering of Notes for general corporate purposes, including, but not limited to, the acquisition and replanting of tree plantations.

Optional Redemption.....

At any time and from time to time on or after October 21, 2014 the Company may redeem the Notes, in whole or in part, at the redemption prices set forth under "Description of Notes—Optional Redemption," plus accrued and unpaid interest, if any, to the redemption date.

At any time prior to October 21, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.

"Applicable Premium" means with respect to an Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note at October 21, 2014 (such redemption price being set forth in the table appearing above under the caption "—Optional Redemption"), plus (y) all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through October 21, 2014, computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such redemption date.

At any time prior to October 21, 2013, the Company may redeem up to 35% of the principal amount of the Notes with the net cash proceeds of one or more sales of its common stock in an offering at a redemption price of 106.25% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date.

Repurchase of Notes Upon a
Change of Control

Within 30 days of the occurrence of a Change of Control Triggering Event, the Company must make an offer to repurchase all Notes then outstanding at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the redemption date.

Redemption for Taxation Reasons....

The Company may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See "Description of the Notes—Optional Redemption—Redemption for Taxation Reasons."

Covenants

The Notes, the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on its capital stock or purchase or redeem capital stock;

- make investments or other specified restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- guarantee indebtedness;
- sell assets;
- create any lien;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with certain equity holders or affiliates; or
- effect a consolidation or merger.

Transfer Restrictions

The Notes will not be registered under the Securities Act, under any state securities laws of the United States or qualified for sale under any securities laws of any province or territory of Canada or any other jurisdiction and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."

Form, Denomination and Registration.....

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$2,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global Notes registered in the name of a nominee of The Depository Trust Company.

Book-Entry Only

The Notes will be issued in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes—Book-Entry; Delivery and Form."

Trustee

Law Debenture Trust Company of New York.

Principal Paying and Transfer Agent and Registrar.....

Citibank, N.A., London Branch.

Listing

We have made an application for the listing of Notes on the SGX-ST.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST require, we will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption and make an announcement of such exchange through the SGX-ST, in the event that any Global Note is exchanged for definitive Notes. In addition, in the event that any Global Note is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of us and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Governing Law.....

The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.

Risk Factors.....

For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

SUMMARY FINANCIAL DATA

The summary financial data in this section has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 and our interim consolidated financial statements as of and for the six-month periods ended June 30, 2009 and 2010 incorporated by reference herein. The interim financial statements incorporated by reference herein reflect all adjustments which are, in our opinion, necessary to provide a fair statement of the results for the interim period indicated. The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between Canadian GAAP and U.S. GAAP." The following summary financial data should be read in conjunction with "Certain Financial Information" and the audited and unaudited consolidated financial statements and the related notes thereto incorporated by reference herein and other information included elsewhere in this Offering Memorandum. The results in the six-month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full year, and our historical results in general do not necessarily indicate results expected for any future period.

	As of and for the Year Ended December 31,			As of and for the Six-Month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
<i>(US\$ thousands, except per share amounts and margins)</i>					
Consolidated Income Statement Data:					
Revenue	713,866	896,045	1,238,185	401,653	556,773
Cost of sales	(470,825)	(530,083)	(797,292)	(253,882)	(338,307)
Selling, general and administrative expenses	(40,209)	(53,372)	(64,488)	(31,089)	(35,340)
Depreciation and amortization.....	(5,364)	(3,206)	(4,693)	(2,290)	(2,276)
Income from operations before other items ⁽²⁾	197,468	309,384	371,712	114,392	180,850
Net income from continuing operations ⁽¹⁾ ...	142,431	241,322	278,787	74,941	107,182
Net income/(loss) from discontinued operations ⁽¹⁾	9,842	(12,729)	7,583	(6,887)	(696)
Net income for the year/period	<u>152,273</u>	<u>228,593</u>	<u>286,370</u>	<u>68,054</u>	<u>106,485</u>
Basic earnings per share.....	0.91	1.25	1.39	0.36	0.44
Diluted earnings per share.....	0.90	1.24	1.38	0.36	0.44
Other Consolidated Financial Data:					
Gross profit ⁽³⁾	243,041	365,962	440,893	147,771	218,466
Gross profit margin ⁽⁴⁾	34.0%	40.8%	35.6%	36.8%	39.2%
EBITDA ⁽⁵⁾	487,640	597,122	898,294	260,319	320,182
Balance Sheet Data:					
Cash, cash equivalents and short-term deposits	350,853	486,955	1,172,753	703,510	985,553
Current assets	527,028	811,457	1,586,761	951,316	1,471,046
Non-current assets	<u>1,310,469</u>	<u>1,792,467</u>	<u>2,377,138</u>	<u>2,075,241</u>	<u>2,986,074</u>
Total assets	<u>1,837,497</u>	<u>2,603,924</u>	<u>3,963,899</u>	<u>3,026,557</u>	<u>4,457,120</u>

	As of and for the Year Ended December 31,			As of and for the Six-Month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
<i>(US\$ thousands, except per share amounts and margins)</i>					
Current liabilities (including current portion of long-term debt)	197,003	290,692	373,780	332,580	466,884
Long-term debt (net of current portion)	441,985	714,468	925,466	684,382	1,121,480
Total liabilities.....	650,199	1,005,160	1,299,246	1,006,962	1,627,472
Total shareholders' equity.....	1,187,298	1,598,764	2,664,653	2,019,595	2,828,414
Cash Flow Statement Data:					
Cash flows from operating activities of continuing operations.....	482,501	487,183	784,517	324,333	151,706
Cash flows used in investing activities	(692,322)	(702,992)	(1,092,625)	(438,821)	(379,464)
Cash flows from financing activities.....	376,912	332,254	952,003	324,383	46,707
Net increase/(decrease) in cash and cash equivalents	175,803	112,481	661,195	216,367	(179,634)

Notes:

- (1) Our Gaoyao facility was disposed of in 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the six-month periods ended June 30, 2009 and 2010 and the years ended December 31, 2008 and 2009. The selected data in this table for the year ended December 31, 2007, has not been reclassified to reflect the Gaoyao facility as a discontinued operation. Except for an impairment charge on our Gaoyao facility of US\$15.4 million for the year ended December 31, 2007, which was included in the results from continuing operations in this table, the remaining results of operations of the Gaoyao facility are not significant to the Company's 2007 consolidated results.
- (2) Income from operations before other items excludes interest income and expense, exchange gains/(losses), gain/(loss) on changes in fair value of financial instruments, other income and impairment of capital assets.
- (3) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.
- (4) Gross profit margin is calculated by dividing gross profit by revenue. Gross profit margin is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit margin may not be comparable to similar measures presented by other companies.
- (5) EBITDA for any period is defined as income from operations before other items for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

A reconciliation from income from operations before other items to EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Six-month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
	(US\$ thousands)				
Income from operations before other items	197,468	309,384	371,712	114,392	180,850
Add:					
Depreciation and amortization.....	5,364	3,206	4,693	2,290	2,276
Depletion of timber holdings included in cost of sales	284,808	284,532	521,889	143,637	137,056
EBITDA ⁽²⁾	<u>487,640</u>	<u>597,122</u>	<u>898,294</u>	<u>260,319</u>	<u>320,182</u>

Notes:

- (1) See note (1) above.
(2) See note (5) above.

Changes in the scope of our operations from period to period affect the comparability of our results of operations. Accordingly, for comparison purposes, we reclassified our results for the full financial years ended December 31, 2009 and 2008, as well as the six-month period ended June 30, 2009 to account for our discontinued operations at our Gaoyao facility. These operations ceased during the third quarter of 2009. The results of the discontinued operations at our Gaoyao facility have been reclassified as discontinued operations in our financial statements for the years ended December 31, 2009 and 2008, and our interim financial statements for the six-month periods ended June 30, 2010 and 2009 incorporated by reference herein. However, the results of the discontinued operations at our Gaoyao facility have not been reclassified as discontinued operations in our financial statements for the year ended December 31, 2007, which slightly affects the comparability of the financial data for the year ended December 31, 2007 with the financial data for the other periods presented in this Offering Memorandum. Our revenue generated from and impairment of capital assets related to our discontinued operations at our Gaoyao facility in the year ended December 31, 2007 was US\$4.5 million and US\$15.4 million, respectively.

RISK FACTORS

An investment in the Notes is subject to a number of risks. You should consider the risks described below carefully and all of the information contained in this Offering Memorandum before deciding whether to purchase the Notes. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Any of the following risks could materially and adversely affect our business, financial condition and results of operations. In that event, the price of the Notes could decline, and you may lose all or part of your investment in the Notes. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements."

Risks Related to Our Business

The cyclical nature of the forest products industry and price fluctuations could adversely affect our results of operations

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Market prices and demand for standing timber, wood logs and wood products have been, and in the future are expected to be, subject to cyclical fluctuations, which have a significant effect on our 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 the PRC, 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 PRC 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 activity. 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;
- 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 our products and the other factors described above, could have a material adverse effect on our business, financial condition and results of operations.

Expanding our tree plantations and manufacturing operations requires substantial future capital expenditures and we may be unable to obtain adequate financing to fund our capital and other requirements

Expanding our tree plantations and manufacturing operations requires intensive capital investment. During the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2010, we incurred approximately US\$647.0 million, US\$672.5 million, US\$1,052.7 million and US\$687.2 million in capital expenditures to acquire tree plantations. In recent years, we have expanded our manufacturing operations through investments in an engineered wood flooring plant in Jiangsu, a blockboard facility in Hunan, a plywood and veneer facility in Guangxi, laminated veneer lumber and recomposed wood products facilities in Guangdong and Jiangsu and sawn timber facilities in Yunnan and Heilongjiang. We have financed our expansion of tree plantations and manufacturing operations primarily from internal cash flows and debt and equity financing and, if we require additional debt or equity financing for future capital expenditures, we can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, as of October 14, 2010, we have substantial indebtedness, including the following principal amounts of indebtedness outstanding, excluding the indebtedness of Omnicorp and its subsidiaries: US\$87.7 million of 2011 Senior Notes (as defined herein), US\$399.5 million of 2014 Senior Notes (as defined herein), US\$345.0 million of 2013 Convertible Notes (as defined herein), and US\$460.0 million of 2016 Convertible Notes (as defined herein), the terms of which restrict our ability to raise additional debt financing. Such restrictions could affect our ability to raise financing in the future. We may incur additional indebtedness from domestic PRC lenders to supplement the funding of our proposed investments with SOPs. See "Business—Overview—Growth Opportunities in China." If we are not able to obtain financing for expanding our tree plantations and/or manufacturing operations and/or other capital requirements, our business, financial condition and results of operations may be materially and adversely affected. See "Description of Other Indebtedness."

Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights

Our ability to further expand and develop our tree plantations and successfully implement our tree plantation models depends, among other things, on our ability to purchase trees with respect to which we have certain contractual rights and to lease the underlying plantation land on which the trees are located or to find other suitable plantation land. Under the purchase agreements for most of our purchased plantations, we have a pre-emptive right to lease the underlying plantation land for a maximum period of up to 30 to 50 years, subject to negotiation of the definitive land use right transfer agreement, obtaining the requisite governmental approval and completing the requisite registration procedures. Our decision and ability to purchase the trees and exercise our contractual rights with respect to our tree plantations will depend on, among other factors, our business strategy and the availability of future financing, our ability to negotiate a final price, whether the area is desirable for tree plantations and the availability of tree plantations for expansion.

Should we be unable to purchase the trees, exercise our right to acquire the underlying plantation land use rights for an acceptable period of time or obtain and complete the requisite governmental approval and registration procedures, or should we be unable to locate available and suitable plantation land for expansion, our business, financial condition and results of operations could be materially and adversely affected.

Our integrated plantation model has a short operating history and may not be successful

We commenced set-up and operations of our integrated plantation model in the fourth quarter of 2006, which consists of selling trees from our plantations as logs or using the wood fibre for producing value-added wood products at our own manufacturing facilities. The integrated plantation model is in an early business stage and has a short operating history. We may be unable to continue to acquire standing timber under the long-term acquisition agreements due to factors such as (i) risks of disagreement with counterparties and/or original plantation rights holders in the provinces regarding entering into specific agreements for the implementation of our plantation acquisition plan, (ii) the failure of any such counterparty to obtain any requisite consents from the original plantation rights holders, and (iii) risks of the counterparties failing to coordinate with us to obtain the requisite governmental approvals and complete the related registration procedures. In addition, we may not have the ability to allocate proper management resources and attention to the implementation of the integrated plantation model as well as coordinate the integration of our tree plantations with our downstream manufacturing activities. Furthermore, although our results of operations and gross profit margins generated by sales of logs pursuant to the integrated plantation model in the year ended December 31, 2009 exceeded our management's expectations, such results are not necessarily indicative of results that may be achievable in the future. We may be subject to operational and execution risks of integrating our upstream plantation activities to our downstream manufacturing operations, among other things.

Our expansion in new regions may pose certain implementation risks

We are exposed to certain risks relating to our ability to successfully operate our plantations in new provinces such as Anhui and Guizhou Provinces, primarily because we have little or no operating history

in such Provinces, and also because we do not have extensive experience interacting with local governments, business counterparties and original plantation rights holders in these provinces. These risks are similar to the risks we face with respect to our integrated plantation model. See “—Our integrated plantation model has a short operating history and may not be successful.”

We are subject to risks presented by fluctuations in exchange rates

We publish our financial statements and incur substantially all of our indebtedness in U.S. dollars, while substantially all of our revenue is denominated in Renminbi.

Since 1994, the conversion of Renminbi into U.S. dollars has been based on rates set by the PBOC (as defined herein), which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The relative value and rate of exchange of the Renminbi against the U.S. dollar is affected by, among other things, changes in the PRC's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. On May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 19, 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime and increase the Chinese currency's exchange rate flexibility. This change in policy has resulted in an appreciation of the Renminbi against the U.S. dollar of more than 24% from the July 21, 2005 change in exchange rate policy to October 1, 2010. The PRC government may decide to further liberalize its currency policy in the future, which could result in a further and more significant appreciation or depreciation of the Renminbi against the U.S. dollar.

Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because we have substantial U.S. dollar-denominated indebtedness, expenses and other requirements, while most of our revenues are denominated in Renminbi. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors. To the extent the Renminbi appreciates against the U.S. dollar or other currencies, it will make it more expensive for us to finance the expansion of our plantations in the PRC through equity or non-Renminbi borrowings.

As at June 30, 2010, our long-term debt was US\$1,121.5 million, all of which was denominated in U.S. dollars. We do not currently hedge exchange rate fluctuations between the Renminbi and other currencies.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the U.S. dollar, Canadian dollar, Euro and H.K. dollar, or in the U.S. dollar against the Renminbi, Canadian dollar, Euro or H.K. dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into U.S. dollars, Canadian dollars or otherwise, of our revenue and net income. In addition, fluctuations resulting in a devaluation of the Renminbi against the U.S. dollar could adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

The forestry industry is susceptible to weather conditions, changes in climate, timber growth cycles and natural disasters outside of our control

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

In recent years, certain areas of the PRC have been adversely affected by severe earthquakes, flooding droughts and landslides. For example, the heavy rainfall in the second quarter of 2010 caused severe flooding in many provinces across China, which has affected the ability of certain of our customers to harvest plantation trees that we sold to them. This resulted in a build-up of our receivables and reduced our cash flows in the second quarter of 2010. In addition, the southern coastal areas of the PRC suffer a number of typhoons each season, which lasts from June to September and occasionally results in significant damage. Further, there have been several incidences of forest fires in Guangdong Province. In February 2008, snow and freezing rainstorms damaged plantations in certain provinces. Similar conditions may well recur in the future. Our operations are also subject to long term periodic climate events, such as weather patterns affected by the El Niño weather pattern, and could be adversely affected by other climate changes. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our tree plantations are located, or otherwise disrupt our trading activities, which may adversely affect our business, financial condition and results of operations.

We may not be able to meet our expectations for the yields of our tree plantations

The success of our business depends upon the productivity of our tree plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our eucalyptus trees ranges from approximately 100 to 150 cubic meters per hectare per six-year cycle. Tree plantation yields depend on a number of factors, many of which may be beyond our control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that we may obtain in the future.

Our ability to improve or maintain our yields will depend on the factors described above as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus tree plantations. As a result, we cannot provide any assurance that we will be able to realize the historical or future yields we expected. If we cannot achieve yields at expected levels, our business, financial condition and results of operations would be materially and adversely affected.

We may not be able to effectively manage our tree plantations if we do not hire additional employees and improve our management systems and internal controls

As of June 30, 2010, we had 3,323 permanent employees based in Canada, Hong Kong and the PRC to manage our operations. We also engage third parties to perform the day-to-day operations of our tree plantations. However, as we expand the area of our tree plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our tree plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary to strengthen our internal controls and corporate governance as we continue to build our business. Should we fail to take the measures described in this paragraph, we may not be able to implement our expansion strategy or to manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected. See "Certain Financial Information—Disclosure Controls and Procedures and Internal Controls over Financial Reporting."

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. Lumber and log markets in the PRC are subject to competition from worldwide suppliers. In our tree plantations and standing timber and wood-based products trading activities, we are subject to increasing competition from other large domestic and foreign-owned tree plantations operators in the PRC, as well as wood dealers and local forestry companies, all of which provide logs and wood-based products for sale in the PRC. We also compete with a number of overseas forestry companies selling wood logs and wood-based products in the PRC.

Our manufacturing plants face competition from other large domestic and foreign-owned wood panel manufacturers in the PRC, as well as manufacturers in other countries selling into the PRC. In this

regard, other manufacturers of wood panels are currently constructing new mills in the PRC that will substantially increase the production capacity of wood panels in the PRC. We may not be able to compete effectively against these and other potential competitors. If we are not able to compete effectively in our different business lines, or if competition significantly increases, our business, financial condition and results of operations could be materially and adversely affected.

We rely on our relationships with local plantation landowners and/or plantation land use rights holders

The conversion of the legal structure of all of our four CJVs into WFOEs was completed in the fourth quarter of 2007 and after the conversion, one of the converted WFOEs merged with another WFOE and was deregistered. Negotiations with local farmers, collective organizations or other land use rights holders for entering into new plantation land use agreements are in progress for the remaining three WFOEs. There can be no assurance that through the WFOEs we will be able to secure all the plantation land use rights that we would expect them to secure, or secure such rights on satisfactory terms, from the farmers, collective organizations or other land use rights holders, or that we will be able to enter into any plantation land use agreements with relevant farmers, collective organizations or other land use rights holders to maintain the use of the tree plantations originally operated by our former CJVs or to obtain additional tree plantations.

In addition, we rely on our relationships with local plantation landowners and/or plantation land use rights holders to enter into any plantation land use agreements on commercially acceptable terms for our purchased plantations. We cannot give any assurance that we will be able to enter into any such agreements on commercially acceptable terms.

The loss of business from a major customer could reduce our sales and harm our business and prospects

A few large customers account for a significant percentage of our total revenue. During the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2010, our five largest customers accounted for approximately 58.7%, 56.0%, 71.9% and 60.8%, respectively, of our total revenue. For the same periods, our largest customer accounted for approximately 15.8%, 14.0%, 15.9% and 14.8%, respectively, of our total revenue. These major customers are all wood dealers and our authorized intermediaries ("AIs") who sell logs and wood-based products to end-user customers of these products. As a result, we expect that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a significant percentage of our total revenue. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

Disruptions in our supply of raw timber could adversely affect our business, financial condition and results of operations

A few large suppliers account for a significant percentage of our timber supply. For the years ended December 31, 2007, 2008, 2009 and the six-month period ended June 30, 2010, our five largest timber suppliers accounted for approximately 54.8%, 46.1%, 55.6% and 54.3%, respectively, of our total costs of sales. For the same periods, our largest supplier of timber accounted for approximately 32.2%, 16.7%, 15.2% and 16.5%, respectively, of our total costs of sales. These major suppliers are all wood dealers and our AIs. We have not entered into any long-term supply contract for the supply of raw timber. Dependence on a limited number of suppliers exposes us to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on our business, financial condition and results of operations.

We depend on services provided by third party service providers

We rely to a significant extent on third party service providers for day-to-day operation of our tree plantations. The operations performed by third party service providers include: site preparation, planting, plantation management, fertilization and harvesting. We occasionally experience seasonal labor shortages

Included in accounts payable and accrued liabilities including discontinued operations as at June 30, 2010 is the balance of the tax provision for the tax-related contingency amounting to US\$115,126,000 (compared to US\$98,863,000 as at December 31, 2009) provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries for the six-month period ended June 30, 2010 and the years ended December 31, 2006, 2007, 2008 and 2009.

The provision for income taxes and tax related liabilities is subject to a number of different factors, estimates and judgments made by management in accordance with the applicable laws and regulations and the practice of the relevant authorities. A change in the facts and these estimates and judgment could have a material impact on our tax expense. We have operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which we operate, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which we operate. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid. As of June 30, 2010, we have provided for US\$22,012,000 of tax surcharge.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

The BVI Subsidiaries are expected to be subject to enterprise income tax on a deemed profit basis for revenues from Authorized Sales Activities for 2010 and the three to five prior years. This also applies to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007. The deemed profit percentage that we applied to plantation fibre sales was 10% for 2009 and prior years. The PRC tax authorities issued Circular 326 in June 2009 ("Circular 326") providing further clarity as to the number of years for which local bureaus are to assess deemed profit percentage in the case where a taxpayer has not filed tax returns in prior years. Circular 326 requires the number of years for assessment to be either three or five years in addition to the current year depending on the views of the local tax bureau. In addition, the PRC tax authorities issued Circular 19 in February 2010 ("Circular 19," and together with Circular 326, the "Circulars") which states that the deemed profit percentage for certain activities should be a minimum of 15% and possibly more. The excess amount beyond the deemed profit percentage of 15% would depend on the administrative practice of the local tax bureau. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. We have been assessing the effect of the Circulars on the BVI Subsidiaries and monitoring the interpretation and application of the Circulars by the PRC tax authorities. Based upon our analysis to date, we have recorded income tax on a deemed profit basis at a rate of 15% for 2010 but not for prior years, other than for the fourth quarter of 2009. We are actively monitoring the application of the Circulars by PRC taxation authorities to years prior to the issue of the Circulars as well as the number of prior years for which the PRC tax authorities would assess such tax and are working with advisors to ascertain whether the most appropriate deemed profit percentage for the BVI Subsidiaries could be in excess of the 15% minimum. We have recorded our best estimate based upon the information available to us as at this date and will revisit our estimate in the near term as our analysis is updated.

Should we determine that we would need to change our recorded exposure to 15% for some or all of the 2007, 2008 and 2009 years from the currently recorded 10%, this would represent a further provision requirement of up to US\$30,053,000. Alternatively, should we determine that some or all of the 2005, 2006, 2007, 2008 and 2009 years are to be assessed, this would represent further provision of up to US\$82,412,000, including the US\$30,053,000 for the 2007, 2008 and 2009 years. In addition, if we were to conclude that the deemed profit percentage should be in excess of 15%, then our management estimates that each additional percentage point increase would represent an additional US\$813,000 per

percentage point in provision as of June 30, 2010 for activities subsequent to January 1, 2010 and an additional US\$6,894,000 per percentage point if management was to determine that the exposure should be recorded for the 2007, 2008 and 2009 taxation years. We are conducting but have not completed our ongoing work with respect to the uncertainty related to the retroactivity of the deemed profit percentage. It is expected that this analysis will be completed prior to the issuance of our financial statements for the third quarter of 2010 and we currently expect an adjustment in the range of US\$20 million to US\$30 million. If we are actually required to calculate our deemed profit at a rate higher than the 10% that we have used, it could result in our having to make greater provision for tax-related contingency, or if our BVI Subsidiaries are otherwise required to pay the relevant taxes, including those for prior years, tax surcharges and tax penalties, it could have a material adverse effect on our results of operations.

Increases in the export tax on logs in Russia may have an impact on our imported logs business 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. Notwithstanding this increase, our revenue from sales of imported wood products in the year ended December 31, 2009 increased by 67.2% compared to the year ended December 31, 2008. However, these increases had an impact on our revenue from sales of imported wood products in the year ended December 31, 2008, which decreased by 7.3% compared to the year ended December 31, 2007. If the Russian government continues to increase export tariffs, taxes levied will be passed on to our customers, and may have an adverse effect on our results of operations from our imported logs business.

We will be obliged to adopt new accounting standards under IFRS for the years beginning on or after January 1, 2011, which could materially impact our financial statements

We prepare our financial statements in accordance with Canadian GAAP. All companies that are Canadian reporting issuers will have to use the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for their financial reporting for the years beginning on or after January 1, 2011. As such issuers are required to produce comparative consolidated financial statements, the transition to IFRS will have to be reflected in their balance sheets as at January 1, 2010, in order to provide comparable balance sheet, income statement and statement of cash flows data for financial years 2011 and 2010. Applying these standards to our financial statements may have a considerable impact on a number of important areas. The preparation of our financial statements in accordance with IFRS could result in significantly different results from those obtained from financial statements prepared in accordance with Canadian GAAP. In particular, the valuation of our assets, especially our plantations, may be substantially affected by the application of IFRS to our financial statements.

Our tree plantations and wood-based products trading activities are subject to extensive laws and regulations in the PRC and other jurisdictions in which we may operate

We are subject to regulation under a variety of PRC national and local laws and regulations, including, among others, the PRC Forestry Law and its Implementation Regulations, the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures, the Environmental Protection Law of the PRC and various rules and regulations enforced by local governmental authorities. We are also subject to such other laws and regulations as may be applicable to us in other jurisdictions in which we may operate. Violations of any of the wide range of laws and regulations that we may be subject to in the PRC and elsewhere, including environmental policies and programs that apply to our tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage in the following activities that are subject to regulation:

- tree plantation activities, including planting, plantation use and maintenance, logging and transportation of logs;
- marketing, sale and trading of standing timber, logs and wood-based products; and
- timber processing and manufacturing and sale of wood panels.

For further details on PRC regulations and risks relating to them, see "—Risks Related to the PRC."

Any outbreak of severe communicable diseases may materially affect our operations and business

An outbreak of influenza A (H1N1), a communicable disease that is potentially lethal, or other contagious diseases such as severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect our operations at one or more of our facilities. We cannot predict at this time the impact that an outbreak could have on our business and results of operations.

Risks Related to the PRC

PRC economic, political and social conditions as well as government policies could adversely affect our business

All of our tree plantations are located in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, government control of foreign exchange, allocation of resources and balance of payment position.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on us.

Our business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the forestry industry and downstream industries;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- changes in interpretation of tax laws and regulations by provincial or regional tax authorities in the PRC;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

In addition, the level of demand in the PRC for forestry products depends heavily on economic growth. According to the National Bureau of Statistics of China, between 1994 and 2009, the PRC's GDP, based on current prices, increased from approximately RMB4.88 billion to approximately RMB33.5 trillion. The annual per capita GDP, based on current prices, also rose between 1994 and 2008, from RMB4,044 to RMB22,698. This growth, however, has been uneven both geographically and among various sectors of the economy. From time to time, the central government of the PRC has taken corrective measures and actions to stabilize the country's economy and any possible social unrest, and has implemented various measures in strengthening and improving macroeconomic regulation. We cannot assure that such growth will be sustained in the future.

More recently, the global financial system has experienced significant difficulties and disruptions since the second half of 2007, leading to reduced liquidity, greater volatility, widening credit spreads and a lack of price transparency in the United States and global credit and financial markets. The difficulties in global credit and financial markets have also resulted in widening global economic downturn. In 2009, the PRC central government launched an RMB4.0 trillion economic stimulus plan which was earmarked for infrastructure development, Sichuan earthquake rebuilding, construction of low-income housing and other projects, which seems to have significantly helped the country's economic growth with GDP growth of 8.7% per annum, according to the National Bureau of Statistics of China. As such, demand for wood fibre rebounded and log prices have increased. Since the beginning of 2010, however, the PRC government launched a number of measures to stabilize the country's economy and curtail potential property speculation, stabilize inflationary pressures and slow down investment. Although we have not so far been significantly affected by these corrective measures, as our operations are focused on emerging

markets within China and as the PRC's wood fibre deficit continues to grow, there can be no assurance that these corrective measures will not, directly or indirectly, affect us in the future or that there would not be additional corrective measures that could have a negative impact on the growth of our industry or the PRC economy as a whole.

However, other countries with which the PRC has maintained significant trade relationships, such as the United States and certain members of the European Union, may not have fully recovered from the recent financial crisis and global economic downturn, which may affect economic growth in the PRC.

Our operations are subject to the uncertainty of the PRC legal system

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, interpretation of many laws, regulations and rules has not always been uniform, and enforcement of these laws and regulations involves significant uncertainties, which may limit or otherwise adversely affect legal protections available to us. Moreover, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of any violation by us of these policies or rules until some time after such violation. In addition, litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This may result in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction.

At present, the legal framework for the tree plantation industry in the PRC is at an early stage of development. For example, the laws and regulations relating to the ownership, licensing and rights over forestry areas are not well developed. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Such uncertainty may make it difficult for us to enforce our plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, we cannot be certain that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our business, financial condition and results of operations.

The reform of the collectively owned plantation rights system has been ongoing in the PRC in recent years in order to enhance the rural land contract relationship and ensure that farmers have proper legal plantation rights. Farmers and rural collective organizations are currently permitted to transfer their plantation rights to third parties pursuant to existing PRC laws and regulations by means of bidding, public auction or competitive negotiation, as recognized by certain local practices. We cannot assure that the PRC government will not promulgate new rules and regulations that may be more detailed and complex than existing ones for regulating the transfer of plantation rights. Such rules may restrict or delay the acquisition of any new plantation rights from original plantation rights holders. Moreover, we cannot assure that the enforcement of such rules and regulations will not have a material adverse effect on our business, financial condition and results of operations.

Restrictions on foreign currency exchange may limit our ability to obtain foreign currency or to utilize our revenue effectively

We receive most of our revenues in Renminbi. As a result, existing restrictions on currency exchange in the PRC limit our ability to use revenue generated in Renminbi in the PRC to:

- purchase timber imported from other countries;

- fund other business activities outside the PRC, such as the purchase of equipment for our manufacturing plants;
- service and repay our indebtedness, including but not limited to the Notes, the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Notes and 2016 Convertible Notes; and
- pay out dividends to our shareholders.

Our WFOE subsidiaries in the PRC do not require prior approval from the State Administration for Foreign Exchange ("SAFE") before undertaking current account foreign exchange transactions. Current account transactions refer to those international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, and the declaration of and payment of dividends out of after tax retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions must be processed through banks in the PRC licensed to engage in foreign exchange.

Foreign exchange transactions under the capital account, however, will be subject to the registration requirements and approval of SAFE. Capital account transactions refer to international revenues and expenditures, that, being inflows and outflows of capital, produce increases or reductions in debt and equity, including direct investment, various types of borrowings and investment in securities. In addition, for either current or capital account transactions, our WFOEs must purchase foreign currency from one of the PRC banks licensed to conduct foreign exchange.

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi, including the Notes, the 2011 Senior Notes, the 2014 Senior Notes, the 2013 Convertible Notes, the 2016 Convertible Notes or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay us dividends, repay intercompany loans or to satisfy their other foreign currency requirements. Our capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at June 30, 2010, we had retained earnings of US\$1,160.8 million in the PRC which may be restricted. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from SAFE, this could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

Our BVI Subsidiaries' retained earnings and equity are subject to PRC foreign currency exchange controls, which may limit their ability to repatriate funds. Should we decide to repatriate earnings of the BVI Subsidiaries out of the PRC, there may be a significant amount of cash tax payable. As of June 30, 2010, we had retained earnings of US\$1,160.8 million in the PRC which are restricted. Since foreign exchange transactions are subject to limitations and require approval from SAFE, this affects our BVI Subsidiaries' ability to obtain foreign exchange from PRC operations which could be used to satisfy our obligations. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

Certain PRC regulations governing PRC companies are less developed than those applicable to companies incorporated in more developed countries

Our WFOEs are subject to PRC laws and regulations applicable to foreign investment companies, and other applicable laws and regulations in the PRC. These laws and regulations may not afford investors the same legal protections available to them in the United States, Canada or elsewhere, and may be less developed than those applicable to companies incorporated in the United States, Canada and other developed countries or regions.

Operational licenses and permits

Currently, PRC laws and regulations require tree plantation companies to obtain licenses and permits to operate tree plantations, harvest logs on the tree plantations and transport the logs out of the forest areas. The tree plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forestry bureaus for the logging permits and transportation permits for plantations that are to be harvested. We currently have the

relevant business licenses for our subsidiary companies in the PRC to engage in forestry activities and have received the requisite logging permits and transportation permits for our completed logging and transportation activities. In this regard, the PRC State Council reviews and approves the annual logging quota every five years. This annual logging quota is allocated by the local forestry bureaus within their administrative regions. For foreign invested plantations, the logging quota is allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. There is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation activities, or that the PRC government will not enact laws and regulations that would add requirements for tree plantation companies to conduct these activities in the PRC.

Further, PRC laws and regulations require manufacturers to obtain licenses and permits to operate timber manufacturing plants. The timber manufacturing companies must apply to the relevant Administration for Industry and Commerce of the PRC for a business license, and those established in the forestry areas must apply for the Timber Operation (Processing) Permit required by the relevant forestry regulatory authorities in the PRC. We currently have the requisite business licenses for our subsidiary companies in the PRC to engage in timber manufacturing activities. However, there is no assurance that we will continue to maintain the business licenses or the Timber Operation (Processing) Permits for our manufacturing plants, or that the PRC government will not pass laws and regulations that would place additional requirements on companies conducting these activities in the PRC.

Environmental regulations

Laws and regulations protecting the environment have generally become stricter in the PRC in recent years and could become more stringent in the future. On December 26, 1989, the Standing Committee of the National People's Congress of the PRC adopted the Environmental Protection Law of the PRC. This law contains, and future legislation with respect to protection of the environment, whether relating to forests, protected animal species, or water conservation, could contain, restrictions on tree planting, timber harvesting, and other forest practices. Our tree plantations and manufacturing plants will also be subject to environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect our business, financial condition and results of operations.

Implementation and issuance of new form Plantation Rights Certificate

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership and use rights and of issuing certificates to the persons having such plantation rights (the "Plantation Rights Certificates"). In April 2000, the PRC State Forestry Administration issued a notice, which provided that a new form of Plantation Rights Certificate was to be used from the date of the notice. The PRC government is in the process of gradually implementing the issuance of the new form of certificates on a nationwide scale. However, the registration and issuance of the new form plantation rights certificates by the PRC State Forestry Administration have not been fully implemented in a timely manner in certain parts of the PRC. We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates.

We can give no assurance when the official Plantation Rights Certificates will be issued by the relevant local PRC governments to all the purchased plantations and planted plantations acquired and under our management and cultivation. Until official new form Plantation Rights Certificates are issued,

there can be no assurance that our rights to our tree plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if our rights to any of our tree plantation lands are subject to dispute or challenge, our business, financial condition and results of operations could be materially adversely affected.

Agricultural taxes and other related forestry fees

Prior to February 2006, agricultural taxes on forestry companies were levied by the PRC government and generally amounted to approximately 8% of the selling prices or government standardized prices, depending upon the entity and the province in which it operates. The agricultural taxes and other forestry-related fees are levied at the time trees are harvested or sold. In certain provinces where our tree plantations are located, the agricultural taxes have been exempted or reduced. On February 17, 2006, the agricultural taxes were abolished by the PRC State Council. The forestry-related fees include the reforestation fund and maintenance fees, which are generally charged at 10% to 20% of sales and, under a new rule effective from July 1, 2009, the reforestation fund shall be charged at no more than 10% of sales, but the fees actually charged vary from place to place. There was also a forestry protection fee of RMB5 per cubic meter of wood harvested, which has been cancelled by a notice issued by the Ministry of Finance, the National Development and Reform Commission and the PRC State Forestry Administration on August 4, 2003. However, the cancellation of the forestry protection fee has not yet been fully implemented in the provinces where our tree plantations are located. No assurance can be given that other forestry-related tax will not be levied and such forestry-related fees will not be increased in the future.

Risks Related to the Notes

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries

We are primarily a holding company that operates through subsidiaries. The Notes are guaranteed by the Subsidiary Guarantors, which are also primarily either holding companies that operate through subsidiaries or entities that directly hold property and assets and/or engage in business operations and generate income. Although under the accounting standards applicable to us and our subsidiaries, such Subsidiary Guarantors recognized over 90% of our EBITDA and held over 70% of our assets on a consolidated basis as of and for the six month period ended June 30, 2010, most of such property and assets are physically located, and most of such income is earned and held, in the PRC and denominated in Renminbi. As a result, even though such Subsidiary Guarantors have agreed to guarantee the obligations of the Company under the Notes, their assets and cash are unlikely to be available to service our obligations under the Notes due to PRC foreign currency exchange controls or uncertainties in the PRC legal system and/or payments from them may be delayed or subject to PRC tax regimes. See "Risks Related to the PRC."

In addition, our Subsidiaries that do not guarantee the Notes hold significant amounts of our assets and/or generate significant amounts of EBITDA and the portion of assets held or income generated by the Subsidiary Guarantors may decrease in the future. In particular, the Notes will not be guaranteed at their issuance date by the Initial Non-Guarantor Subsidiary, Sino-Capital Global Inc. (BVI), which is a subsidiary that has guaranteed the 2011 Senior Notes with aggregate outstanding principal amount of US\$87.7 million as at June 30, 2010. See "Description of Other Indebtedness." Further, the Notes will not be guaranteed by any of our current or future subsidiaries organized under the laws of the PRC ("PRC Subsidiaries") and future subsidiaries organized under the laws of other jurisdictions that would not allow them to provide such guarantee, which are our operating subsidiaries. The Notes will also not be guaranteed at their issuance date by Omnicorp and its subsidiaries, including Greenheart and Silver Mount, and Mandra Holdings and its subsidiaries (the "Initial Unrestricted Subsidiaries"), or any other subsidiaries designated as "Unrestricted Subsidiaries" pursuant to the terms of the indenture relating to the Notes (the "Indenture"). As a result, (i) our obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiary, our current or future PRC Subsidiaries and our future subsidiaries organized under the laws of other jurisdictions that would not allow them to provide such guarantee, and the Initial Unrestricted Subsidiaries and any other subsidiaries designated as "Unrestricted Subsidiaries" in the future (collectively, the "Non-Guarantor Subsidiaries") and (ii) all claims of creditors of our Non-Guarantor Subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the

assets of such entities over claims of ours or the Subsidiary Guarantors and those of creditors of ours or the Subsidiary Guarantors, including the holders of the Notes. We and our subsidiaries may incur significant additional secured or unsecured indebtedness in the future. As of June 30, 2010, our PRC Subsidiaries had total borrowings of approximately US\$58.7 million and capital commitments of approximately US\$54.4 million with third parties.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of inter-company loans or advances to us and our subsidiaries

As a holding company, we currently depend on the repayment of intercompany loans and interest or advances from our subsidiaries and affiliates to satisfy our obligations, including our obligations related to the Notes and the majority of our other debt obligations. The ability of our direct and indirect subsidiaries to pay dividends and repay intercompany loans or advances to their shareholders (including us) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws, foreign exchange restrictions and restrictions contained in debt instruments of such subsidiaries. Covenants in the debt instruments of certain of our direct and indirect subsidiaries limit their ability to pay dividends. See “—We have substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.” In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which could restrict our ability to meet our payment obligations under the Notes. Our ability to utilize cash resources we have from our subsidiaries to finance the needs of other subsidiaries, to a significant extent, is subject to the same restrictions.

To date, the large majority of our revenue and profits in the PRC are generated in our BVI Subsidiaries with most of the remainder of our revenue and profits being generated in our WFOEs. According to relevant PRC laws and regulations, including the tax and foreign exchange regulations, the BVI Subsidiaries’ ability to remit foreign currency outside the PRC is limited. As a result, in order to provide accessible cash to cover any of our holding companies’ obligations, including debt obligations, we currently do not rely upon the repatriation of earnings of the BVI Subsidiaries. We are expanding our investments in the PRC through our WFOEs. Currently, 306,200 hectares of tree plantations are owned by our WFOEs. We intend to increase the hectares managed by our WFOEs in the future as we continue to invest our cash, held in treasury, in our WFOEs. As the plantations held by our WFOEs are sold, income generated and associated cash flow should be available for repatriation from the PRC, subject to relevant procedures for approval from SAFE and other relevant requirements being satisfied. However, there can be no assurance as to when these planned changes may be implemented.

In addition, for our PRC subsidiaries, PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations including tax and foreign exchange regulations. Our WFOEs are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Furthermore, under prevailing PRC income tax laws, there is a 10% withholding tax imposed on dividend payments made by our WFOEs to a foreign-invested holding company. If the holding company is a Hong Kong resident who holds more than 25% equity interest in the PRC Subsidiaries and is the beneficial owner of the dividend, such withholding tax rate, after obtaining approval from the competent tax authorities, may be lowered to 5% pursuant to the tax arrangement between Hong Kong and the PRC.

In practice, our WFOEs may declare dividends once a year at the end of each financial year. Most of our operations in the PRC are conducted through WFOEs. Under their articles of association adopted in accordance with PRC regulations, the WFOEs are only allowed to declare dividends once a year although such dividends may be distributed multiple times each year. As a result of such limitations, there could be timing limitations on payments from our WFOEs to meet our payment obligations under the Notes and there could be restrictions on payments required to pay off the Notes at maturity or upon conversion or for repurchase or redemption.

Furthermore, in practice, the market interest rate that our WFOEs can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. Our WFOEs are also required to pay a 10% (which may be lowered to 7%, after obtaining approval from the competent tax authorities, if the interest is paid to a Hong Kong resident if it is the beneficial owner of

the interest) withholding tax as well as a 5% business tax on our behalf on the interest paid under any shareholders' loans. Prior to payment of interest and principal on such shareholder loan, the WFOEs must present evidence of payment of the required withholding tax on the interest payable under any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, there can be no assurance that we will have sufficient cash flow from dividends or payments on inter-company loans or advances from our WFOEs to satisfy our obligations under the Notes. However, for the foreseeable future, we intend to satisfy our obligations under the Notes and other debt owed by entities outside the PRC from our existing cash reserves which are primarily in Hong Kong, from future earnings generated by our WFOEs and from the proceeds of future debt and equity offerings made by non-operating entities outside the PRC.

We have substantial indebtedness and may incur substantial additional indebtedness in the future, which may adversely affect our financial health and ability to generate sufficient cash to satisfy our outstanding and future debt obligations

We have now and will continue to have after the offering of the Notes a substantial amount of indebtedness. On an adjusted basis, after giving effect to the offering of the Notes, as of June 30, 2010 our total debt was approximately US\$1,861.4 million, excluding the debt of Omnicorp and its subsidiaries.

Our substantial indebtedness could have important consequences. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- limit our ability to make dividends or other distributions to our shareholders;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the forestry industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; or
- increase the cost of additional financing.

In particular, the 2011 Indenture (as defined below) and the 2014 Indenture (as defined below) include restrictive covenants limiting our ability to incur additional debt. Such debt covenants in the 2011 Indenture and the 2014 Indenture proscribe us from incurring new debt, except under certain circumstances, unless we meet a specified financial ratio. Further, the 2013 Convertible Indenture and the 2016 Convertible Indenture (as defined below) provides, in certain cases, restrictions against some of our subsidiaries providing additional guarantees. See "Description of Other Indebtedness."

In the future, we may from time to time incur substantial additional indebtedness. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance and ability to repatriate cash out of the PRC, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow should be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, certain of our financing arrangements impose operating and financial restrictions on our business. These provisions require us to, among other things, maintain a debt to equity ratio, an indebtedness to total asset ratio, a gearing ratio, an interest coverage ratio, a debt to EBITDA ratio, a capital asset coverage ratio, an EBIT to interest expense ratio, a current ratio, and a debt to timber holdings ratio, above certain specified levels. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, significantly increase research and development expenditures, or withstand a continuing or future downturn in our business. Any of these could materially and adversely affect our ability to satisfy our debt obligations.

If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could cause payment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, including the Notes, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under our other debt agreements. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes and our existing debt, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk

The Indenture, as well as the 2011 Indenture and 2014 Indenture, include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur additional debt;
- make restricted payments;
- pay dividends or distributions on our capital stock, repurchase our capital stock, pay existing indebtedness, make intracompany loans or advances or sell or transfer property or assets;
- sell capital stock;
- guarantee indebtedness;
- enter into transactions with affiliates;
- create liens on our assets to secure debt;
- enter into sale and leaseback transactions;
- sell assets;
- make investments;
- merge or consolidate with another company; and
- engage in a different business activity.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control and we may have to curtail some of our operations and growth plans to maintain compliance.

You may be unable to enforce your rights under the bankruptcy laws of the United States or other relevant jurisdictions

We are incorporated under the laws of Canada and our principal assets are located in the PRC. Under bankruptcy laws in the United States, courts typically have jurisdiction over a debtor's property, wherever located, including property situated in other countries. However, courts outside of the United States may not recognize the United States bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Canadian debtor with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable outside of the United States.

In addition, because we are incorporated under the laws of Canada, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Canadian bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or those of other relevant jurisdictions. The rights of the trustee under the Indenture (the "Trustee") and the holders of the Notes to enforce remedies are likely to be significantly impaired by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to us. For example, both of the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada) contain provisions enabling "an insolvent person" to obtain a stay of proceeding as against its creditors and others and to prepare and file a proposal for consideration by all or some of its creditors to be voted on by the various classes of its creditors. Such a restructuring proposal, if accepted by the requisite majorities of creditors and if approved by the court, would be binding on persons who may not otherwise be willing to accept it. Moreover, this "proposal" legislation permits, in certain circumstances, the insolvent debtor to retain possession and administration of its property, even though it may be in default under the applicable debt instrument.

The powers of the court under the *Bankruptcy and Insolvency Act* (Canada) and particularly under the *Companies' Creditors Arrangement Act* (Canada) have been exercised broadly to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, it is impossible to predict if payments under the Notes would be made following commencement of or during such a proceeding, whether or when the Trustee and the holders could exercise their rights under the Indenture or whether and to what extent holders of the Notes would be compensated for any delays in payments, if any, of principal and interest. Furthermore, the Subsidiary Guarantors are incorporated in Hong Kong, the British Virgin Islands or the Cayman Islands and the insolvency laws of these jurisdictions may also differ significantly from the laws of Canada, the United States or other jurisdictions with which the holders of the Notes are familiar.

We may be unable to raise the funds to pay interest on the Notes or the principal of the Notes at maturity or to purchase the Notes upon a change of control triggering event or at maturity

The Notes initially bear interest semi-annually at a rate of 6.25% per annum. If a change of control triggering event occurs, we are required to commence an offer to purchase, for cash, all of the Notes then outstanding and failure by us to do so within 30 days of the occurrence of any such change of control triggering event is an event of default under the Indenture. The 2011 Indenture and the 2014 Indenture both include similar provisions. We are obligated to pay the principal amount of the Notes outstanding at the maturity date. We may not have sufficient funds for any required repurchase of the Notes or required payment of principal or interest, and we may have to refinance other indebtedness or otherwise secure funds in order to make payments under the Notes. We are required to make an offer to repurchase the 2016 Convertible Notes, the 2013 Convertible Notes, the 2011 Senior Notes and the 2014 Senior Notes under circumstances similar to those constituting a change of control triggering event. For instance, each of the 2013 Convertible Indenture and the 2016 Convertible Indenture contains a purchase right for holders of such notes under circumstances and conditions substantially similar to the purchase right described under "Description of the Notes." In addition, the terms of any borrowing agreements may subject us to similar obligations. These agreements may also make our repurchase of Notes an event of default under such agreements. If we fail to pay interest on the Notes or repurchase the Notes when required under the Indenture, we will be in default thereunder.

There is no existing market for the Notes, an active and liquid trading market for the Notes may not develop and there are restrictions on resale of the Notes

The Notes are a new issue of securities for which there is currently no public market, and no active trading market might ever develop. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors. To the extent that an active trading market does not develop, the liquidity and trading prices for the Notes may be harmed. We have made an application for the listing of the Notes on the SGX-ST. Although the Joint Global Coordinators and Lead Bookrunning Managers have advised us that they currently intend to make a market in the Notes, they are not obligated to do so. No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for, the Notes. The liquidity of any market for the Notes will depend upon the number of holders of the Notes, our results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the Notes and other factors. An active or liquid trading market for the Notes may not develop, and you may be unable to resell your Notes or may only be able to sell them at a substantial discount.

In addition, we have not registered the Notes or the Subsidiary Guarantees under the Securities Act or any U.S. state securities laws. The Notes are being offered pursuant to exemptions from registration requirements under the Securities Act, and as a result, you will only be able to resell your Notes in transactions not subject to or exempt from the registration and qualification requirements of U.S. federal and state securities law. See "Transfer Restrictions."

Enforcement of the rights of holders of the Notes under the Notes across multiple jurisdictions may prove difficult

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, Canada, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts. The PRC has not entered into any treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of other countries or regions (such as the United Kingdom, the United States or Canada). Therefore, it may also be difficult to seek the recognition and enforcement of judgments obtained in these and other jurisdictions in the PRC.

The terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures

As of the date of this Offering Memorandum, all of our subsidiaries, other than the Initial Unrestricted Subsidiaries, will be "Restricted Subsidiaries." In light of the size and scope of potential acquisitions, operations and other factors, we may from time to time consider expanding our business to other jurisdictions, other areas in the PRC or jointly with other PRC forestry companies. As a result, we may need to make investments in the Initial Unrestricted Subsidiaries, future Unrestricted Subsidiaries or joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries under the Indenture and will not be subject to many of the restrictive covenants in the Indenture. Our Unrestricted Subsidiaries will not guarantee the Notes. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications.

Omicorp and its subsidiaries and Mandra Holdings and its subsidiaries represented less than 3% and 7%, respectively, of our total assets as of June 30, 2010.

We may be unable to obtain and remit foreign exchange

Our ability to satisfy our obligations under the Notes depends upon the repayment of intercompany loans and interest or advances from our subsidiaries and affiliates in the PRC. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE). Prior to payment of interest and principal on any outstanding shareholder loan we made to our PRC subsidiaries, the relevant PRC subsidiary must also

present evidence of payment of the withholding taxes on the interest payable in respect of such shareholder loan. If any of our PRC subsidiaries for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency, such PRC subsidiary will be unable to remit cash out of the PRC, which would adversely affect our ability to satisfy our obligations under the Notes.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisors

Facts and statistics in this Offering Memorandum relating to the PRC's economy and the forestry industry are derived from publicly available and other sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

There may be less publicly available information about us than is available in certain other jurisdictions

There may be less publicly available information about companies listed on a Canadian stock exchange than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with Canadian GAAP, which differ in certain significant respects from U.S. GAAP. See "Summary of Certain Differences Between Canadian GAAP and U.S. GAAP."

Any ratings assigned to the Notes may be lowered or withdrawn in the future

The Notes may be assigned a rating by Standard and Poor's Ratings Services, Moody's Investors Service, Inc., Fitch Ratings Ltd. or other ratings agencies. Any such ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that if the Notes are assigned a rating, such rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of any rating assigned to the Notes may adversely affect the market price of the Notes.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificated form and held through The Depository Trust Company ("DTC") and its participants, including Euroclear Bank S.A./N.A. ("Euroclear") and Clearstream Banking, *société anonyme*, Luxembourg ("Clearstream"). Interests in the global notes representing the Notes will trade in book-entry form only, and Notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes for purposes of the Indenture. The custodian for DTC will be the sole registered holder of the global notes. Accordingly, you must rely on the procedures of DTC, Euroclear or Clearstream, and if you are not a participant in DTC, Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through DTC, Euroclear and Clearstream. The procedures to be implemented through DTC, Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See "Description of the Notes—Book Entry; Delivery and Form."

Risks Related to the Collateral and the Subsidiary Guarantees

The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes

The Collateral (as defined herein) will consist only of capital stock of our initial Subsidiary Guarantors, which excludes any capital stock of the Non-Guarantor Subsidiaries, including our existing or future PRC Subsidiaries and Foreign Subsidiaries (as defined herein). In addition, the security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied prior to repaying any amounts due under the Notes to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The Indenture will permit us to also incur under certain circumstances additional debt secured by the Collateral as long as it is equally and ratably secured with the Notes. Furthermore, pursuant to an inter-creditor agreement, the Collateral will secure our obligations under the Notes as well as our obligations under the 2011 Senior Notes and the 2014 Senior Notes. If the proceeds of the sale of the Collateral were insufficient to repay the amounts due under the Notes, the 2011 Senior Notes, the 2014 Senior Notes and any additional secured debt, you would have only an unsecured claim against our remaining assets and the remaining assets of the Subsidiary Guarantor Pledgors. In addition, the holders of the 2011 Senior Notes have security interests in the capital stock of certain of our subsidiaries which do not comprise the Collateral. Therefore, such creditors would have priority with respect to such assets over the holders of the Notes.

In addition, all of the Collateral consists of capital stock of privately held companies which may be illiquid and may not have any readily ascertainable market value. We cannot assure you that the pledged capital stock will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Subsidiary Guarantors also guarantee our other significant obligations and they may not have the funds necessary to satisfy our financial obligations under the Notes

In addition to the Notes, the Subsidiary Guarantors also guarantee the 2011 Senior Notes, the 2013 Convertible Notes, the 2014 Senior Notes and the 2016 Convertible Notes. Certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Notes pursuant to their respective Subsidiary Guarantees if we are unable to do so.

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws; which could impair the enforceability of the Subsidiary Guarantees

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong, the British Virgin Islands, Canada, the Cayman Islands, Barbados or other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors;
- was insolvent at such time and was influenced by a desire to put the beneficiary of the guarantee in a position which would be better than the position the beneficiary would have been in, in the event of a winding-up of the relevant guarantor, had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction that is being applied. Generally, however, the guarantor would be considered insolvent at a

particular time if it is unable to pay its debts as they fall due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder was incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

However, certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. We cannot provide any assurance that the guarantee of a Subsidiary Guarantor would not be voided or subject to review under applicable insolvency or fraudulent transfer laws, or subject to a lawsuit by or on behalf of creditors of such Subsidiary Guarantor.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantors, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of ours and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. There can be no assurance that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

Security over the Collateral will not be granted directly to the holders of the Notes, and the Collateral will generally be shared with creditors under certain other financings

Security over the Collateral for our obligations under the Notes and the Indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the Security Trustee (as defined herein) on behalf of the Trustee. As a consequence, holders of the Notes will not have direct security and will not be entitled to take enforcement action in respect of the security for the Notes, except through the Security Trustee, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

In addition, the Indenture provides that the Collateral will be shared equally and ratably with the holders of the 2011 Notes and the 2014 Notes, and all obligations of the Company and the Subsidiary Guarantors under all other future Permitted *Pari Passu* Secured Indebtedness. For a further discussion of the Amended Intercreditor Agreement, see "Description of the Notes—Security—Intercreditor Agreement." Because the Collateral will be shared equally and ratably with creditors under other financings, the full value of the Collateral will not be available to satisfy the Noteholders' claims.

The Indenture also permits us to enter into certain future financings, and creditors under those future financings may share the Collateral *pari passu* with the holders of the Notes. See "Description of the Notes—Security—Permitted *Pari Passu* Secured Indebtedness" for a further discussion of the sharing of the Collateral with future financings. If creditors under future financings opt to share the Collateral under the Amended Intercreditor Agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the Noteholders' claims, which could have a material adverse effect on the ability of the Noteholders to recover sufficient proceeds to satisfy their claims under the Notes.

The Amended Intercreditor Agreement may impair our ability and the Subsidiary Guarantors to pay amounts due under the Notes and the Subsidiary Guarantees, and the Amended Intercreditor Agreement may limit the rights of the Noteholders to the Collateral

The Security Trustee is required to take action to enforce the Collateral in accordance with the instructions of the secured creditors given under the Amended Intercreditor Agreement. Any enforcement action taken by the Security Trustee will adversely affect our entitlement to receive proceeds from the Collateral, which will, in turn, have an adverse impact on our ability to fulfill our payment obligations under the Notes. Further, our ability to pay under the Subsidiary Guarantees will be adversely affected.

The ability of the Noteholders to enforce the Collateral is restricted under the Amended Intercreditor Agreement, as only the Security Trustee is permitted to take enforcement actions. If an Event of Default occurs under the Notes, the holders of the Notes holding 25% of the outstanding amount of the Notes and representatives of other Secured Parties must decide whether to take any enforcement action and thereafter, through their respective trustees or agents, may instruct the Security Trustee to take such enforcement action. In addition, by virtue of the instructions given to the Security Trustee described above, actions may be taken in respect of the Collateral that may be adverse to you. In such event, the only remedy available to the Noteholders would be to sue for payment on the Notes, the Collateral and the Subsidiary Guarantees. For a description on the Amended Intercreditor Agreement, see "Description of Notes—Security—Intercreditor Agreement."

The pledge of certain Collateral may in certain circumstances be voidable

The pledge of the Collateral securing the Notes may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under "—The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us.

USE OF PROCEEDS

We estimate that the net proceeds from this offering of Notes will be approximately US\$586.0 million. We intend to use the net proceeds of this offering of Notes for general corporate purposes, including, but not limited to, the acquisition and replanting of tree plantations.

EXCHANGE RATES

PRC

The People's Bank of China ("PBOC") sets and publishes daily a base exchange rate with reference primarily to the supply of and demand for Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loans or securities, requires the approval of the SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. From July 21, 2005 to October 1, 2010, the value of the Renminbi appreciated by more than 24% against the U.S. dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter bank foreign exchange spot market and the over the counter exchange rate for the business day.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	High	Low
	<i>(RMB per US\$1.00)</i>			
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2774	8.2764
2005	8.0702	8.1936	8.2765	8.0702
2006	7.8041	7.9723	8.0702	7.8041
2007	7.2946	7.6058	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7800
2009	6.8259	6.8307	6.8470	6.8176
2010				
January 2010	6.8268	6.8269	6.8295	6.8258
February 2010	6.8258	6.8285	6.8330	6.8258
March 2010	6.8258	6.8262	6.8270	6.8254
April 2010	6.8247	6.8256	6.8275	6.8229
May 2010	6.8305	6.8275	6.8310	6.8245
June 2010	6.7815	6.8184	6.8323	6.7815
July 2010	6.7735	6.7762	6.7807	6.7709
August 2010	6.8069	6.7873	6.8069	6.7670
September 2010	6.6905	6.7396	6.8102	6.6869
October 1, 2010	6.6895	6.6895	6.6895	6.6895

Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For the period beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 Statistical release of the Federal Reserve Board.

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2010, which is determined by averaging the daily rates during the respective periods.

On October 1, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi was US\$1.00 = RMB6.6895 as quoted by the Federal Reserve Bank at New York.

Hong Kong

The H.K. dollar is freely convertible into other currencies, including the U.S. dollar. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, or the Basic Law, which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong. Therefore, under existing Hong Kong law, (i) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of dividend payments to US residents and (ii) there are no limitations on the rights of non residents or foreign owners to hold the Notes offered in this offering.

Since October 17, 1983, the H.K. dollar has been pegged to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The central element in the arrangements which gave effect to the peg is that by agreement between the Hong Kong Special Administrative Region government and the three Hong Kong banknote issuing banks (i.e., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars, at the fixed exchange rate of HK\$7.80 to US\$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the H.K. dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK\$7.80 to US\$1.00 since the peg was first established. In May 2005, the Hong Kong Monetary Authority broadened the 22 year old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong Special Administrative Region government has stated its intention to maintain the link at that rate range. The Hong Kong Special Administrative Region government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the H.K. dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Special Administrative Region government will maintain this rate range or the link at HK\$7.75 to HK\$7.85 per US\$1.00, or maintain any rate range or link at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	High	Low
	(HK\$ per US\$1.00)			
2003	7.7640	7.7875	7.8001	7.7085
2004	7.7723	7.7891	7.8010	7.7632
2005	7.7533	7.7775	7.7999	7.7514
2006	7.7771	7.7681	7.7928	7.7506
2007	7.7984	7.8016	7.8289	7.7497
2008	7.7499	7.7862	7.8159	7.7497
2009	7.7536	7.7514	7.7618	7.7495
2010				
January 2010	7.7665	7.7624	7.7752	7.7539
February 2010	7.7619	7.7670	7.7716	7.7619
March 2010	7.7647	7.7612	7.7648	7.7574
April 2010	7.7637	7.7627	7.7675	7.7565
May 2010	7.7850	7.7856	7.8030	7.7626
June 2010	7.7865	7.7880	7.8040	7.7690
July 2010	7.7672	7.7753	7.7962	7.7651
August 2010	7.7781	7.7702	7.7788	7.7605
September 2010	7.7599	7.7643	7.7738	7.7561
October 1, 2010	7.7573	7.7573	7.7573	7.7573

Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For the period beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 Statistical release of the Federal Reserve Board.

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which is determined by averaging the daily rates during the respective periods.

On October 1, 2010, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was HK\$7.7573 per U.S. dollar as quoted by the Federal Reserve Bank of New York.

Canada

The following table sets forth the noon buying rate for U.S. dollars in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

Period	Noon Buying Rate			
	Period End	Average ⁽¹⁾	High	Low
		<i>(Cdn.\$ per US\$1.00)</i>		
2003	1.1923	1.4008	1.5750	1.2923
2004	1.2034	1.3017	1.3970	1.1775
2005	1.1656	1.2115	1.2703	1.1507
2006	1.1652	1.1340	1.1726	1.0989
2007	0.9881	1.0734	1.1852	0.9168
2008	1.2240	1.0660	1.2971	0.9717
2009	1.0461	1.1412	1.2995	1.0289
2010				
January 2010	1.0652	1.0438	1.0669	1.0260
February 2010	1.0520	1.0572	1.0735	1.0419
March 2010	1.0156	1.0229	1.0421	1.0110
April 2010	1.0112	1.0052	1.0199	0.9960
May 2010	1.0497	1.0403	1.0776	1.0134
June 2010	1.0606	1.0376	1.0606	1.0197
July 2010	1.0293	1.0422	1.0647	1.0281
August 2010	1.0640	1.0404	1.0640	1.0154
September 2010	1.0293	1.0330	1.0520	1.0219
October 1, 2010	1.0214	1.0214	1.0214	1.0214

Source: For all periods prior to January 1, 2009, the exchange rate refers to the Noon Buying Rate as reported by the Federal Reserve Bank of New York. For the period beginning on or after January 1, 2009, the exchange rate refers to the Noon Buying Rate as set forth in the weekly H.10 Statistical release of the Federal Reserve Board.

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2010, which is determined by averaging the daily rates during the respective periods.

For a recent noon buying rate for U.S. dollars in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York, see "Certain Definitions, Conventions and Currency Presentation."

CONSOLIDATED CAPITALIZATION

The following table sets out our consolidated short-term debt and capitalization as of June 30, 2010 on (i) an actual basis and (ii) an as-adjusted basis after giving effect to this offering of Notes. The following table should be read in conjunction with the selected consolidated financial data and the annual and interim consolidated financial statements and related notes incorporated by reference herein.

	As of June 30, 2010	
	Actual	As Adjusted for this Offering of Notes
	<i>(US\$ thousands)</i>	
Short-term debt:		
Bank indebtedness	153,891	153,891
Total short-term debt.....	153,891	153,891
Long-term debt:		
2013 Convertible Notes ⁽¹⁾	296,119	296,119
2016 Convertible Notes ⁽¹⁾	374,298	374,298
2011 Senior Notes ⁽²⁾⁽³⁾	87,670	87,670
2014 Senior Notes ⁽²⁾	399,517	399,517
Notes ⁽²⁾	—	600,000
Unamortized deferred financing costs ⁽⁴⁾	(36,124)	(50,124)
Total long-term debt.....	1,121,480	1,707,480
Shareholders' equity:		
Equity portion of 2013 Convertible Notes ⁽¹⁾	70,462	70,462
Equity portion of 2016 Convertible Notes ⁽¹⁾	88,421	88,421
Common Shares, no par value, unlimited shares authorized ⁽⁵⁾	1,253,561	1,253,561
Contributed surplus	12,392	12,392
Accumulated other comprehensive income.....	241,166	241,166
Retained earnings.....	1,160,759	1,160,759
Total shareholders' equity	2,828,414	2,828,414
Total capitalization ⁽⁶⁾	3,949,894	4,535,894

Notes:

- (1) In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 Financial Instruments, a convertible note should be split into an equity and a liability component. The 2013 Convertible Notes and the 2016 Convertible Notes are guaranteed by the Subsidiary Guarantors (as defined in the 2013 Convertible Indenture and the 2016 Convertible Indenture).
- (2) The 2011 Senior Notes, 2014 Senior Notes and the Notes are collateralized by pledges of the capital stock of the Subsidiary Guarantors and, in the case of the 2011 Senior Notes, the capital stock of the Initial Non-Guarantor Subsidiary as well.
- (3) The 2011 Senior Notes are due August 2011 and would therefore be classified as short-term debt as of the date of this Offering Memorandum.
- (4) Estimated costs and expenses relating to this offering of Notes have been included in the above capitalization table.
- (5) As of June 30, 2010, we had 245,297,294 Common Shares issued and outstanding. As of June 30, 2010, on a diluted basis, we had 287,202,474 Common Shares outstanding, assuming the exercise of 3,157,103 outstanding stock options and the issuance of 17,007,603 and 21,740,474 Common Shares upon the conversion of the 2013 Convertible Notes and the 2016 Convertible Notes, respectively.
- (6) "Total capitalization" includes long-term debt plus shareholders' equity.

Since June 30, 2010, there has not been any other material change to our capitalization, except for the effects of consolidating Omnicorp and its subsidiaries.

SELECTED FINANCIAL DATA

The selected financial data in this section has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 and our interim consolidated financial statements as of and for the six-month periods ended June 30, 2009 and 2010 incorporated by reference herein. The interim financial statements reflect all adjustments which are, in our opinion, necessary to provide a fair statement of the results for the interim periods indicated. The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. See "Summary of Certain Differences Between Canadian GAAP and U.S. GAAP." The following selected financial data should be read in conjunction with "Certain Financial Information" and the audited and unaudited consolidated financial statements and the related notes thereto incorporated by reference herein and other information included elsewhere in this Offering Memorandum. The results in the six-month periods ended June 30, 2009 and 2010 are not necessarily indicative of the results that may be expected for the full year, and our historical results in general do not necessarily indicate results expected for any future period.

	As of and for the Year Ended December 31,			As of and for the Six-Month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
<i>(US\$ thousands, except per share amounts and margins)</i>					
Consolidated Income Statement Data:					
Revenue	713,866	896,045	1,238,185	401,653	556,773
Cost of sales	(470,825)	(530,083)	(797,292))	(253,882)	(338,307)
Selling, general and administrative expenses	(40,209)	(53,372)	(64,488)	(31,089)	(35,340)
Depreciation and amortization.....	(5,364)	(3,206)	(4,693)	(2,290)	(2,276)
Income from operations before other items ⁽²⁾	197,468	309,384	371,712	114,392	180,850
Net income from continuing operations ⁽¹⁾ ...	142,431	241,322	278,787	74,941	107,182
Net income/(loss) from discontinued operations ⁽¹⁾	9,842	(12,729)	7,583	(6,887)	(696)
Net income for the year/period	<u>152,273</u>	<u>228,593</u>	<u>286,370</u>	<u>68,054</u>	<u>106,485</u>
Basic earnings per share.....	0.91	1.25	1.39	0.36	0.44
Diluted earnings per share.....	0.90	1.24	1.38	0.36	0.44
Other Consolidated Financial Data:					
Gross profit ⁽³⁾	243,041	365,962	440,893	147,771	218,466
Gross profit margin ⁽⁴⁾	34.0%	40.8%	35.6%	36.8%	39.2%
EBITDA ⁽⁵⁾	487,640	597,122	898,294	260,319	320,182
Balance Sheet Data:					
Cash, cash equivalents and short-term deposits	350,853	486,955	1,172,753	703,510	985,553
Current assets	527,028	811,457	1,586,761	951,316	1,471,046
Non-current assets	<u>1,310,469</u>	<u>1,792,467</u>	<u>2,377,138</u>	<u>2,075,241</u>	<u>2,986,074</u>
Total assets	<u>1,837,497</u>	<u>2,603,924</u>	<u>3,963,899</u>	<u>3,026,557</u>	<u>4,457,120</u>

	As of and for the Year Ended December 31,			As of and for the Six-Month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
<i>(US\$ thousands, except per share amounts and margins)</i>					
Current liabilities (including current portion of long-term debt)	197,003	290,692	373,780	332,580	466,884
Long-term debt (net of current portion)	441,985	714,468	925,466	684,382	1,121,480
Total liabilities.....	650,199	1,005,160	1,299,246	1,006,962	1,627,472
Total shareholders' equity.....	1,187,298	1,598,764	2,664,653	2,019,591	1,006,962
Cash Flow Statement Data:					
Cash flows from operating activities of continuing operations.....	482,501	487,183	784,517	324,333	151,706
Cash flows used in investing activities	(692,322)	(702,992)	(1,092,625)	(438,821)	(379,464)
Cash flows from financing activities.....	376,912	332,254	952,003	324,383	46,707
Net increase/(decrease) in cash and cash equivalents	175,803	112,481	661,195	216,367	(179,634)

Notes:

- (1) Our Gaoyao facility was disposed of in 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the six-month periods ended June 30, 2009 and 2010 and the years ended December 31, 2008 and 2009. The selected data in this table for the year ended December 31, 2007, has not been reclassified to reflect the Gaoyao facility as a discontinued operation. Except for an impairment charge on our Gaoyao facility of US\$15.4 million for the year ended December 31, 2007 which was included in the results from continuing operations in this table, the remaining results of operations of the Gaoyao facility are not significant to the Company's 2007 consolidated results.
- (2) Income from operations before other items excludes interest income and expense, exchange gains/(losses), gain/(loss) on changes in fair value of financial instruments, other income and impairment of capital assets.
- (3) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.
- (4) Gross profit margin is calculated by dividing gross profit by revenue. Gross profit margin is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit margin may not be comparable to similar measures presented by other companies.
- (5) EBITDA for any period is defined as income from operations before other items for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

A reconciliation from income from operations before other items to EBITDA for the periods indicated is set out below:

	For the Year Ended December 31,			For the Six-month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
	(US\$ thousands)				
Income from operations before other items	197,468	309,384	371,712	114,392	180,850
Add:					
Depreciation and amortization.....	5,364	3,206	4,693	2,290	2,276
Depletion of timber holdings included in cost of sales	<u>284,808</u>	<u>284,532</u>	<u>521,889</u>	<u>143,637</u>	<u>137,056</u>
EBITDA ⁽²⁾	<u>487,640</u>	<u>597,122</u>	<u>898,294</u>	<u>260,319</u>	<u>320,182</u>

Notes:

(1) See note (1) above.

(2) See note (5) above.

Changes in the scope of our operations from period to period affect the comparability of our results of operations. Accordingly, for comparison purposes, we reclassified our results for the full financial years ended December 31, 2009 and 2008, as well as the six-month period ended June 30, 2009 to account for our discontinued operations at our Gaoyao facility. These operations ceased during the third quarter of 2009. The results of the discontinued operations at our Gaoyao facility have been reclassified as discontinued operations in our financial statements for the years ended December 31, 2009 and 2008, and our interim financial statements for the six-month periods ended June 30, 2010 and 2009 incorporated by reference herein. However, the results of the discontinued operations at our Gaoyao facility have not been reclassified as discontinued operations in our financial statements for the year ended December 31, 2007, which slightly affects the comparability of the financial data for the year ended December 31, 2007 with the financial data for the other periods presented in this Offering Memorandum. Our revenue generated from and impairment of assets related to our discontinued operations at our Gaoyao facility in the year ended December 31, 2007 was US\$4.5 million and US\$15.4 million, respectively.

RECENT DEVELOPMENTS

Co-operative Framework Agreement with China Development Bank Corporation

On July 2, 2010, we, through Sino-Panel China, one of our indirectly wholly owned subsidiaries, entered into a Co-operative Framework Agreement with the CDB. Pursuant to the terms of this framework agreement, and subject to specific loan agreements to be entered into by the parties on mutually agreeable terms, we may be able to obtain from the CDB up to RMB10 billion (approximately US\$1.5 billion) of project financing to support Sino-Panel China's projects in the PRC.

Exercise of Convertible Bonds Issued by Omnicorp

On September 27, 2010, we exercised the convertible bonds issued by Omnicorp for 106.2 million ordinary shares of Omnicorp. As of the date hereof, we hold 59.1% of the voting interest in Omnicorp.

CERTAIN FINANCIAL INFORMATION

The following discussion presents certain information regarding our financial condition and results of operations. The following discussion reflects information extracted from our Management's Discussion and Analysis, dated August 10, 2010, for the six-month period ended June 30, 2010, that we filed with the securities regulatory authorities in each of the provinces in Canada, a copy of which is available at www.sedar.com, and which does not form a part of this Offering Memorandum, with the addition of certain supplemental information for purposes of the offering of Notes. The following discussion should be read in conjunction with our consolidated financial statements and the related notes thereto incorporated by reference herein and other financial information included elsewhere in this Offering Memorandum. Our audited consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 and our unaudited interim consolidated financial statements for the six-month periods ended June 30, 2009 and 2010 have been prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from US GAAP. See "Summary of Certain Differences between Canadian GAAP and U.S. GAAP." Investors are advised that any evaluation of our business should be made with reference to the information contained in this Offering Memorandum under the heading "Risk Factors."

Overview

We are a leading commercial forest plantation operator in the PRC, with approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries) of tree plantations under management located in nine provinces and municipalities across the PRC as of June 30, 2010. In addition, we have entered into long-term master agreements in the provinces of Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou that give us the right to acquire up to approximately 1.3 million to 1.4 million hectares of tree plantations. As of June 30, 2010, we have acquired approximately 486,000 hectares under these agreements. Our principal businesses include ownership and management of forest plantation trees, the sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2009 and for the six-month period ended June 30, 2010, our total revenue was US\$1,238.2 million and US\$556.8 million, respectively, and our EBITDA was US\$898.3 million and US\$320.2 million, respectively.

Our vision is to become the leading commercial forest plantation operator and the preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices. We have developed our tree plantations in regions that have favorable climate and soil conditions for eucalyptus, pine and Chinese fir plantations and access to key transportation routes and proximity to major population centers and industrial and consumer markets for wood panels, furniture, construction materials, interior decoration and pulp and paper products.

Our business operations are comprised of two core business segments. Our wood fibre operations are our main revenue contributor, while our manufacturing and other operations enable us to enhance the value of our fibre operations by producing downstream products.

Wood Fibre Operations Segment

Our wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. The wood fibre operations accounted for 96.3% and 94.9% of our total revenue for the year ended December 31, 2009 and the six-month period ended June 30, 2010, respectively.

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture value through wood fibre growth during the course of our ownership. Under our planted plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate the trees using improved breeding, planting and silviculture techniques and sell

the trees as standing timber. Under our integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods, and under the relevant purchase agreements, we typically require an option to enter into long-term leases, typically for up to 50 years, under which we would be able to plant and subsequently harvest several rotations of trees.

We expect our integrated plantation model to allow us to provide the market with a sustainable source of fibre under our existing long-term master agreements and to generate sustainable cash flow by purchasing mature trees instead of acquiring younger trees and holding them until maturity. We lease the land of harvested plantations on a long-term basis, replant it with higher yielding tree species and apply advanced breeding, planting and silviculture techniques. These advanced techniques are designed to enable us to improve efficiency, grow more uniform trees, lower our operating and harvesting costs, and achieve higher fibre quality and output while minimizing the impact on the environment.

We are pursuing our strategy of migrating to an integrated plantation model, as well as securing access to future purchases of tree plantations. We have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces since September 2006, which have provided us with access to 400,000, 200,000, 150,000, 200,000, 150,000 to 300,000 and 150,000 hectares of standing timber, respectively. As of June 30, 2010, we have acquired approximately 486,000 hectares under these agreements.

In June 2010, we completed the last of a series of acquisitions which resulted in Mandra Holdings becoming our wholly owned subsidiary. The acquisition of Mandra Holdings has given us access to 155,600 hectares of relatively mature plantation trees located primarily in Anhui and Jiangxi Provinces. As a result of this strategic investment, we have further diversified our portfolio of plantations geographically and reduced our cost per cubic meter to less than half of the capped fibre prices under our master agreements.

As of June 30, 2010, approximately 648,300 hectares (89.3%) of our plantations under management were purchased plantations and approximately 77,900 hectares (10.7%) were planted plantations. In the year ended December 31, 2009, we sold approximately 58,350 hectares (53.4%) of plantation fibre from our purchased plantations, 44,057 hectares (40.3%) from our integrated plantations, and 6,782 hectares (6.2%) from our planted plantations, for a total of 109,189 hectares. In the six-month period ended June 30, 2010, we sold approximately 8,134 hectares (37.4%) of plantation fibre from our purchased plantations, 9,644 hectares (44.4%) from our integrated plantations and 3,959 hectares (18.2%) from our planted plantations for a total of 21,737 hectares.

Manufacturing and Other Operations Segment

Our manufacturing and other operations segment complements our wood fibre operations by maximizing the usage and adding value to the upstream fibre. This segment represents our secondary source of revenue and consists of sales of wood-based products, such as engineered wood flooring, sawn timber, finger-joint board, blockboard, plywood, veneer and other wood-based products manufactured at our own production plants. We currently operate manufacturing plants in the provinces of Jiangsu, Heilongjiang, Hunan, Yunnan, Guangdong and Guangxi. We also operate a greenery and nursery business based in Jiangsu Province. For the year ended December 31, 2009 and the six-month period ended June 30, 2010, our manufacturing and other operations represented 3.7% and 5.1%, respectively, of our total revenue.

Factors Affecting Results of Operations

We believe that the following principal factors affect our business and results of operations:

Cyclical Price Fluctuations

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for standing timber, wood logs and wood products have been, and in the future are expected to be, subject to cyclical fluctuations. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration material and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes, changes in industry capacity and output levels, general timber industry condition and cyclical changes in the world and PRC economies. Log

prices vary according to the species and size of the logs, with large diameter logs commanding higher prices than small diameter logs. In addition, the market for wood products is sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. Increases or decreases in selling prices could have positive or negative effects on our business, financial condition and results of operations.

Changes in Demand for Wood Products

The demand for our products is directly correlated to demand for the wood products they are used to make. Demand for wood products is 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 activity and the demand for wood chips in the pulp and paper markets. 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;
- government 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.

Seasonality

Our revenue for the second quarter of the year traditionally represents approximately 20.0% to 25.0% of the revenue of the entire year. This ratio, however, does not constitute a projection of future revenue for any specific financial year or period, including the current financial year. This amount reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in logging and hauling timber during the rainy season in the first half of the year.

Our Tree Plantation Yields

The success of our business depends upon the productivity of our forestry plantations and our ability to realize our expected yields. Forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease, pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain and improve our yields will depend on these factors as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus plantations. If we cannot achieve yields at expected levels, our business, financial condition and results of operations could be materially and adversely affected.

Acquisition/Availability of Standing Timber

Revenue from our sales of standing timber was US\$521.5 million, US\$685.4 million, US\$954.2 million and US\$344.9 million in the years ended December 31, 2007, 2008 and 2009 and the six-month period ended June 30, 2010, respectively, which represented approximately 73.1%, 76.5%, 77.1% and 61.9% of our total revenue in the years ended December 31, 2007, 2008 and 2009 and the six-month period ended June 30, 2010, respectively. Hence, our ability to source standing timber may have a significant impact on our revenue. In addition, fluctuations in the cost of sales of standing timber also have a direct impact on our gross profit margin and our results of operations.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires us to make estimates and assumptions, as well as to exercise our judgment, in the process of applying our accounting policies. This affects the amounts or values reported in our consolidated financial statements

and accompanying notes. These estimates form a basis for making judgments about carrying values of assets and liabilities. Actual amounts or values could differ under different assumptions or conditions. We consider our critical accounting policies, meaning those which require us to make the most significant estimates and exercise the most amount of judgment, to be the following:

Asset Impairment

Timber Holdings

Timber holdings represented 61.6% of our consolidated total assets as at June 30, 2010. Timber holdings are carried on our consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. We review the recoverability of the carrying value of our timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

We believe that accounting estimates related to timber holding impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding timber market demand and pricing, cost of production such as harvesting costs, transportation costs, taxes and overhead costs, plantation risk such as fire, pest and disease, frost and typhoons, plantation growth and yield, future yield development and our weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on our consolidated income statement and the reported timber holdings amount in our consolidated balance sheet. To assist with our impairment assessments, we engage an outside consultant to help derive cash flow estimates and to estimate the fair value of our existing timber holdings using a discounted cash flow valuation model. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, we could potentially experience future impairment charges and such charges could be material.

Capital Assets

We evaluate the recoverability of the carrying value of our capital assets whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing capital asset. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on capital assets are measured as the amount by which the carrying value of the asset exceeds its fair value.

We believe that estimates related to capital assets impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding the impact of improvement plans on current operations, other new business opportunities, forecasted production volumes and cost of production assumptions on current and future business; and (ii) any resulting impairment loss could have a material impact on our consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

Revenue Recognition of Standing Timber Sales

We sell standing timber at various stages of maturity to domestic wood dealers from our tree plantations. Standing timber revenue represents a significant portion of our consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of our contractual arrangements with our customers. To date, substantially all of our standing timber revenue has been recognized when we and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, we and the buyer negotiate the approximate timber volume and the expected harvest yield associated with a specified plantation area. The sales agreement typically provides the buyer with a fixed period of time over which the buyer is entitled to harvest the timber on the specified plantation area and amounts due from the buyer are fixed at the time of entering into the agreement and are not subject to adjustment based on the actual amount of timber harvested by the

buyer. Harvesting and all related costs have to date been the responsibility of the buyer and we have not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the timber on the specified plantation area over the harvest period. A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which revenue is recognized.

Provision for Tax-Related Liabilities

We operate mainly in the PRC through our WFOEs and our BVI Subsidiaries and in Hong Kong through our Hong Kong Subsidiaries. Our BVI subsidiaries are engaged in Authorized Sales Activities in the PRC through AIs that are domestic enterprises. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax.

Under the terms of the AI Agreements, the AIs are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

The BVI Subsidiaries are expected to be subject to enterprise income tax on a deemed profit basis for revenues from Authorized Sales Activities for 2010 and the three to five prior years. This also applies to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007. The deemed profit percentage applied by us to plantation fibre sales is 10% for 2009 and prior years. The PRC tax authorities issued Circular 326 in June 2009 providing further clarity as to the number of years for which local bureaus are to assess deemed profit percentage in the case where a taxpayer has not filed tax returns in prior years. Circular 326 requires the number of years for assessment to be either three or five years in addition to the current year depending on the views of the local tax bureau. In addition, the PRC tax authorities issued Circular 19 in February 2010, which states that the deemed profit percentage for certain activities should be a minimum of 15% and possibly more. The excess amount beyond the deemed profit percentage of 15% would depend on the administrative practice of the local tax bureau. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. We have been assessing the effect of the Circulars on the BVI Subsidiaries and monitoring the interpretation and application of the Circulars by the PRC tax authorities. Based upon our analysis to date, we have recorded income tax on a deemed profit basis at a rate of 15% for 2010 but not for prior years, other than for the fourth quarter of 2009. We are actively monitoring the application of the Circulars by PRC taxation authorities to years prior to the issue of the Circulars as well as the number of prior years for which the PRC tax authorities would assess such tax and are working to ascertain whether the most appropriate deemed profit percentage for the BVI Subsidiaries could be in excess of the 15% minimum. We have recorded our best estimate based upon the information available to us as at this date and will revisit our estimate in the near term as our analysis is updated.

Should we determine that we would need to change our recorded exposure to 15% for some or all of the 2007, 2008 and 2009 years from the currently recorded 10%, this would represent a further provision requirement of up to US\$30,053,000. Alternatively, should we determine that some or all of the 2005, 2006, 2007, 2008 and 2009 years are to be assessed, this would represent further provision of up to US\$82,412,000, including the US\$30,053,000 for the 2007, 2008 and 2009 years. In addition, if we were to conclude that the deemed profit percentage should be in excess of 15%, then our management estimates that each additional percentage point increase would represent an additional US\$813,000 per percentage point in provision as of June 30, 2010 for activities subsequent to January 1, 2010 and an additional US\$6,894,000 per percentage point if management was to determine that the exposure should be recorded for the 2007, 2008 and 2009 taxation years. We are conducting but have not completed our ongoing work with respect to the uncertainty related to the retroactivity of the deemed profit percentage. It is expected that this analysis will be completed prior to the issuance of our financial statements for the third quarter of 2010 and we currently expect an adjustment in the range of US\$20 million to US\$30 million.

Included in accounts payable and accrued liabilities including discontinued operations as of December 31, 2009 and June 30, 2010 is the balance of the tax provision for the tax related contingencies amounting to US\$98,863,000 and US\$115,126,000, respectively, provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the six-month period ended June 30, 2010 and in the years ended December 31, 2006, 2007, 2008 and 2009.

Contingencies for Tax-Related Liabilities

The provision for income taxes and tax related liabilities is subject to a number of different factors, estimates and judgments made by our management. A change in the facts and these estimates and judgments could have a material effect on our tax expense. We have operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which we operate, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which we operate. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for a period from four to six years in practice (including the current year). Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

Significant estimates and judgments are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that an adequate provision for tax related liabilities has been recognized in the financial statements.

Income Taxes

We use the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting carrying value and tax basis of assets and liabilities. Future income tax liabilities and assets are calculated using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are evaluated and, if realization is not considered more-likely-than-not, a valuation allowance is provided.

We evaluate a tax position for uncertainty in income taxes using a two-step process:

Step 1 — Recognition requires us to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50% (“more-likely-than-not”) that the tax position taken or to be taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 — Measurement, which is only addressed if the recognition threshold has been met, requires us to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that has a greater than 50% likelihood of being realized upon ultimate settlement.

Change in Accounting Policies

Future Adoption of International Financial Reporting Standards

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards (“IFRS”) effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

We commenced our IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. The diagnostic phase was completed during the latter part of 2008, and the design and planning phase was completed during the first half of 2009. We have moved closer to completing the solution development phase, during which issue-specific work teams are analyzing areas of possible impact, setting out options and making recommendations. Some specific elements of this phase remain to be completed during the remainder of 2010, with the implementation phase continuing through 2011 and 2012 as we issue our initial IFRS interim and annual financial statements. Our senior management reports regularly to the audit committee on the progress of the project and participated in an in-depth IFRS discussion session with the audit committee in May 2010.

Goodwill, intangible assets and fair value of financial assets

As of January 1, 2009, we adopted the following CICA accounting standard and Emerging Issues Committee ("EIC") abstract. New Section 3064 Goodwill and Intangible Assets establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to our interim and annual financial statements beginning on January 1, 2009. This standard has not had any impact on our consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities is guidance requiring that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to our 2009 fiscal year retrospectively without restatement of prior periods. Adoption of this guidance has not had any impact on our consolidated financial statements.

Future Accounting Standards

The CICA has issued the following Handbook Sections which apply commencing with the Company's fiscal years noted below.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. We are in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. We are in the process of evaluating the impact of this standard.

In June 2009, the CICA amended Section 3855 to clarify the application of the effective interest method and embedded prepayment options. The effective interest method requires that once a financial asset or group of similar financial assets (other than loans and receivables) has been impaired and written down, interest income is subsequently recognized using the rate of interest used to discount the future cash flows when measuring the impairment loss. Prepayment options that are embedded in a host debt instrument are closely related and do not require bifurcation and are accordingly recognized at fair value, if the option's exercise price is approximately equal to the amortized cost of the debt instrument on each exercise date or the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host instrument. The assessment of whether an embedded call or put option is closely related to the host debt instrument is made before separating any equity element of a convertible debt instrument. The amendments are applicable for our interim and annual financial statements for our fiscal year beginning January 1, 2011. Earlier adoption is permitted.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Our Chief Executive Officer (“CEO”) and Senior Vice President and Chief Financial Officer (“CFO”) are responsible for designing disclosure controls and procedures (“DC&P”) and internal controls over financial reporting (“ICFR”) as defined in National Instrument 52-109—Certification of Disclosure in Issuers’ Annual and Interim Filings. The control framework used in the design of both DC&P and ICFR is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The design and effectiveness of internal controls over financial reporting was assessed as of December 31, 2009. Based on that evaluation, we concluded that the design and effectiveness of our DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

The success of our vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. Our management continues to monitor and work on mitigating this weakness.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

There has been no change in the design of our internal controls over financial reporting during the six-month period ended June 30, 2010, that would materially affect, or is reasonably likely to materially affect, our internal controls over financial reporting.

Components of Income Statement Items

Set forth below is a description of the key line items of our consolidated income statement:

Revenue

We derive our revenue from our two core business segments, i.e., our wood fibre operations which generate revenue from sales of plantation fibre and other fibre (e.g. wood logs and other wood products), and our manufacturing and other operations which generate revenue from sales of manufactured wood products such as engineered wood flooring and finger-joint board, as well as from greenery and nursery activities.

The table below presents a breakdown of revenue for the periods indicated by business segment and the relative contribution of such business segment’s revenue to our total revenue:

	Year Ended December 31,						Six-month Period Ended June 30,			
	2007 ⁽¹⁾		2008		2009		2009		2010	
	<i>(US\$ millions, except percentage)</i>									
Wood Fibre Operations, including										
Plantation Fibre	521.5	73.1%	685.4	76.5%	954.2	77.1%	286.9	71.4%	344.9	61.9%
Other Fibre ⁽²⁾	154.0	21.5%	153.5	17.1%	237.9	19.2%	94.5	23.6%	183.4	33.0%
Sub-total Wood Fibre Operations.....	675.5	94.6%	838.9	93.6%	1,192.1	96.3%	381.4	95.0%	528.3	94.9%
Manufacturing and Other										
Operations	38.4	5.4%	57.1	6.4%	46.1	3.7%	20.3	5.0%	28.5	5.1%
Total Revenue	713.9	100%	896.0	100%	1,238.2	100%	401.7	100%	556.8	100%

Notes:

- (1) The selected data in this table for the year ended December 31, 2007 has not been reclassified to reflect the Gaoyao facility as a discontinued operation. See note (1) on page 47 of this Offering Memorandum.
- (2) After December 31, 2009, "Other Fibre" was reclassified as "Trading of Wood Logs."

Cost of Sales

Our cost of sales consists of: (i) depletion of timber holdings as they are sold; (ii) the costs of logs acquired in the domestic PRC market; (iii) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (iv) the costs on the products sold incurred at our manufacturing plants.

Timber holdings include acquisition costs for standing timber (young and mature trees) and planting and maintenance costs, which are capitalized at cost in our financial statements until the trees are sold. Planting and maintenance costs include the following: planning, operations design, site preparation, terracing, fertilization, planting, thinning, tending, protection, forestry administrative charge, overhead and lease costs. Timber holdings from standing timber sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into.

Our cost of sales also varies from period to period due to the effect of several factors, including yield, volume of timber sold, depletion of timber holdings, cost of imported logs and wood-based products, cost of logs acquired in the domestic PRC market, with respect to our integrated plantations, harvesting costs and government levies, and costs incurred at our manufacturing plants. Depletion will depend on original acquisition costs, species and age of the trees.

The table below presents a breakdown of our cost of sales for the periods indicated and by business segment:

	Year Ended December 31,			Six-month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
	<i>(US\$ millions)</i>				
Wood Fibre					
Operations, including					
Plantation Fibre.....	284.8	329.4	530.3	144.1	140.7
Other Fibre ⁽²⁾	149.3	145.6	224.4	90.2	172.7
Sub-total Wood Fibre Operations	434.1	475.0	754.7	234.3	313.4
Manufacturing and Other Operations	36.7	55.1	42.6	19.6	24.9
Total Cost of Sales	470.8	530.1	797.3	253.9	338.3

Notes:

- (1) The selected data in this table for the year ended December 31, 2007 has not been reclassified to reflect the Gaoyao facility as a discontinued operation. See note (1) on page 47 of this Offering Memorandum.
- (2) After December 31, 2009, "Other Fibre" was reclassified as "Trading of Wood Logs."

Selling, General and Administration

Our selling, general and administration expenses consist of salaries and bonuses, legal and professional fees, stock-based compensation, insurance, advertising, rent and other expenses.

Interest Expense

Our interest expense consists of interest payable on the 2011 Senior Notes, the 2013 Convertible Notes, the 2014 Senior Notes, the 2016 Convertible Notes, bank loans and other bank indebtedness. For additional information on the 2011 Senior Notes, the 2013 Convertible Notes, the 2014 Senior Notes and the 2016 Convertible Notes, see "Description of Other Indebtedness."

Interest Income

Our interest income consists of income earned on cash balances and the US\$15.0 million loan provided to Mandra in the second quarter of 2005.

Exchange Gains/(Losses)

Our exchange gains (losses) represent translation adjustments of Canadian dollar or Hong Kong dollar transactions or balances which are included in our consolidated statements of income.

Loss on Changes in Fair Value of Financial Instruments

Our loss on changes in fair value of financial instruments represents the fair value adjustment on the currency swap contract and the Omnicorp embedded conversion option.

Other Income

Our other income mainly consists of gains on disposal of other assets and management fees received by us from Mandra Forestry (as defined herein) until we acquired it in 2010.

Net Income / (Loss) from Discontinued Operations

Our discontinued operations consist of wood chip and commission income sales activities that we conducted through our subsidiary Suri-Wood Inc. until the third quarter of 2007, when our two AIs who processed wood chips for us ceased to provide us with wood chipping services. Our discontinued operations also include the results of operations of our Gaoyao facility, which was disposed of in 2009, for the years ended December 31, 2009 and 2008 and for the six-month periods ended June 30, 2010 and 2009.

Results of Operations

The table below sets forth, for the periods indicated, certain revenue and expense items for our consolidated operations, both in absolute amounts and expressed as a percentage of total revenue:

	Year Ended December 31,						Six-Month Period Ended June 30,			
	2007 ⁽¹⁾		2008 ⁽¹⁾		2009 ⁽¹⁾		2009 ⁽¹⁾		2010 ⁽¹⁾	
	(US\$ thousands)	(% of total revenue)	(US\$ thousands)	(% of total revenue)	(US\$ thousands)	(% of total revenue)	(US\$ thousands)	(% of total revenue)	(US\$ thousands)	(% of total revenue)
Revenue	713,866	100.0	896,045	100.0	1,238,185	100.0	401,653	100.0	556,773	100.0
Cost of sales	(470,825)	66.0	(530,083)	59.2	(797,292)	64.4	(253,882)	63.2	(338,307)	60.8
Gross Profit⁽²⁾	243,041	34.0	365,962	40.8	440,893	35.6	147,771	36.8	218,466	39.2
Selling, general and administration	(40,209)	5.6	(53,372)	6.0	(64,488)	5.2	(31,089)	7.7	(35,340)	6.3
Depreciation and amortization	(5,364)	0.8	(3,206)	0.4	(4,693)	0.4	(2,290)	0.6	(2,276)	0.4
Interest expense	(43,960)	6.2	(51,933)	5.8	(70,977)	5.7	(33,831)	8.4	(57,884)	10.4
Interest income	15,184	2.1	12,604	1.4	9,691	0.8	4,180	1.0	6,992	1.3
Exchange gains/(loss)	12,409	1.7	(4,735)	0.5	(4,958)	0.4	(363)	0.1	(893)	0.2
Impairment of capital assets	(20,846)	2.9	—	—	—	—	—	—	—	—
Gain/(loss) on changes in fair value of financial instruments	(2,996)	0.4	(1,839)	0.2	(417)	0.0	1,607	0.4	(3,987)	0.7
Other income	3,206	0.4	1,946	0.2	1,600	0.1	1,272	0.3	455	0.1
Income before income taxes	160,465	22.5	265,427	29.6	306,651	24.8	87,257	21.7	125,533	22.5
Provision for income taxes	(18,034)	2.5	(24,105)	2.7	(27,864)	2.3	(12,316)	3.1	(18,351)	3.3
Net income from continuing operations	142,431	20.0	241,322	26.9	278,787	22.5	74,941	18.7	107,182	19.3
Net income/(loss) from discontinued operations	9,842	1.4	(12,729)	1.4	7,583	0.6	(6,887)	1.7	(696)	0.1
Net income for the year/period	152,273	21.3	228,593	25.5	286,370	23.1	68,054	16.9	106,485	19.1

Notes:

- (1) Our Gaoyao facility was disposed of in 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the six-month periods ended June 30, 2009 and 2010 and the years ended December 31, 2008 and 2009. The selected data in this table for the year ended December 31, 2007, has not been reclassified to reflect the Gaoyao facility as a discontinued operation. Except for an impairment charge on our Gaoyao facility of US\$15.4 million for the year ended December 31, 2007 which was included in the results from continuing operations in this table, the remaining results of operations of the Gaoyao facility are not significant to the Company's 2007 consolidated results.
- (2) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

Changes in the scope of our operations from period to period affect the comparability of our results of operations. Accordingly, for comparison purposes, we reclassified our results for the full financial years ended December 31, 2009 and 2008, as well as the six-month period ended June 30, 2009 to account for our discontinued operations at our Gaoyao facility. These operations ceased during the third quarter of 2009. The results of the discontinued operations at our Gaoyao facility have been reclassified as discontinued operations in our financial statements for the years ended December 31, 2009 and 2008, and our interim financial statements for the six-month periods ended June 30, 2010 and 2009 incorporated by reference herein. However, the results of the discontinued operations at our Gaoyao facility have not been reclassified as discontinued operations in our financial statements for the year ended December 31, 2007, which slightly affects the comparability of the financial data for the year ended December 31, 2007 with the financial data for the other periods presented in this Offering Memorandum. Our revenue generated from and impairment of capital assets related to our discontinued operations at our Gaoyao facility in the year ended December 31, 2007 was US\$4.5 million and US\$15.4 million, respectively.

Comparison for the Six-Month Periods Ended June 30, 2009 and 2010

Revenue

Our revenue increased 38.6%, from US\$401.7 million in the six-month period ended June 30, 2009 to US\$556.8 million in the six-month period ended June 30, 2010. This increase in revenue was mainly due to the increase in sales from our wood fibre operations.

Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 38.5%, from US\$381.4 million in the six-month period ended June 30, 2009 to US\$528.3 million in the six-month period ended June 30, 2010. This increase was primarily due to increased revenues from harvested logs, an increase in the average selling price of standing timber sales and increased volume of Russian wood logs sold in the six-month period ended June 30, 2010.

Revenue from Plantation Fibre

Revenue from sales of plantation fibre increased 20.2%, from US\$286.9 million in the six-month period ended June 30, 2009 to US\$344.9 million in the six-month period ended June 30, 2010. The increase was primarily due to an increase in revenue from harvested logs and an increase in the average selling price of standing timber sales. The increase in the average selling price of standing timber was primarily due to a change in sales mix. The average selling price of pine and Chinese fir in the six-month period ended June 30, 2010 was US\$64 per cubic meter, compared to US\$61 per cubic meter in the six-month period ended June 30, 2009. In addition, we sold broadleaf in Yunnan as standing timber at an average selling price of US\$102 per cubic meter in the six-month period ended June 30, 2010 whereas there were no such sales in the six-month period ended June 30, 2009. The average sales per hectare increased 88.1% from US\$8,433 per hectare in the six-month periods ended June 30, 2009 to US\$15,866 per hectare in the six-month period ended June 30, 2010. In the six-month periods ended June 30, 2009 and 2010, the average yield per hectare sold as standing timber was 139 cubic meters and 219 cubic meters, respectively. In the six-month periods ended June 30, 2009 and 2010, the average yield per hectare sold as harvested logs was zero cubic meters and 130 cubic meters, respectively. During the six-month period ended June 30, 2010, we sold approximately 8,849 hectares of plantations which were acquired under the master agreements, mainly in Yunnan and Hunan.

Plantation fibre sales comprised 61.9% of our total revenue in the six-month period ended June 30, 2010, compared to 71.4% in the six-month period ended June 30, 2009. The following table sets forth the revenue from plantation fibre operations for the periods indicated below:

	Six-month Period ended June 30,							
	2010				2009			
	Hectares	Volume of fibre sold '000 cubic meter	Average price per cubic meter US\$	Total revenue US\$'000	Hectares	Volume of fibre sold '000 cubic meter	Average price per cubic meter US\$	Total revenue US\$'000
Standing timber.....	12,093	2,652	94	248,493	34,016	4,741	61	286,866
Harvested logs.....	9,644	1,253	77	96,376	—	—	—	—
Total.....	21,737	3,905	88	344,869	34,016	4,741	61	286,866

Note:

(1) After December 31, 2009, the tree plantation business model was recategorized into "Standing timber" and "Harvested logs."

Revenue from Trading of Wood Logs

Revenue from trading of imported and domestic wood products and logs increased 94.1% from US\$94.5 million in the six-month period ended June 30, 2009 to US\$183.4 million in the six-month period ended June 30, 2010. This increase was primarily due to increased volumes of Russian logs sold.

Trading of wood logs sales comprised 33.0% of our total revenue in the six-month period ended June 30, 2010, compared to 23.6% of total revenue in the six-month period ended June 30, 2009.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 40.9% from US\$20.3 million in the six-month period ended June 30, 2009 to US\$28.6 million in the six-month period ended June 30, 2010, primarily due to increased revenues from our engineered wood flooring business segment.

Revenue from manufacturing and other operations comprised 5.0% of total revenue in the six-month period ended June 30, 2009, compared to 5.1% in the six-month period ended June 30, 2010.

Cost of Sales

Our cost of sales increased 33.2%, from US\$253.9 million in the six-month period ended June 30, 2009 to US\$338.3 million in the six-month period ended June 30, 2010. This increase in cost of sales was primarily due to increased sales volume from trading of wood logs and manufacturing and other operations, partially offset by a decrease in sales volume of plantation fibre.

Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 33.8%, from US\$234.3 million in the six-month period ended June 30, 2009 to US\$313.4 million in the six-month period ended June 30, 2010. This increase was primarily due to increased sales volume from trading of wood logs, partially offset by a decrease in sales volume of plantation fibre.

Cost of Sales of Plantation Fibre

Plantation fibre cost of sales decreased 2.3%, from US\$144.1 million in the six-month period ended June 30, 2009 to US\$140.7 million in the six-month period ended June 30, 2010. This decrease was primarily due to decreased sales volumes of plantation fibre.

Cost of Sales of Trading of Wood Logs

Cost of sales of trading of wood logs increased 91.4%, from US\$90.2 million in the six-month period ended June 30, 2009 to US\$172.7 million in the six-month period ended June 30, 2010. This increase was primarily due to the increase in volume of Russian logs sold.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 27.3%, from US\$19.6 million in the six-month period ended June 30, 2009 to US\$24.9 million in the six-month period ended June 30, 2010. This increase was primarily due to increased sales volumes from our engineered wood flooring business segment.

Gross Profit

Our gross profit increased 47.8%, from US\$147.8 million in the six-month period ended June 30, 2009 to US\$218.5 million in the six-month period ended June 30, 2010. Gross profit margin, being gross profit expressed as a percentage of our total revenue, on average increased from 36.8% in the six-month period ended June 30, 2009 to 39.2% in the six-month period ended June 30, 2010. This increase in gross profit margin was primarily due to improved gross profit margin from plantation fibre operations.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of standing timber increased from 49.8% or US\$30 per cubic meter in the six-month period ended June 30, 2009 to 65.5%, or US\$61 per cubic meter, in the six-month period ended June 30, 2010, primarily due to the increase in the average selling price of standing timber. Gross profit margin from sales of harvested logs was 42.9%, or US\$33 per cubic meter in the six-month period ended June 30, 2010 compared to zero sales in the six-month period ended June 30, 2009.

Gross Profit Margin from Trading of Wood Logs

Gross profit margin from trading of imported and domestic wood products and logs increased from 4.6% in the six-month period ended June 30, 2009 to 5.8% in the six-month period ended June 30, 2010.

Manufacturing and Other Operations Profit Margin

Gross profit margin from manufacturing and other operations increased from 3.3% in the six-month period ended June 30, 2009 to 12.7% in the six-month period ended June 30, 2010. The increase was mainly due to improvement in the engineered wood flooring business segment.

Selling, General and Administrative Expenses

Our selling, general and administration expenses increased 13.7%, from US\$31.1 million in the six-month period ended June 30, 2009 to US\$35.3 million in the six-month period ended June 30, 2010. This increase was in line with the growth of our business.

Depreciation and Amortization

Depreciation and amortization remained stable at approximately US\$2.3 million in the six-month periods ended June 30, 2009 and 2010.

Income from Operations before Other Items

Income from operations before other items increased 58.1%, from US\$114.4 million in the six-month period ended June 30, 2009 to US\$180.9 million in the six-month period ended June 30, 2010, due to the factors explained above. Our income from operations before other items as a percentage of revenue increased from 28.5% in the six-month period ended June 30, 2009 to 32.5% in the six-month period ended June 30, 2010.

Interest Expense

Interest expense increased 71.1%, from US\$33.8 million in the six-month period ended June 30, 2009 to US\$57.9 million in the six-month period ended June 30, 2010. This increase was primarily due to the interest on our 2016 Convertible Notes, which were issued in the fourth quarter of 2009.

Interest Income

Our interest income increased 67.3%, from US\$4.2 million in the six-month period ended June 30, 2009 to US\$7.0 million in the six-month period ended June 30, 2010. This increase was primarily due to an increase in the average deposits balance in the first half of 2010.

Exchange Losses

We recorded an exchange loss of US\$0.9 million in the six-month period ended June 30, 2010, compared to US\$0.4 million in the six-month period ended June 30, 2009.

(Loss) / Gain on Changes in Fair Value of Financial Instruments

We had a loss on changes in fair value of financial instruments of US\$4.0 million in the six-month period ended June 30, 2010, compared to a gain on changes in fair value of financial instruments of US\$1.6 million in the six-month period ended June 30, 2009. The loss in the six-month period ended June 30, 2010 primarily reflected a loss of US\$4.0 million relating to a change in the fair value of the embedded conversion option of the convertible bonds issued by Omnicorp.

Other Income

Other income decreased US\$0.8 million, from US\$1.3 million in the six-month period ended June 30, 2009 to US\$0.5 million in the six-month period ended June 30, 2010.

Provision for Income Taxes

Provision for income taxes was US\$18.4 million in the six-month period ended June 30, 2010 compared to US\$12.3 million in the six-month period ended June 30, 2009. This increase was primarily due to an increase in the deemed profit percentage used in recording our PRC income tax provision for BVI Subsidiaries from 10% to 15% during the six-month period ended June 30, 2010.

Net Income for the Period

As a result of the foregoing, net income for the period increased 56.5%, from US\$68.1 million in the six-month period ended June 30, 2009 to US\$106.5 million in the six-month period ended June 30, 2010. Overall net income for the period as a percentage of revenue increased from 16.9% in the six-month period ended June 30, 2009 to 19.1% in the six-month period ended June 30, 2010.

Comparison of the Years Ended December 31, 2008 and 2009

Revenue

Our revenue increased 38.2%, from US\$896.0 million in the year ended December 31, 2008 to US\$1,238.2 million in the year ended December 31, 2009. The increase was primarily due to increased revenue from our wood fibre operations in the year ended December 31, 2009.

Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 42.1%, from US\$838.9 million in the year ended December 31, 2008 to US\$1,192.1 million in the year ended December 31, 2009. This increase was primarily due to increased revenue from plantation fibre and other fibre in the year ended December 31, 2009.

Revenue from Plantation Fibre

Revenue from sales of plantation fibre increased 39.2%, from US\$685.4 million in the year ended December 31, 2008 to US\$954.2 million in the year ended December 31, 2009. This increase was primarily due to the increased sale of logs harvested from our integrated plantations in the year ended December 31, 2009. In the year ended December 31, 2009, our total volume of fibre sold was approximately 14.2 million cubic meters of fibre, including approximately 9.3 million cubic meters of fibre from approximately 65,132 hectares of trees from our purchased and planted plantations and approximately 4.9 million cubic meters of fibre from approximately 44,057 hectares from our integrated plantations. In the year ended December 31, 2008, we sold approximately 8.6 million cubic meters of fibre from approximately 89,874 hectares from our purchased and planted plantations and approximately 1.6 million cubic meters of fibre from approximately 14,071 hectares from our integrated plantations. In the year ended December 31, 2009, the average yield of fibre sold under our purchased and planted plantations was approximately 142 cubic meters per hectare and fibre had an average selling price of approximately US\$61.0 per cubic meter. In the year ended December 31, 2008, the average yield and average selling price of fibre sold under the purchased and planted plantations were approximately 96 cubic meters per hectare and approximately US\$61.0 per cubic meter, respectively. In addition, in the year ended December 31, 2009, the average yield of harvested logs sold under our integrated plantations was 113 cubic meters per hectare and its average selling price was approximately US\$78.0 per cubic meter. In the year ended December 31, 2008, the average yield of harvested logs sold under our integrated plantations was 111 cubic meters per hectare and its average selling price was approximately US\$102.0 per cubic meter.

Plantation fibre sales comprised 76.5% of total revenue in the year ended December 31, 2008, compared to 77.1% in the year ended December 31, 2009.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the periods indicated below:

	Years ended December 31,					
	2009			2008		
	Hectares	Sales per hectare	Total revenue	Hectares	Sales per hectare	Total revenue
	US\$	US\$'000		US\$	US\$'000	
Purchased plantations	58,350	9,557	557,666	86,067	6,040	519,872
Integrated plantations	44,057	8,775	386,595	14,071	11,313	159,185
Planted plantations	6,782	1,465	9,933	3,807	1,667	6,347
Total.....	<u>109,189</u>	<u>8,739</u>	<u>954,194</u>	<u>103,945</u>	<u>6,594</u>	<u>685,404</u>

Revenue from Other Fibre

Revenue from other fibre was US\$153.5 million in the year ended December 31, 2008, compared to US\$237.9 million in the year ended December 31, 2009. This increase was due to the increase in revenue from sales of imported wood products, partially offset by a decrease in sales of domestic wood logs.

Revenue from sales of imported wood products increased 67.2%, from US\$139.7 million in the year ended December 31, 2008 to US\$233.5 million in the year ended December 31, 2009. This increase was primarily due to the increase in volume of Russian wood logs sold in the year ended December 31, 2009.

Revenue from sales of domestic wood logs decreased 68.3%, from US\$13.8 million in the year ended December 31, 2008 to US\$4.4 million in the year ended December 31, 2009. This decrease was primarily due to the decrease in volume of domestic wood logs traded in the year ended December 31, 2009.

Revenue from other fibre comprised 17.1% of total revenue in the year ended December 31, 2008, compared to 19.2% in the year ended December 31, 2009.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations decreased 19.4% from US\$57.1 million in the year ended December 31, 2008 to US\$46.1 million in the year ended December 31, 2009. This decrease was primarily due to the decrease in sales from our Hunan production facilities in the year ended December 31, 2009.

Revenue from manufacturing and other operations comprised 6.4% of total revenue in the year ended December 31, 2008, compared to 3.7% in the year ended December 31, 2009.

Cost of Sales

Our cost of sales increased 50.4%, from US\$530.1 million in the year ended December 31, 2008 to US\$797.3 million in the year ended December 31, 2009. This increase in cost of sales was primarily due to an increase in sales volumes of plantation fibre and imported wood products, partially offset by the decrease from manufacturing and other operations.

Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 58.9%, from US\$475.0 million in the year ended December 31, 2008 to US\$754.7 million in the year ended December 31, 2009. This increase was primarily due to increased sales of plantation fibre and imported wood products.

Cost of Sales of Plantation Fibre

Plantation fibre cost of sales increased 61.0%, from US\$329.4 million in the year ended December 31, 2008 to US\$530.3 million in the year ended December 31, 2009. This increase reflected primarily increased sales volume of plantation fibre.

Cost of Sales of Other Fibre

Cost of sales of other fibre increased 54.1%, from US\$145.6 million in the year ended December 31, 2008 to US\$224.4 million in the year ended December 31, 2009. This increase was primarily due to the increase in the cost of sales of imported wood products, partially offset by decreased cost of sales of domestic wood logs.

Imported wood products cost of sales increased 64.2%, from US\$134.4 million in the year ended December 31, 2008 to US\$220.7 million in the year ended December 31, 2009. This increase was primarily due to the increase in the sales volume of our imported logs trading business.

Domestic wood logs cost of sales decreased 67.1% from US\$11.2 million in the year ended December 31, 2008 to US\$3.7 million in the year ended December 31, 2009.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales decreased 22.6%, from US\$55.1 million in the year ended December 31, 2008 to US\$42.6 million in the year ended December 31, 2009. This decrease was primarily due to decreased sales volumes of manufacturing and other operations.

Gross Profit

Our gross profit increased 20.5%, from US\$366.0 million in the year ended December 31, 2008 to US\$440.9 million in the year ended December 31, 2009. Our gross profit margin (gross profit as a percentage of total revenue) decreased from 40.8% in the year ended December 31, 2008 to 35.6% in the year ended December 31, 2009. This decrease in gross profit margin was primarily due to the reduced gross profit margin from plantation fibre operations.

Wood Fibre Operations Gross Profit

Gross Profit Margin from Sales of Plantation Fibre

Gross profit margin from sales of plantation fibre from our purchased and planted plantations decreased from 56.8% in the year ended December 31, 2008 to 50.2% in the year ended December 31, 2009. This decrease was primarily due to sales from plantations with a higher fibre cost per cubic meter. In addition, the gross profit margin from sales of logs from our integrated plantation operations was 36.0% (or US\$28.0 per cubic meter) in the year ended December 31, 2009.

Gross Profit Margin from Sales of Other Fibre

Gross profit margin from sales of imported wood products increased from 3.8% in the year ended December 31, 2008 to 5.5% in the year ended December 31, 2009.

Gross profit margin from sales of domestic wood logs decreased from 18.8% in the year ended December 31, 2008 to 15.7% in the year ended December 31, 2009.

Manufacturing and Other Operations Gross Profit

Gross profit margin from manufacturing and other operations increased from 3.5% in the year ended December 31, 2008 to 7.4% in the year ended December 31, 2009. This increase was primarily due to improvements in the engineered wood flooring business in the year ended December 31, 2009.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased 20.8%, from US\$53.4 million in the year ended December 31, 2008 to US\$64.5 million in the year ended December 31, 2009, primarily due to an additional staff complement, increased accrued incentive compensation and increased research and development expenses.

Depreciation and Amortization

Depreciation and amortization increased 46.4%, from US\$3.2 million in the year ended December 31, 2008 to US\$4.7 million in the year ended December 31, 2009, which reflected primarily increased capital assets in the year ended December 31, 2009.

Income from Operations before Other Items

Our income from operations before other items increased 20.1%, from US\$309.4 million in the year ended December 31, 2008 to US\$371.7 million in the year ended December 31, 2009, due to the factors discussed above. Our income from operations before other items as a percentage of revenue decreased from 34.5% in the year ended December 31, 2008 to 30.0% in the year ended December 31, 2009.

Interest Expense

Our interest expense increased 36.7%, from US\$51.9 million in the year ended December 31, 2008 to US\$71.0 million in the year ended December 31, 2009. This increase was primarily due to the interest on our 2013 Convertible Notes and 2016 Convertible Notes.

Interest Income

Our interest income decreased 23.1%, from US\$12.6 million in the year ended December 31, 2008 to US\$9.7 million in the year ended December 31, 2009. This decrease was primarily due to a lower interest rate earned on deposits in the year ended December 31, 2009.

Exchange (Losses)/Gains

Exchange losses were US\$5.0 million in the year ended December 31, 2009, compared to exchange losses of US\$4.7 million in the year ended December 31, 2008.

Loss on Changes in Fair Value of Financial Instruments

The loss on changes in fair value of financial instruments in the year ended December 31, 2009 decreased US\$1.4 million from US\$1.8 million in the year ended December 31, 2008 to US\$0.4 million in the year ended December 31, 2009. The loss in the year ended December 31, 2009 included a loss of US\$3.3 million on the embedded conversion option of the convertible bonds issued by Omnicorp, and a loss of US\$0.6 million on our foreign currency swap, partially offset by a gain of US\$3.5 million on the remeasurement of the fair value of the convertible bonds of Omnicorp as a result of the extension of the maturity date of the convertible bonds.

Other Income

Other income decreased 17.8% from US\$1.9 million in the year ended December 31, 2008 to US\$1.6 million in the year ended December 31, 2009.

Provision for Income Taxes

Provision for income taxes was US\$24.1 million in the year ended December 31, 2008 compared to US\$27.9 million in the year ended December 31, 2009. This increase was primarily due to increased income earned in the year ended December 31, 2009.

Net Income for the Year

Net income for the year increased 25.3%, from US\$228.6 million in the year ended December 31, 2008 to US\$286.4 million in year ended December 31, 2009. Net income for the year as a percentage of our total revenue decreased from 25.5% in the year ended December 31, 2008 to 23.1% in the year ended December 31, 2009.

Comparison of the Years Ended December 31, 2007 and 2008

Revenue

Our revenue increased 25.5%, from US\$713.9 million in the year ended December 31, 2007 to US\$896.0 million in the year ended December 31, 2008. The increase was primarily due to increased revenue from sales of plantation fibre and manufacturing and other operations in the year ended December 31, 2008.

Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 24.2%, from US\$675.5 million in the year ended December 31, 2007 to US\$838.9 million in the year ended December 31, 2008. This increase was primarily due to increased revenue from plantation fibre in the year ended December 31, 2008.

Revenue from Plantation Fibre

Revenue from sales of plantation fibre increased 31.4%, from US\$521.5 million in the year ended December 31, 2007 to US\$685.4 million in the year ended December 31, 2008. This increase was primarily due to the sale of logs from our integrated plantations in the year ended December 31, 2008, compared to none in the year ended December 31, 2007. In the year ended December 31, 2008, our total volume of fibre sold was approximately 10.2 million cubic meters of fibre, including approximately 8.6 million cubic meters of fibre from approximately 89,874 hectares of trees from our purchased and planted plantations and approximately 1.6 million cubic meters of fibre from approximately 14,071 hectares from our integrated plantations. In the year ended December 31, 2007, we sold approximately 9.9 million cubic meters of fibre from approximately 146,037 hectares from our purchased and planted plantations. In the year ended December 31, 2008, the average yield of fibre sold under our purchased and planted plantations was approximately 96 cubic meters per hectare and fibre had an average selling price of approximately US\$61.0 per cubic meter (representing an average selling price increase of approximately 16.3% from the year ended December 31, 2007, including a 10.3% appreciation of the Renminbi against the U.S. dollar). In the year ended December 31, 2007, the average yield and average selling price of fibre sold under the purchased and planted plantations were approximately 68 cubic meters per hectare and approximately US\$53.0 per cubic meter, respectively. In addition, in the year ended December 31, 2008, the average yield of harvested logs sold under our integrated plantations was 111 cubic meters per hectare and its average selling price was approximately US\$102.0 per cubic meter.

Plantation fibre sales comprised 73.1% of total revenue in the year ended December 31, 2007, compared to 76.5% in the year ended December 31, 2008.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the periods indicated below:

	Years ended December 31,					
	2008			2007		
	Hectares	Sales per hectare	Total revenue	Hectares	Sales per hectare	Total revenue
		US\$	US\$'000		US\$	US\$'000
Purchased plantations	86,067	6,040	519,872	138,365	3,686	509,953
Integrated plantations	14,071	11,313	159,185	—	—	—
Planted plantations	3,807	1,667	6,347	7,672	1,504	11,536
Total.....	<u>103,945</u>	<u>6,594</u>	<u>685,404</u>	<u>146,037</u>	<u>3,571</u>	<u>521,489</u>

Revenue from Other Fibre

Revenue from other fibre was US\$154.0 million in the year ended December 31, 2007, compared to US\$153.5 million in the year ended December 31, 2008.

Revenue from sales of imported wood products decreased 7.3%, from US\$150.7 million in the year ended December 31, 2007 to US\$139.7 million in the year ended December 31, 2008. This decrease was primarily due to a lower average selling price due to a change in our product mix in the year ended December 31, 2008.

Revenue from sales of domestic wood logs increased US\$10.6 million, from US\$3.2 million in the year ended December 31, 2007 to US\$13.8 million in the year ended December 31, 2008. The increase was primarily due to the increased sales volume of logs sourced from the PRC.

Revenue from other fibre comprised 21.5% of total revenue in the year ended December 31, 2007 compared to 17.1% of total revenue in the year ended December 31, 2008.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 48.7% from US\$38.4 million in the year ended December 31, 2007 to US\$57.1 million in the year ended December 31, 2008. This increase was primarily due to the increased revenue from sales of engineered wood flooring and the operations of relatively new processing facilities located in southern China. Revenue from manufacturing and other operations comprised 5.4% of total revenue in the year ended December 31, 2007, compared to 6.4% in the year ended December 31, 2008.

Cost of Sales

Our cost of sales increased 12.6%, from US\$470.8 million in the year ended December 31, 2007 to US\$530.1 million in the year ended December 31, 2008. This increase in cost of sales was primarily due to an increase in sales volumes of plantation fibre.

Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 9.4%, from US\$434.1 million in the year ended December 31, 2007 to US\$475.0 million in the year ended December 31, 2008. This increase was primarily due to increased sales of plantation fibre.

Cost of Sales of Plantation Fibre

Plantation fibre cost of sales increased 15.6%, from US\$284.8 million in the year ended December 31, 2007 to US\$329.4 million in the year ended December 31, 2008. This increase reflected primarily increased cost of sales per cubic meter of plantation fibre.

Cost of Sales of Other Fibre

Cost of sales of other fibre decreased 2.5%, from US\$149.3 million in the year ended December 31, 2007 to US\$145.6 million in the year ended December 31, 2008.

Imported wood products cost of sales decreased 8.2%, from US\$146.4 million in the year ended December 31, 2007 to US\$134.4 million in the year ended December 31, 2008. This decrease reflected primarily the decrease in the average cost of sales per cubic meter of our imported log trading business.

Domestic wood logs cost of sales substantially increased from US\$2.9 million in the year ended December 31, 2007 to US\$11.2 million in the year ended December 31, 2008. This increase was primarily due to increased sales volumes of wood logs.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 50.3%, from US\$36.7 million in the year ended December 31, 2007 to US\$55.1 million in the year ended December 31, 2008. This increase was primarily due to increased sales volumes.

Gross Profit

Our gross profit increased 50.6%, from US\$243.0 million in the year ended December 31, 2007 to US\$366.0 million in the year ended December 31, 2008. Our gross profit margin (gross profit as a percentage of total revenue) increased from 34.0% in the year ended December 31, 2007 to 40.8% in the year ended December 31, 2008. This increase was primarily due to the higher proportion of sales from our plantation fibre operations, which generally earn a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

Gross Profit Margin from Sales of Plantation Fibre

Gross profit margin from sales of plantation fibre from our purchased and planted plantations increased from 45.4% in the year ended December 31, 2007 to 56.8% in the year ended December 31, 2008. This increase was primarily due to a higher selling price and an improved yield per hectare sold resulting in a lower cost per cubic meter of fibre sold in the year ended December 31, 2008. In addition, the gross profit margin from sales of logs harvested under our integrated plantation operations was 36.0% (or US\$37.0 per cubic meter) in the year ended December 31, 2008.

Gross Profit Margin from Sales of Other Fibre

Gross profit margin from sales of imported wood products increased from 2.9% in the year ended December 31, 2007 to 3.8% in the year ended December 31, 2008.

Gross profit margin from sales of domestic wood logs increased from 8.8% in the year ended December 31, 2007 to 18.8% in the year ended December 31, 2008. This increase was primarily due to a change in the mix of species of wood logs sold in the year ended December 31, 2008.

Manufacturing and Other Operations Gross Profit

Gross profit margin from manufacturing and other operations decreased from 4.6% in the year ended December 31, 2007 to 3.5% in the year ended December 31, 2008. This decrease was primarily due to increased production costs of our manufacturing plants in the year ended December 31, 2008.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased 32.7%, from US\$40.2 million in the year ended December 31, 2007 to US\$53.4 million in the year ended December 31, 2008, reflecting primarily expenses relating to additional staff complement.

Depreciation and Amortization

Depreciation and amortization decreased 40.2%, from US\$5.4 million in the year ended December 31, 2007 to US\$3.2 million in the year ended December 31, 2008, which reflected primarily increased impairment charges taken on certain manufacturing facilities, partially offset by increased capital assets in the year ended December 31, 2008.

Income from Operations before Other Items

Our income from operations before other items increased 56.7%, from US\$197.5 million in the year ended December 31, 2007 to US\$309.4 million in the year ended December 31, 2008, due to the factors discussed above. Our income from operations before other items as a percentage of revenue increased from 27.7% in the year ended December 31, 2007 to 34.5% in the year ended December 31, 2008.

Interest Expense

Our interest expense increased 18.1%, from US\$44.0 million in the year ended December 31, 2007 to US\$51.9 million in the year ended December 31, 2008. This increase was primarily due to the interest on our 2013 Convertible Notes.

Interest Income

Our interest income decreased 17.0%, from US\$15.2 million in the year ended December 31, 2007 to US\$12.6 million in the year ended December 31, 2008. This decrease was primarily due to a lower interest rate earned on deposits in the year ended December 31, 2008.

Exchange (Losses)/Gains

Exchange losses were US\$4.7 million in the years ended December 31, 2008, compared to exchange gains of US\$12.4 million in the year ended December 31, 2007. These exchange losses were primarily due to the weakening of the U.S. dollar against the Hong Kong dollar and Renminbi in the year ended December 31, 2008.

Impairment of Capital Assets

The impairment of capital assets in the year ended December 31, 2007 was US\$20.8 million, representing write-downs of certain manufacturing facilities to fair value due to continued losses over the years.

Loss on Changes in Fair Value of Financial Instruments

The loss on changes in fair value of financial instruments in the year ended December 31, 2008 decreased US\$1.2 million from US\$3.0 million in the year ended December 31, 2007 to US\$1.8 million in the year ended December 31, 2008. The loss in the year ended December 31, 2008 included a loss of US\$2.9 million on the embedded conversion option of the convertible bonds issued by Omnicorp, partially offset by a gain of US\$1.1 million on our foreign currency swap.

Other Income

Other income decreased 39.3% from US\$3.2 million in the year ended December 31, 2007 to US\$1.9 million in the year ended December 31, 2008.

Provision for Income Taxes

Provision for income taxes was US\$18.0 million in the year ended December 31, 2007 compared to US\$24.1 million in the year ended December 31, 2008. The increase was primarily due to increased income earned in the year ended December 31, 2008.

Net Income for the Year

Net income for the year increased 50.1%, from US\$152.3 million in the year ended December 31, 2007 to US\$228.6 million in year ended December 31, 2008. Net income for the year as a percentage of our total revenue increased from 21.3% in the year ended December 31, 2007 to 25.5% in the year ended December 31, 2008.

Liquidity and Capital Resources

Our primary sources of funding have been short-term and long-term borrowings, equity offerings and cash provided by operating activities. Our primary uses of funding have been to obtain new tree plantations either in the form of standing timber or logs, to develop our existing tree plantations, for imported logs trading, for working capital requirements, to service our short-term and long-term borrowings and to invest in and develop our manufacturing facilities.

As of June 30, 2010, we had cash, cash equivalents and short-term deposits of US\$985.6 million. As of June 30, 2010, our total debt (including bank indebtedness and long term debt) was US\$1,275.4 million, compared with US\$1,029.5 million as of December 31, 2009.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the periods indicated:

	Year Ended December 31,			Six-month Period Ended June 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
	(US\$ millions)				
Net cash provided by operations	455.5	547.2	825.7	228.0	264.1
Net change in working capital	27.0	(60.0)	(41.2)	96.3	(112.3)
Cash flows from operating activities of continuing operations.....	482.5	487.2	784.5	324.3	151.8
Cash flows used in investing activities	(692.3)	(703.0)	(1,092.6)	(438.8)	(379.5)
Cash flows from financing activities.....	376.9	332.2	952.0	324.4	46.7
Net increase/(decrease) in cash and cash equivalents	175.8	112.5	661.2	216.4	(179.6)

Note:

- (1) The selected data in this table for the year ended December 31, 2007 has not been reclassified to reflect the Gaoyao facility as a discontinued operation. See note (1) on page 47 of this Offering Memorandum.

Cash Flows From Operating Activities of Continuing Operations

Cash flows from operating activities of continuing operations decreased from US\$324.3 million in the six-month period ended June 30, 2009 to US\$151.8 million in the six-month period ended June 30, 2010. This decrease primarily resulted from an increase in cash used in working capital resulting from an increase in accounts receivable and a decrease in accounts payables and accrued liabilities, partially offset by the increase in cash provided by operations.

Cash flows from operating activities of continuing operations increased from US\$487.2 million in the year ended December 31, 2008 to US\$784.5 million in the year ended December 31, 2009. This increase mainly resulted from an increase in cash generated by our operations, and a decrease in cash used for working capital items resulting from a decrease in accounts receivable of our wood fibre operations.

Cash flows from operating activities of continuing operations increased from US\$482.5 million in the year ended December 31, 2007 to US\$487.2 million in the year ended December 31, 2008. The increase was primarily due to an increase in cash provided by operations, partially offset by the increase in cash used for working capital resulting from an increase in accounts receivable of our wood fibre operations.

Cash Flows Used in Investing Activities

Cash flows used in investing activities decreased from US\$438.8 million in the six-month period ended June 30, 2009 to US\$379.5 million in the six-month period ended June 30, 2010. In the six-month periods ended June 30, 2009 and 2010, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities and other assets. Our cash outlays for our tree plantations amounted to US\$425.8 million and US\$364.7 million in the six-month periods ended June 30, 2009 and 2010, respectively. Our cash outlays for our manufacturing facilities and other capital assets amounted to US\$5.9 million and US\$14.8 million in the six-month periods ended June 30, 2009 and 2010, respectively. Our cash outlays for other assets amounted to US\$5.6 million and US\$12.0 million in the six-month periods ended June 30, 2009 and 2010, respectively. The increase in non-pledged short-term deposits in the six-month period ended June 30, 2009 amounted to US\$1.5 million compared to a decrease of US\$7.9 million in the six-month period

ended June 30, 2010. In addition, we received a net cash inflow of US\$4.0 million for business acquisitions in the six-month period ended June 30, 2010, and we paid US\$0.2 million in connection with our acquisition of convertible bonds issued by Omnicorp in the six-month period ended June 30, 2009.

Cash flows used in investing activities increased from US\$703.0 million in the year ended December 31, 2008 to US\$1,092.6 million in the year ended December 31, 2009. In the years ended December 31, 2008 and 2009, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities and other assets. Our cash outlays for our tree plantations amounted to US\$656.7 million and US\$1,032.0 million in the years ended December 31, 2008 and 2009, respectively. Our cash outlays for our manufacturing facilities and other capital assets amounted to US\$29.2 million and US\$11.6 million in the years ended December 31, 2008 and 2009, respectively. Our cash outlays for other assets amounted to US\$9.6 million and US\$38.0 million in the years ended December 31, 2008 and 2009, respectively. The increase in non-pledged short-term deposits in the years ended December 31, 2008 and 2009 were US\$5.6 million and US\$10.9 million, respectively. In addition, in the year ended December 31, 2008, we invested US\$1.9 million in business acquisitions and in the year ended December 31, 2009, we paid US\$0.2 million in connection with the acquisition of convertible bonds issued by Omnicorp. In addition, we also received US\$8,000 and US\$216,000 as proceeds from the disposal of capital assets in the years ended December 31, 2008 and 2009, respectively.

Cash flows used in investing activities increased from US\$692.3 million in the year ended December 31, 2007 to US\$703.0 million in the year ended December 31, 2008. In the years ended December 31, 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities. Our cash outlays for our tree plantations amounted to US\$640.3 million and US\$656.7 million in the years ended December 31, 2007 and 2008, respectively. Our cash outlays for our manufacturing facilities and other capital assets amounted to US\$12.6 million and US\$29.2 million in the years ended December 31, 2007 and 2008, respectively. The increase in non-pledged short-term deposits in the years ended December 31, 2007 and 2008 amounted to US\$8.7 million and US\$5.6 million, respectively. In addition, we invested US\$6.0 million to acquire approximately 13% equity interest in Greenheart and US\$1.8 million to acquire certain convertible notes issued by Omnicorp in the year ended December 31, 2007. We also paid US\$23.6 million as prepaid plantation land leases in the year ended December 31, 2007. In the year ended December 31, 2008, we invested US\$1.9 million for business acquisitions.

Cash Flows From Financing Activities

Cash flows from financing activities were US\$46.7 million and US\$324.4 million in the six-month periods ended June 30, 2010 and 2009, respectively. In the six-month period ended June 30, 2009, cash flows from financing activities consisted of the net proceeds from the issuance of Common Shares of US\$323.9 million, an increase in bank indebtedness of US\$2.0 million and a decrease in pledged short-term deposits of US\$1.3 million, offset by a payment on derivative financial instrument of US\$2.9 million. In the six-month period ended June 30, 2010, cash flows from financing activities consisted of the net proceeds from the issuance of Common Shares of US\$4.9 million and an increase in bank indebtedness of US\$48.4 million, offset by an increase in pledged short-term deposits of US\$0.2 million, the repayment of long-term debt of US\$0.5 million and payment on deferred financing costs from the issuance of the 2014 Senior Notes of US\$5.9 million.

Cash flows from financing activities were US\$332.2 million in the year ended December 31, 2008, compared with US\$952.0 million in the year ended December 31, 2009. In the year ended December 31, 2008, cash flows from financing activities primarily consisted of US\$1.6 million of net proceeds from the issuance of Common Shares, an increase in bank indebtedness of US\$16.0 million and proceeds of US\$345.0 million from the issuance of the 2013 Convertible Notes, offset by an increase in pledged short-term deposits of US\$16.3 million, payment on derivative financial instruments of US\$4.9 million and payment on deferred financing costs from the issuance of the 2013 Convertible Notes of US\$9.1 million. In the year ended December 31, 2009, cash flows from financing activities consisted of the net proceeds from the issuance of Common Shares of US\$652.5 million, an increase in bank indebtedness of US\$36.5 million and an increase in long-term debt of US\$460.0 million, offset by the payment on derivative financial instruments of US\$5.8 million, payment on deferred financing costs from the issuance of the 2014 Senior Notes and the 2016 Convertible Notes of US\$27.6 million, prepayment of long-term debt of US\$150.0 million and an increase in pledged short-term deposits of US\$13.6 million.

Cash flows from financing activities were US\$376.9 million in the year ended December 31, 2007, compared with US\$332.2 million in the year ended December 31, 2008. In the year ended December 31, 2007, cash flows from financing activities consisted of a decrease in pledged short-term deposits of US\$6.2 million and net proceeds from the issuance of Common Shares of US\$389.9 million, offset by a decrease in bank indebtedness of US\$17.0 million and payments on derivative financial instruments of US\$2.2 million. In the year ended December 31, 2008, cash flows from financing activities consisted of US\$1.6 million in net proceeds from the issuance of Common Shares, an increase in bank indebtedness of US\$16.0 million and proceeds of US\$345.0 million from the issuance of the 2013 Convertible Notes, offset by an increase in pledged short-term deposits of US\$16.3 million, payment on derivative financial instruments of US\$4.9 million and payment on deferred financing costs from the issuance of the 2013 Convertible Notes of US\$9.1 million.

Financing Arrangements and Contractual Obligations

As of June 30, 2010, we had secured and unsecured short-term liabilities of US\$466.9 million (including US\$12.5 million from discontinued operations), comprising US\$58.6 million of short-term bank loans and US\$95.3 million of trust receipt loans. We had long-term debt of US\$1,121.5 million as of such date. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of June 30, 2010, we had US\$221.6 million of short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As of June 30, 2010, US\$153.9 million in respect of bank indebtedness and US\$8.2 million in respect of other bank instruments were utilized. Interest is payable on these short-term borrowings at a weighted average rate of 4.1% per annum, and the borrowings are either repayable on demand or due in less than one year. As of June 30, 2010, the short-term credit facilities were collateralized by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately US\$52.1 million and certain bank deposits of US\$30.4 million.

Long-Term Debt

As of June 30, 2010, our material long-term indebtedness consisted of the following:

Loan	June 30, 2010
	(US\$ thousands)
2011 Senior Notes.....	87,670
2013 Convertible Notes ⁽¹⁾	296,119
2014 Senior Notes.....	399,517
2016 Convertible Notes ⁽¹⁾	374,298
Unamortized deferred financing costs.....	(36,124)
Total.....	<u>1,121,480</u>

Note:

(1) In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook, a convertible note should be split into an equity and a liability component. The 2013 Convertible Notes and the 2016 Convertible Notes are guaranteed by the Subsidiary Guarantors (as defined in the indenture governing the 2013 Convertible Notes and the indenture governing the 2016 Convertible Notes, respectively). As at June 30, 2010, the equity portions of the 2013 Convertible Notes and the 2016 Convertible Notes were US\$70,462,000 and US\$88,421,000, respectively.

2011 Senior Notes. On August 17, 2004, we issued an aggregate principal amount of US\$300 million 2011 Senior Notes. The 2011 Senior Notes bear interest at a rate of 9.125% per annum, with interest payable in semi-annual installments. Their maturity date is August 17, 2011. The 2011 Senior Notes are (i) our general obligations, (ii) guaranteed by certain of our subsidiaries on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2011 Senior Notes, (iv) at

least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) collateralized by the pledge of the shares of certain of our subsidiaries. Total interest expense on the 2011 Senior Notes for the six-month period ended June 30, 2010 was US\$4.2 million.

On August 16, 2004, we entered into a five-year currency swap contract to meet interest payments of the 2011 Senior Notes at US\$27.4 million per annum. Under the terms of the contract, we hedged RMB113,290,070 on each of August 17 and February 17 in exchange for US\$13,687,500. The contract matured on August 16, 2009. The change in fair value of US\$567,000 for the six months ended June 30, 2009 has been recorded as a loss on changes in fair value of financial instruments in the statements of income and retained earnings.

On July 27, 2009, we consummated an exchange offer, pursuant to which we exchanged US\$212.3 million principal amount of 2011 Senior Notes for an equivalent principal amount of newly issued 2014 Senior Notes. We cancelled such principal amount of 2011 Senior Notes, so that as of June 30, 2010, there was only US\$87.7 million in principal amount of 2011 Senior Notes outstanding. Concurrently with the exchange offer, we consummated a consent solicitation with respect to the 2011 Senior Notes, such that the amended 2011 Indenture has substantially the same terms as the 2014 Indenture, in particular with respect to restrictive covenants related to incurrence of indebtedness and the making of restricted payments. The amended 2011 Senior Notes as currently in effect, however, continue to have the same maturity date, principal amount, interest, security and redemption rights as they did prior to such amendments. For additional information on the 2011 Senior Notes, see "Description of Other Indebtedness—2011 Senior Notes."

2013 Convertible Notes. In July and August 2008, we issued an aggregate principal amount of US\$345 million 2013 Convertible Notes. The 2013 Convertible Notes bear interest at a rate of 5.0% per annum, with interest payable in semi-annual installments. Their maturity date is August 1, 2013 and they are convertible into Common Shares, at the option of the holders, at any time prior to such maturity date at an initial conversion rate of 49.2974 Common Shares per US\$1,000 principal amount of convertible notes. If a Fundamental Change, as defined in the indenture under the 2013 Convertible Notes (the "2013 Convertible Indenture"), occurs prior to the maturity date, we will be required to make an offer to each holder to purchase for cash all or a portion of the 2013 Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at our option, we may elect to deliver, in lieu of Common Shares, cash or a combination of cash and Common Shares. The 2013 Convertible Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by most of the same subsidiaries as comprise the Subsidiary Guarantors for the 2016 Convertible Notes, the 2011 Senior Notes and the 2014 Senior Notes, on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2013 Convertible Notes and (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law. Interest expense on the 2013 Convertible Notes was US\$15.8 million for the six-month period ended June 30, 2010. For additional information on the 2013 Convertible Notes, see "Description of Other Indebtedness—2013 Convertible Notes."

2014 Senior Notes. On July 27, 2009, we consummated an exchange offer, pursuant to which we issued US\$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes. The 2014 Senior Notes bear interest at a rate of 10.25% per annum, with interest payable in semi-annual installments. Their maturity date is July 28, 2014. The 2014 Senior Notes are (i) our general obligations, (ii) guaranteed by certain of our subsidiaries on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2014 Senior Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) collateralized by the pledge of the shares of certain of our subsidiaries. Interest expense on the 2014 Senior Notes was US\$20.0 million for the six-month period ended June 30, 2010. For additional information on the 2014 Senior Notes, see "Description of Other Indebtedness—2014 Senior Notes."

In February 2010, we completed an exchange with holders of the Mandra Notes (as defined herein) and warrants issued by Mandra Holdings, which resulted in the issuance by us to such holders of a principal amount of US\$187.2 million of additional 2014 Senior Notes such that there was US\$399.5 million aggregate principal amount of 2014 Senior Notes outstanding after such exchange. See "Business—Other Tree Plantation Contractual Arrangements—Mandra Forestry."

2016 Convertible Notes. On December 17, 2009, we issued an aggregate principal amount of US\$460 million 2016 Convertible Notes. The 2016 Convertible Notes bear interest at a rate of 4.25% per annum, with interest payable in semi-annual installments. Their maturity date is December 15, 2016 and they are convertible into Common Shares, at the option of the holders, at any time prior to such maturity date at an initial conversion rate of 47.2619 Common Shares per US\$1,000 principal amount of convertible notes. If a Fundamental Change, as defined in the indenture under the 2016 Convertible Notes (the "2016 Convertible Indenture"), occurs prior to the maturity date, we will be required to make an offer to each holder to purchase for cash all or a portion of the 2016 Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at our option, we may elect to deliver, in lieu of Common Shares, cash or a combination of cash and Common Shares. The 2016 Convertible Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the 2013 Convertible Notes, the 2011 Senior Notes and the 2014 Senior Notes, except for certain of these subsidiaries, on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2016 Convertible Notes and (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law. Interest expense on the 2016 Convertible Notes was US\$15.3 million for the six-month period ended June 30, 2010. For additional information on the 2016 Convertible Notes, see "Description of Other Indebtedness—2016 Convertible Notes."

Other Contractual Obligations

As of June 30, 2010, we had other contractual obligations relating to: (i) approximately US\$26.5 million in respect of capital contributions to our WFOEs; (ii) US\$54.4 million of capital commitments with respect to plantation investments, buildings and plant and machinery; (iii) US\$34.7 million of purchase commitments mainly regarding logs; (iv) commitments under operating leases of approximately US\$184.4 million; and (v) US\$1.3 billion relating to the 2011 Senior Notes, the 2013 Convertible Notes, the 2014 Senior Notes and the 2016 Convertible Notes.

Scheduled Maturities of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of June 30, 2010:

	Payment Due by Period As of June 30, 2010				
	Total	Due in less than one year	Due in two to three years	Due in four to five years	Due after five years
	<i>(US\$ thousands)</i>				
Long-term debt ⁽¹⁾	1,292,187	—	87,670	744,517	460,000
Capital contributions	26,450	14,050	12,400	—	—
Capital commitments ⁽²⁾	54,366	54,366	—	—	—
Purchase commitments	34,676	21,776	12,900	—	—
Operating leases ⁽³⁾	184,436	14,327	17,974	13,754	138,381
Total contractual cash obligations	<u>1,592,115</u>	<u>104,519</u>	<u>130,944</u>	<u>758,271</u>	<u>598,381</u>

Notes:

- (1) Represents the U.S. dollar denominated debts due in 2011, 2012, 2013, 2014 and 2016.
- (2) Represents commitments to invest in buildings, plant and machinery in the manufacturing plants and timber holdings.
- (3) These represent mainly leases of plantation land.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of June 30, 2010, we had provided guarantees of approximately US\$139.7 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

Offerings of Common Shares

On April 10, 2007, we issued 25.4 million Common Shares to several institutional investors, including Temasek Holdings Pte Ltd and United Capital-Investment Group Limited, at Cdn.\$9.15 per share for gross proceeds of Cdn.\$232 million.

On June 12, 2007, we issued 15.9 million Common Shares at Cdn.\$12.65 per share for gross proceeds of approximately Cdn.\$201 million in a public offering in Canada and on a private placement basis in the United States, Asia and elsewhere.

On June 8, 2009, we issued 34.5 million Common Shares at Cdn.\$11.00 per share for gross proceeds of approximately Cdn.\$379.5 million in a public offering in Canada and on a private placement basis in the United States, Asia and elsewhere.

On December 10, 2009, we issued 21.9 million Common Shares at Cdn.\$16.80 per share for gross proceeds of approximately Cdn.\$367.1 million in a public offering in Canada.

On June 1, 2010, we issued 2.0 million Common Shares at Cdn.\$17.49 per share to acquire approximately 2,638.5 million ordinary shares of Greenheart.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the years ended December 31, 2007, 2008 and 2009 and the six-month periods ended June 30, 2009 and 2010:

	Year Ended December 31,			Six-month period Ended June 30,	
	2007	2008	2009	2009	2010
	<i>(US\$ millions)</i>				
Tree Acquisition:	623.7	646.4	1,016.4	398.1	387.6
Tree Acquisition: acquisition of subsidiaries	—	—	—	—	283.1
Replanting and Maintenance of Plantations.....	23.3	26.1	36.3	13.7	16.5
Manufacturing and other operations.....	12.6	30.1	19.1	7.8	13.0
Manufacturing and other operations: acquisition of subsidiaries	—	—	—	—	6.6
Total.....	<u>659.6</u>	<u>702.6</u>	<u>1,071.8</u>	<u>419.6</u>	<u>706.8</u>

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees, various plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures for manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our forestry plantations in the consolidated statements of cash flows and the above capital expenditure on plantations was due to non-cash transactions such as the movement of accounts payable and capitalization of deposit paid for the acquisition of plantations from other assets to timber holdings.

For the year ending December 31, 2010, capital expenditures are expected to be approximately US\$1.3 billion in connection with plantation acquisitions, replanting and maintenance, and approximately US\$30.0 million for the development of manufacturing facilities integrated with our plantation operations. These acquisition levels will be adjusted as necessary, based on several factors some of which are beyond our control, including changes in the macroeconomic environment in the PRC.

Under the master agreements entered into in July 2006 to secure at least 1.5 million cubic meters of wood fibre annually over a 12-year period in Inner Mongolia, we have acquired 561,212 cubic meters of wood fibre as at June 30, 2010.

Under the master agreements entered into in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, we have acquired 209,398 hectares of plantation trees for US\$836.0 million as at June 30, 2010.

Under the master agreement entered into in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, we have acquired 121,182 hectares of plantation trees for US\$570.7 million as at June 30, 2010.

Under the master agreement entered into in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, we have acquired 118,856 hectares of plantation trees for US\$600.8 million as at June 30, 2010.

Under the master agreement entered into in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, we have not acquired any plantation trees as at June 30, 2010.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, we have acquired 36,577 hectares of plantation trees for US\$144.6 million as at June 30, 2010.

Under the master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a three-year period in Guizhou, we have not acquired any plantation trees as at June 30, 2010.

For a further description of the terms of the master agreements that we have entered into to acquire plantation trees or standing timber, see "Business—Tree Plantations Under Management—Access to Future Purchases of Tree Plantations."

Off-Balance Sheet Arrangements

We do not have any outstanding derivative financial instruments or off-balance sheet guarantees. We are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of June 30, 2010. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

Related Party Transactions

Pursuant to their respective service agreements, we pay the salaries of our Chairman and Chief Executive Officer and our President in the form of consultancy fees to companies controlled by these executive officers. The consultancy fees incurred in the years ended December 31, 2007, 2008 and 2009, and for the six-month period ended June 30, 2010, amounted to US\$4.6 million, US\$6.0 million, US\$7.6 million, and US\$305,000, respectively.

In addition, as at June 30, 2010, no balance was payable in consultancy fees relating to these related parties.

On February 6, 2009, we entered into an agreement to acquire 55.0 million ordinary shares and approximately US\$21,700,000 4% secured convertible bonds of Omnicorp from various vendors for a total consideration of approximately US\$26.0 million. Among the vendors were one of our directors and an entity controlled by such director, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

On June 1, 2010, we acquired 2,638.5 million ordinary shares of Greenheart. We paid a total consideration of approximately US\$33.3 million. Among the vendors was an entity beneficially owned by one of our directors, which entity owns approximately 5.3% of the ordinary shares of Greenheart that we acquired.

Aging of Accounts Receivable

We recognize revenue from sales of plantation fibre when the buyer has signed the sales contract and the significant risks and rewards of ownership have been transferred to the buyer. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber extended credit terms to log and haul the timber from the plantations. Based on a twelve-month period, on average, customers repay outstanding balances in approximately three months.

We recognize revenue from sales of logs and other products when the significant risks and rewards of ownership of the logs and other products have been transferred to the buyer, usually upon delivery of the goods. Revenue from wood product and nursery contracts are recognized based on a percentage-of-completion method.

The following table sets forth an aging analysis of our accounts receivable as of December 31, 2007, 2008 and 2009 and as of June 30, 2009 and 2010:

	Aging Analysis						Over One Year
	Total Accounts Receivable	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	181 to 360 Days	
	(US\$ thousands)						
At December 31, 2007 ⁽¹⁾	105,329	81,980	6,006	13,360	3,704	279	—
At December 31, 2008	225,753	96,422	83,017	19,053	22,281	2,372	2,608
At December 31, 2009	282,306	197,896	58,696	16,363	6,123	3,160	68
At June 30, 2009	121,317	78,337	20,860	7,543	5,775	8,261	541
At June 30, 2010	316,758	123,182	73,526	56,957	18,847	43,749	497

Note:

- (1) The selected data in this table for the year ended December 31, 2007 has not been reclassified to reflect the Gaoyao facility as a discontinued operation. See note (1) on page 47 of this Offering Memorandum.

Taxation

Our PRC subsidiaries are governed by the Enterprise Income Tax Laws of the PRC (中華人民共和國企業所得稅法) which came into effect on January 1, 2008 (the "New EIT Law") and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the New EIT Law, PRC companies are subject to enterprise income tax at an effective rate of 25% on taxable income reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing could be eligible for an exemption from state income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. Pursuant to the New EIT Law and relevant regulations, for enterprises which are entitled to the tax holiday under the old EIT law and if such tax holiday has not yet commenced, such tax holiday is deemed to have begun on January 1, 2008. Pursuant to the New EIT Law and relevant regulations, the PRC subsidiaries engaged in tree plantation operations, if eligible, could apply for an exemption from PRC enterprise income tax.

Our tax charges for the years ended December 31, 2007, 2008 and 2009 were US\$18.0 million, US\$24.1 million, and US\$27.9 million, respectively, which represented effective tax rates of 11.2%, 9.1%, and 9.1%, respectively. We believe we have made adequate tax provisions to meet our tax liabilities as they become due.

We operate mainly in the PRC through our WFOEs and our BVI Subsidiaries and in Hong Kong through our Hong Kong Subsidiaries. Our BVI subsidiaries are engaged in Authorized Sales Activities in the PRC through AIs that are domestic enterprises. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies, such as the BVI Subsidiaries, deriving income from sources in the PRC, are subject to enterprise income tax.

Under the terms of the AI Agreements made with the AIs, the AIs are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

The BVI Subsidiaries are expected to be subject to enterprise income tax on a deemed profit basis for revenues from Authorized Sales Activities for 2010 and the three to five prior years. This also applies to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007. The deemed profit percentage applied by us to plantation fibre sales is 10% for 2009 and prior years. The PRC tax authorities issued Circular 326 in June 2009 providing further clarity as to the number of years for which local bureaus are to assess deemed profit percentage in the case where a taxpayer has not filed tax returns in prior years. Circular 326 requires the number of years for assessment to be either three or five years in addition to the then current year depending on the views of the local tax bureau. In addition, the PRC tax authorities issued Circular 19 in February 2010 which states that the deemed profit percentage for certain activities should be a minimum of 15% and possibly more. The excess amount above the minimum the deemed profit percentage of 15% would depend on the administrative practice of the local tax bureau. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. We have been assessing the effect of the Circulars on the BVI Subsidiaries and monitoring the interpretation and application of the Circulars by the PRC tax authorities. Based upon our analysis to date, we have recorded income tax on a deemed profit basis at a rate of 15% for 2010 but not for prior years, other than for the fourth quarter of 2009. We are actively monitoring the application of the Circulars by PRC taxation authorities for the years prior to the issue of the Circulars as well as the number of prior years for which the PRC tax authority would assess such tax and are working to ascertain whether the most appropriate deemed profit percentage for the BVI Subsidiaries could be in excess of the 15% minimum. We have recorded our best estimate based upon the information available to us as at this date and will revisit our estimate in the near term as our analysis is updated.

Should we determine that we would need to record the exposure at 15% for some or all of the 2007, 2008 and 2009 years from the currently recorded 10%, this would represent a further provision requirement of up to US\$30,053,000. Alternatively, should we determine that some or all of the 2005, 2006, 2007, 2008 and 2009 years are to be assessed, this would represent further provision of up to US\$82,412,000, including the US\$30,053,000 for the 2007, 2008 and 2009 years. In addition, if we were to conclude that the deemed profit percentage should be in excess of 15%, then our management estimates that each additional percentage point increase would represent US\$813,000 in provision as of June 30, 2010 for activities subsequent to January 1, 2010 and US\$6,894,000 if management was to determine that the exposure should be recorded for the 2007, 2008 and 2009 taxation years. We are conducting but have not completed ongoing work with respect to the uncertainty related to the retroactivity of the deemed profit percentage. It is expected that this analysis will be completed prior to the issuance of our financial statements for the third quarter of 2010 and we currently expect an adjustment in the range of US\$20 million to US\$30 million.

Market Risks

Exchange Rate Risk

We conduct our business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In the years ended December 31, 2008 and 2009, and in the six-month period ended June 30, 2010, 86.1%, 83.9% and 70.8% of our sales were received in Renminbi, respectively, and 13.9%, 16.1% and 29.2% of our sales were received in U.S. dollar and Euro, respectively. We translate our results of self-sustaining foreign operations into U.S. dollars using the current rate method. We expect in the future that substantially all of our sales will be received in Renminbi. The majority of our operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on our net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of our revenue in Renminbi is converted into other currencies to meet foreign currency financial obligations denominated in currencies other than Renminbi. We have a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of U.S. dollars relative to other currencies will impact our reported net income. Such exchange rate fluctuations have historically not been material year on year relative to our overall earnings or financial position. A fluctuation of +/-1%, provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything being equal, have an effect on net income after tax and other comprehensive income for the six-month period ended June 30, 2010 of approximately US\$0.3 million and US\$1.5 million, respectively.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our capital account, are subject to foreign exchange controls and require the approval of the SAFE. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. We cannot predict nor give any assurance of the Renminbi's future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars, of our net assets, net profits and any declared dividends. We cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect our results of operations, financial condition and cash flows.

As of June 30, 2010, we had Renminbi-denominated bank accounts of RMB617.9 million, U.S. dollar-denominated bank accounts of US\$884.8 million, Canadian dollar-denominated bank accounts of Cdn.\$ 8.7 million, Hong Kong dollar-denominated bank accounts of HK\$10.7 million, and Euro-denominated bank accounts of €113,000. We also had U.S. dollar- and Renminbi-denominated accounts receivable of US\$85.3 million and RMB1,571.0 million, respectively.

We incurred mainly U.S. dollar-denominated debt for capital expenditures primarily relating to the development and acquisition of our tree plantations and investment in our manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

Credit Risk

We are exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at June 30, 2010 included US\$95.0 million due from three customers representing 30.0% of outstanding receivables. We undertake credit evaluations on customers as necessary and have monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically we have made arrangements with our debtors to settle amounts payable with respect to the purchase of standing timber on our behalf. As at June 30, 2010, US\$63.1 million, or 19.9%, of accounts receivable were aged more than 90 days. We have no significant allowance for doubtful accounts for the six-month period ended June 30, 2010.

We are exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure. The cash equivalents consist mainly of short-term investments, such as money market deposits. We have deposited the cash equivalents in instruments that meet minimum requirements for quality and liquidity as stipulated by our board of directors. Our management believes the risk of loss to be remote.

Liquidity Risk

Liquidity risk is the risk that we may encounter difficulties in meeting obligations associated with financial liabilities. Our growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at June 30, 2010, we were holding cash and cash equivalents of US\$922.7 million. We believe that continued cash flow from operations in 2010 together with the cash and cash equivalents from previous financings will be sufficient to fund our requirements for investments in working capital, timber holdings and capital assets.

The following table is an analysis of the contractual maturities of our financial liabilities as at June 30, 2010:

	Payment Due by Period				Total
	Within one year	In the second and third year	In the fourth and fifth year	After the fifth year	
	<i>(US\$ thousands)</i>				
Bank indebtedness	153,891	—	—	—	153,891
Accounts payable and accrued liabilities ^{(1),(2)}	160,022	—	—	—	160,022
Long-term debt	—	87,670	744,517	460,000	1,292,187
Interest obligations of long-term debts.....	85,750	159,500	109,150	29,325	383,725
Total.....	<u>399,663</u>	<u>247,170</u>	<u>853,667</u>	<u>489,325</u>	<u>1,989,825</u>

Notes:

- (1) Including continuing and discontinued operations.
- (2) Excluding the provision for tax-related liabilities.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our bank indebtedness. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at June 30, 2010, US\$96.7 million or 7.6% of our total debt is subject to variations in interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding 12-month period, would have an impact on income after taxes for the period of approximately US\$0.5 million. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk. We seek to mitigate our interest rate risk by managing our portfolio of variable and fixed rate debt, as well as managing the term to maturity.

We are also exposed to interest rate risk on cash equivalents. We do not use financial instruments to mitigate this risk.

Commodity Price Risk

We are exposed to fluctuations in the prices of standing timber and wood-based products. We import wood-based products from suppliers outside of the PRC. Such purchases are made at market prices. In addition, all our sales of standing timber and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber and wood-based products have a significant effect on our business, results of operation and financial condition.

We do not enter into any futures contracts to hedge our sales of standing timber and wood-based products.

Non-GAAP Financial Measures

EBITDA, gross profit, sales per hectare, price per cubic meter and gross margin per cubic meter are measures we use that do not have a standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures used by other companies. We consider these statistics to be key performance indicators that management uses to monitor our performance. These data, however, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP.

EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, for the period.

Gross profit for any period refers to our total revenue less cost of sales for the given period. Our gross profit margin for any period refers to our gross profit divided by our total revenue for the relevant period.

EBITDA and gross profit are not measures of financial performance under either Canadian GAAP or US GAAP. We believe that these measures are useful for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. We believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our business sector.

A reconciliation from net income from continuing operations to EBITDA for the periods indicated is set out below:

	Year Ended December 31,			Six-month period Ended September 30,	
	2007 ⁽¹⁾	2008	2009	2009	2010
	<i>(US\$ thousands)</i>				
Income from operations before other items ⁽¹⁾	197,468	309,384	371,712	114,392	180,850
Add:					
Depreciation and amortization.....	5,364	3,206	4,693	2,209	2,276
Depletion of timber holdings included in cost of sales	284,808	284,532	521,889	143,637	137,056
Total.....	<u>487,640</u>	<u>597,122</u>	<u>898,294</u>	<u>260,319</u>	<u>320,182</u>

Notes:

- (1) Our Gaoyao facility was disposed of in 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the six-month periods ended June 30, 2009 and 2010 and the years ended December 31, 2007, 2008 and 2009. The selected data in this table for the year ended December 31, 2007, has not been reclassified to reflect the Gaoyao facility as a discontinued operation. Except for an impairment charge on our Gaoyao facility of US\$15.4 million for the year ended December 31, 2007 which was included in the results from continuing operations in this table, the remaining results of operations of the Gaoyao facility are not significant to the Company's 2007 consolidated results.
- (2) EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

You should not consider our definition of EBITDA in isolation or construe it as an alternative to net income from continuing operations for the year/period or as an indicator of operating performance or any other standard measure under Canadian GAAP or US GAAP. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

CORPORATE STRUCTURE

The following table, which does not include certain non-material subsidiaries, shows our corporate structure as at the date hereof, indicates the place of incorporation/registration of the entities listed below and shows the percentage equity interest beneficially owned (directly or indirectly) by the Company in each such entity. Unless indicated otherwise, all of the Company's subsidiaries are "Restricted Subsidiaries" as defined in the Notes. The only "Unrestricted Subsidiaries" (as defined in the Notes) as of the date of this Offering Memorandum are Mandra Holdings and its subsidiaries, and Omnicorp and its subsidiaries, including Greenheart. The Unrestricted Subsidiaries will not guarantee the Notes. Unless indicated otherwise, all of the Company's subsidiaries organized in a jurisdiction other than the PRC are Subsidiary Guarantors. The Initial Non-Guarantor Subsidiary is Sino-Capital Global Inc.

	<u>Place of Incorporation/Registration</u>	<u>Percentage Equity Interest Held by the Company</u>
Sino-Forest Corporation.....	Canada	
Sino-Panel Holdings Limited.....	British Virgin Islands	100
Sino-Global Holdings Inc.	British Virgin Islands	100
Sino-Forest Resources Inc.	British Virgin Islands	100
Sino-Panel (Asia) Inc.	British Virgin Islands	100
Grandeur Winway Limited.....	British Virgin Islands	100
Sinowin Investments Limited	British Virgin Islands	100
Dynamic Profit Holdings Limited.....	British Virgin Islands	100
Suri-Wood Inc.	British Virgin Islands	100
Sino-Capital Global Inc. +	British Virgin Islands	100
Sino-Panel (Guangxi) Limited	British Virgin Islands	100
Sino-Panel (Yunnan) Limited.....	British Virgin Islands	100
Sino-Panel (North East China) Limited.....	British Virgin Islands	100
Sino-Panel [Hunan] Limited	British Virgin Islands	100
SFR (China) Inc.	British Virgin Islands	100
Sino-Panel (Gaoyao) Ltd.	British Virgin Islands	100
Sino-Panel (North Sea) Limited	British Virgin Islands	100
Sino-Forest Investments Limited	British Virgin Islands	100
Sino-Panel [Xiangxi] Limited.....	British Virgin Islands	100
Sino-Panel [Suzhou] Limited.....	British Virgin Islands	100
Sino-Panel (Guangzhou) Limited.....	British Virgin Islands	100
Expert Bonus Investment Limited	British Virgin Islands	100
Glory Billion International Limited	British Virgin Islands	100
Amplemax Worldwide Limited.....	British Virgin Islands	100
Ace Supreme International Limited.....	British Virgin Islands	100
Express Point Holdings Limited.....	British Virgin Islands	100
Smart Sure Enterprises Limited.....	British Virgin Islands	100
Trillion Edge Limited	British Virgin Islands	100
General Excel Limited.....	British Virgin Islands	100
Brain Force Limited.....	British Virgin Islands	100
Prime Kinetic Limited	British Virgin Islands	100
Poly Market Limited.....	British Virgin Islands	100

	Place of Incorporation/Registration	Percentage Equity Interest Held by the Company
Alliance Max Limited.....	British Virgin Islands	100
Sino-Panel (China) Nursery Limited	British Virgin Islands	100
Sino-Wood Trading Limited	British Virgin Islands	100
Homix Limited.....	British Virgin Islands	100
Sino-Panel (Russia) Limited	British Virgin Islands	100
Cheer Gold Worldwide Limited.....	British Virgin Islands	100
Harvest Wonder Worldwide Limited.....	British Virgin Islands	100
Regal Win Capital Limited	British Virgin Islands	100
Rich Choice Worldwide Limited	British Virgin Islands	100
Value Quest International Limited	British Virgin Islands	100
Well Keen Worldwide Limited	British Virgin Islands	100
Sino-Panel Trading Limited	British Virgin Islands	100
Mega Harvest International Limited	British Virgin Islands	100
Sino-Forest International (Barbados) Corporation	Barbados	100
Sino-Wood Partners, Limited	Hong Kong	100
Sino-Plantation Limited	Hong Kong	100
Sino-Wood (Guangxi) Limited.....	Hong Kong	100
Sino-Wood (Jiangxi) Limited.....	Hong Kong	100
Sino-Wood (Guangdong) Limited.....	Hong Kong	100
Sino-Wood (Fujian) Limited	Hong Kong	100
Sino-Panel (China) Investments Limited ⁺	PRC	100
Sino-Maple (Shanghai) Co., Ltd. ⁺	PRC	100
Sinowin Plantings (Suzhou) Co., Ltd. ⁺	PRC	100
Sino-Panel (Gengma) Co., Ltd. ⁺	PRC	100
Heilongjiang Jiamu Panel Co., Ltd. ⁺	PRC	100
Shaoyang Jiading Wood Products Co., Ltd. ⁺	PRC	100
Jiafeng Wood (Suzhou) Co., Ltd. ⁺	PRC	100
Guangdong Jiayao Wood Products Development Co., Ltd. ⁺	PRC	100
Sino-Panel (Beihai) Development Co., Ltd. ⁺	PRC	100
Sino-Forest (China) Investments Limited ⁺	PRC	100
Guangxi Guijia Forestry Co., Ltd. ⁺	PRC	100
Gaoyao Jiayao Forestry Development Co., Ltd. ⁺	PRC	100
Jiangxi Jiachang Forestry Development Co., Ltd. ⁺	PRC	100
Zhangzhou Jiamin Forestry Development Co., Ltd. ⁺	PRC	100
Sino-Forest (Heyuan) Co., Ltd. ⁺	PRC	100
Sino-Forest (Guangzhou) Co., Ltd. ⁺	PRC	100
Sino-Forest (Suzhou) Trading Co., Ltd. ⁺	PRC	100
Hunan Jiayu Wood Products Co., Ltd. ⁺	PRC	100
Xiangxi Autonomous State Jiayi Forestry Development Co., Ltd. ⁺	PRC	100

	Place of Incorporation/Registration	Percentage Equity Interest Held by the Company
Zhangjiagang Free Trade Zone Jiashen International Trading Co., Ltd. ⁺	PRC	100
Sino Panel (Luzhai) Co., Ltd. ⁺	PRC	100
Jiangxi Jiawei Panel Co., Ltd. ⁺	PRC	100
Sino-Panel (Guangzhou) Trading Co., Ltd. ⁺	PRC	100
Guangzhou Pangyu Dacheng Wood Co., Ltd. ⁺	PRC	100
Jiangsu Dayang Wood Co., Ltd. ⁺	PRC	100
Mandra Forestry Holdings Limited ⁺ *	British Virgin Islands	100
Mandra Forestry Finance Limited ⁺ *	British Virgin Islands	100 ⁽¹⁾
Mandra Forestry Anhui Limited ⁺ *	British Virgin Islands	100 ⁽¹⁾
Mandra Forestry Hubei Limited ⁺ *	Hong Kong	100 ⁽¹⁾
Anqing Mandra Forestry Limited ⁺ *	PRC	100 ⁽¹⁾
Xuancheng Mandra Forestry Limited ⁺ *	PRC	100 ⁽¹⁾
Wuhu Mandra Forestry Limited ⁺ *	PRC	100 ⁽¹⁾
Mandra Forestry (Jiangxi) Limited ⁺ *	PRC	100 ⁽¹⁾
Yihuang Mandra Forestry Limited ⁺ *	PRC	100 ⁽¹⁾
Huanggang Mandra Forestry Limited ⁺ *	PRC	100 ⁽¹⁾
Zixi Mandra Forestry Limited ⁺ *	PRC	92 ⁽¹⁾⁽²⁾
Silver Mount Group Limited (“Silver Mount”) ⁺ *	British Virgin Islands	59.13 ⁽⁴⁾
Greenheart Resources Holdings Limited (“Greenheart”) ⁺ *	British Virgin Islands	75.32 ⁽³⁾⁽⁵⁾
Omnicorp Limited (“Omicorp”) ⁺ *	Bermuda	59.13 ⁽³⁾

Notes:

+ Non-Guarantor Subsidiary

* Unrestricted Subsidiary

(1) Directly or indirectly wholly owned by Mandra Forestry Holdings Limited.

(2) A joint-venture company.

(3) Ownership percentage is based on the outstanding ordinary shares as published respectively by Greenheart and Omnicorp as at October 11, 2010.

(4) Directly wholly owned by Omnicorp.

(5) Directly owned by Silver Mount. The equity interest is made up of 39.6% direct investment and 35.8% indirect investment through Omnicorp in Greenheart (we own 59.1% of Omnicorp, which owns 60.4% of Greenheart).

(6) Our non-material active subsidiaries that were not included in the above table are:

Sinowood Limited (Cayman Islands), Sino-Forest Bio Science Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Global Management Consulting Inc. (BVI), Sino-Biotechnology (Guangzhou) Co., Ltd. (PRC WFOE), Sino-Panel (Guangxi) Development Co., Ltd. (PRC WFOE), Sino-Panel (Hezhou) Co., Ltd. (PRC WFOE), Sino-Panel (Sanjiang) Co., Ltd. (PRC WFOE), Sino-Panel (Yunnan) Trading Co., Ltd. (PRC WFOE), Hunan Jiayu Wood Products (Zhijiang) Co., Ltd. (PRC WFOE), Sino-Panel (Yuanling) Co., Ltd. (PRC WFOE), Sino-Panel (Jianghua) Co., Ltd. (PRC WFOE), Beihai Changqing Wooden Co., Ltd. (PRC Limited Company), Suzhou City Lvyun Garden Engineering Co., Ltd. (PRC Limited Company), Sino-Panel (Fujian) Co., Ltd. (PRC WFOE), Sino-Panel (Heilongjiang) Trading Co., Ltd. (PRC WFOE), Sino-Maple (Shanghai) Trading Co., Ltd. (PRC WFOE), Sino-Global (Guangzhou) Forestry Management Consulting Inc. (PRC WFOE), Sino-Wood (Heyuan) Co., Ltd. (PRC WFOE), Sino-Panel (Hunan) Forest Management Co., Ltd. (PRC WFOE), Heilongjiang Jialin Trading Co., Ltd. (PRC WFOE), Sino-Panel (Guangzhou) Nursery Co., Limited (PRC WFOE), Sugian Jiashu Plantings Co., Ltd. (PRC Limited Company), Sino-Panel (Beihai) Wood Products Co., Ltd. (PRC WFOE), Sino-Panel (Hunan) Development Co., Ltd. and Hunan Jiayu Wood Products (Hongjiang) Co., Ltd. (PRC WFOE). Deregistration of Hunan Jiayu Wood Products (Hongjiang) Co., Ltd. is in progress.

Overview

We are a leading commercial forest plantation operator in the PRC, with approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries) of tree plantations under management located in nine provinces and municipalities across the PRC as of June 30, 2010. In addition, we have entered into long-term master agreements in the provinces of Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou that give us the right to acquire up to approximately 1.3 million to 1.4 million hectares of tree plantations. As of June 30, 2010, we have acquired approximately 486,000 hectares under these agreements. Our principal businesses include ownership and management of forest plantation trees, the sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2009 and for the six-month period ended June 30, 2010, our total revenue was US\$1,238.2 million and US\$556.8 million, respectively, and our EBITDA was US\$898.3 million and US\$320.2 million, respectively.

Our vision is to become the leading commercial forest plantation operator and the preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices. We have developed our tree plantations in regions that have favorable climate and soil conditions for eucalyptus, pine and Chinese fir plantations and access to key transportation routes and proximity to major population centers and industrial and consumer markets for wood panels, furniture, construction materials, interior decoration and pulp and paper products.

Our business operations are comprised of two core business segments. Our wood fibre operations are our main revenue contributor, while our manufacturing and other operations enable us to enhance the value of our fibre operations by producing downstream products.

Wood Fibre Operations Segment

Our wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. The wood fibre operations accounted for 96.3% and 94.9% of our total revenue for the year ended December 31, 2009 and the six-month period ended June 30, 2010, respectively.

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture value through wood fibre growth during the course of our ownership. Under our planted plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate the trees using improved breeding, planting and silviculture techniques and sell the trees as standing timber. Under our integrated plantation model, instead of selling the trees from purchased or planted plantations as standing timber, the trees are harvested and sold as logs or manufactured goods, and under the relevant purchase agreements, we typically require an option to enter into long-term leases, typically for up to 50 years, under which we would be able to plant and subsequently harvest several rotations of trees.

We expect our integrated plantation model to allow us to provide the market with a sustainable source of fibre under our existing long-term master agreements and to generate sustainable cash flow by purchasing mature trees instead of acquiring younger trees and holding them until maturity. We lease the land of harvested plantations on a long-term basis, replant it with higher yielding tree species and apply advanced breeding, planting and silviculture techniques. These advanced techniques are designed to enable us to improve efficiency, grow more uniform trees, lower our operating and harvesting costs, and achieve higher fibre quality and output while minimizing the impact on the environment.

We are pursuing our strategy of migrating to an integrated plantation model, as well as securing access to future purchases of tree plantations. We have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces since September 2006, which have provided us with access to 400,000, 200,000, 150,000, 200,000, 150,000 to 300,000 and 150,000 hectares of standing timber, respectively. As of June 30, 2010, we have acquired approximately 486,000 hectares under these agreements.

In June 2010, we completed the last of a series of acquisitions which resulted in Mandra Holdings becoming our wholly owned subsidiary. The acquisition of Mandra Holdings has given us access to 155,600 hectares of relatively mature plantation trees located primarily in Anhui and Jiangxi Provinces. As a result of this strategic investment, we have further diversified our portfolio of plantations geographically and reduced our cost per cubic meter to less than half of the capped fibre prices under our master agreements.

As of June 30, 2010, approximately 648,300 hectares (89.3%) of our plantations under management were purchased plantations and approximately 77,900 hectares (10.7%) were planted plantations. In the year ended December 31, 2009, we sold approximately 58,350 hectares (53.4%) of plantation fibre from our purchased plantations, 44,057 hectares (40.3%) from our integrated plantations, and 6,782 hectares (6.2%) from our planted plantations, for a total of 109,189 hectares. In the six-month period ended June 30, 2010, we sold approximately 8,134 hectares (37.4%) of plantation fibre from our purchased plantations, 9,644 hectares (44.4%) from our integrated plantations and 3,959 hectares (18.2%) from our planted plantations for a total of 21,737 hectares.

Manufacturing and Other Operations Segment

Our manufacturing and other operations segment complements our wood fibre operations by maximizing the usage and adding value to the upstream fibre. This segment represents our secondary source of revenue and consists of sales of wood-based products, such as engineered wood flooring, sawn timber, finger-joint board, blockboard, plywood, veneer and other wood-based products manufactured at our own production plants. We currently operate manufacturing plants in the provinces of Jiangsu, Heilongjiang, Hunan, Yunnan, Guangdong and Guangxi. We also operate a greenery and nursery business based in Jiangsu Province. For the year ended December 31, 2009 and the six-month period ended June 30, 2010, our manufacturing and other operations represented 3.7% and 5.1%, respectively, of our total revenue.

Growth Opportunities in China

Our fibre is sold in China, which is one of the fastest growing economies in the world, with 8.7% GDP growth in 2009 according to the National Bureau of Statistics of China. Increasing demand for wood products and wood fibre in the PRC continues to drive significant growth in our business. Increased purchasing power by the growing Chinese middle class and the fiscal initiatives implemented by the central government and provincial governments have resulted in significant spending on infrastructure and construction materials, residential and commercial building materials, the production of furniture, interior decoration and pulp and paper products. At the same time, China's restrictions on logging of natural forests, combined with lower volumes of imported logs, have resulted in a chronic wood fibre deficit, which has made it possible for us, as a leading commercial forest plantation operator in the PRC, to capitalize on these significant growth opportunities.

Over the last 15 years we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships have strengthened the development of our business in the past and, coupled with our proven track record and commitment to developing advanced breeding, planting and silviculture techniques applicable in China, will continue to benefit us in expanding our forestry resources in the future.

Our strategy is aligned with the published objectives of the PRC government and State Forestry Administration to increase the country's forestry coverage, productivity and employment in rural areas. In 2006, we expanded our operations in third tier cities and inland regions such as the Hunan and Yunnan Provinces, which aligned our expansion strategy with the PRC government's Eleventh Five-Year Plan (2006-2010) of rural and regional economic development. Leveraging our first mover advantage in these regions, we were able to secure plantations in strategic locations for long-term sustainable re-plantation. We are also pursuing future growth as we seek opportunities to better align our strategy with the PRC government's forestry priorities. State-owned forestry areas cover approximately 73 million hectares in

the PRC, one third of which are plantation forests primarily located in southern provinces. The majority of these forestry plantations have low productive yields due to a lack of capital investment and a focus on afforestation and/or reforestation rather than on commercialization. With our proven track record of developing commercial tree plantations and experience working with local forestry bureaus and other PRC authorities, we believe we are well-positioned to improve land use and enhance plantation yields of state-owned forests. We are currently pioneering new ventures with SOPs by forming Co-op Entities. The Co-op Entities could represent a cost-effective way to expand our access to fibre and land for replanting, while working closely with the State Forestry Administration to improve fibre output on state-owned plantations with the goal of lessening pressure on the PRC's natural forests and conserving ecosystems and biodiversity.

We believe we are well positioned to benefit from the country's forestry reform and three year Forestry Revitalization Plan (2010-2012) by collaborating with the PRC forestry authorities and SOPs to develop fast-growing high yielding ("FGHY") plantations to reduce the country's chronic wood deficit. We have gained recognition for our sustainable plantation development practices in the PRC with our portfolio of plantations in the PRC covering approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries) together with the right to acquire approximately another 764,000 to 914,000 hectares under our long-term master agreements, which we expect will help enable us to enter into additional long-term fibre agreements.

Growth Opportunities outside China

We are also exploring opportunities to access overseas concession timber, directly or through our subsidiary Omnicorp.

The PRC shares a 4,000-kilometre border with Russia, and is the largest importer of Russian logs. Although Russia has the largest forest area in the world, it has relatively low road density and harvesting efficiency. Over the last three years, Russia has been increasing its tariffs on exported logs in an attempt to develop its wood processing industry. We are holding discussions with Russian counterparties in regions where we could potentially co-operate and expand our business operations.

As of the date hereof, we own 59.1% of the voting interest in Omnicorp. Omnicorp indirectly owns 60.4% of the voting interest in Greenheart, and we own the remaining 39.6% of the voting interest in Greenheart through another of our subsidiaries. Greenheart in turn holds approximately 180,000 hectares of a concession forest and harvesting rights in Suriname, South America. We are assisting Omnicorp to maximize the value of its current forestry holdings and expand into other forestry projects.

Our Competitive Strengths

We believe that we have the following strengths:

Leading commercial forest plantation operator in the PRC with established track record

We are a leading commercial forest plantation operator in the PRC with approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries) of tree plantations under management as of June 30, 2010. With a 15 year track record of managing forestry plantations in China, our use of advanced breeding, planting and silviculture techniques has enabled us to become a leading commercial forest plantation operator in the PRC. We believe that we are well positioned to maintain and expand our existing tree plantation resources under our existing long term master agreements and to grow our fibre base through other innovative strategies.

First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage our industry foresight

We were one of the first foreign companies to do business in the PRC's forestry sector and have a strong track record of obtaining, developing and cultivating commercial tree plantations since 1995. We believe that our proven ability to develop fast growing commercial tree plantations in the PRC, our reputation as a reliable partner and supplier of wood fibre and our capital structure position us as a preferred partner for commercialization of forestry plantation management in the PRC. Over the last 15

years, we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships have supported the development of our tree plantation business in the past and will continue to benefit us in expanding our forestry resources in the future.

Future growth supported by long-term master agreements at agreed capped prices

We have entered into long-term master agreements in the Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces that give us the right to acquire up to approximately 1.3 million to 1.4 million hectares of tree plantations with predetermined maximum prices, to the extent permitted under the then applicable PRC laws and regulations, of which we have acquired approximately 486,000 hectares as of June 30, 2010. These agreements allow us to harvest the trees and provide us with the right to enter into long-term leases, typically up to 50 years, to replant the plantations with new improved seedlings. These long-term leases will enable us to benefit from several rotations of higher-yielding, faster growing plantations. We believe we will achieve significant growth by increasing the yields on our existing land leases, acquiring new tree plantations under our master agreements and securing further master agreements.

Strong research and development capability, with extensive forestry management expertise in the PRC

We believe our ability to genetically breed faster-growing plantations and apply advanced silviculture techniques will allow us to shorten the harvest rotation, increase the amount of wood we extract from each hectare of land and improve profitability. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, improve quality of harvested wood, maintain and enhance forest ecosystems and improve land productivity. Over the years, our research and development efforts have allowed us to improve our planting materials and our breeding and propagation methods, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing, and ecological and environmental technology. Our plantation planning and management team has an in-depth understanding of local forestry markets and regulations, with a significant number of our employees and scientists formerly serving with locally renowned universities local forestry bureaus and/or state-owned plantation farms.

Expertise in sustainable plantation development

Our sustainable plantation management practices in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. We employ advanced forest management practices and adopt prudent environmental management of our tree plantations. Our scientific and conscientious approach to quality plantation management led us to receive the Forest Stewardship Council ("FSC") Certificate for certain areas of our planted plantation in Gaoyao, Guangdong Province, the first commercial tree plantation in the PRC to be granted and hold such accreditation.

Diversified revenue and asset base

Our asset base and revenue are broadly diversified by geographic region, mix of tree species, end-use market served and business segment. Our tree plantations are located in the provinces of Guangdong, Guangxi, Hunan, Yunnan, Heilongjiang, Guizhou, Fujian, Anhui and Jiangxi. Our primary tree species include pine, Chinese fir and eucalyptus plantations, and our wood fibre is ultimately used for infrastructure and construction materials, residential and commercial building materials, furniture, interior decoration and pulp and paper products.

Robust capital structure with demonstrated market access

Despite our significant revenue growth in recent years, we believe we have maintained a robust capital structure with a proven ability to support our financing needs in the capital markets. In July 2008, we completed a US\$345 million convertible notes offering, in June 2009, we completed a Cdn.\$379.5 million equity offering and in December 2009, we completed a US\$460.0 million convertible notes offering and a Cdn.\$367.0 million equity offering.

Our Business Opportunities

We believe we are well-positioned to benefit from the following factors:

Strong and growing demand for wood fibre from downstream producers

We believe that, as an upstream provider of wood fibre for downstream manufacturers, we are well-positioned to benefit from increased demand for, and a limited supply of, wood fibre in the PRC. PRC's leading consumer markets for wood fibre products are generally located in southern, south-western and eastern regions of the PRC in close proximity to our tree plantations. This allows us to efficiently meet the growing demand from these markets while minimizing transportation costs and delivery times.

Growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries

Wood shortage is a persistent phenomenon in the PRC. The shortfall between domestic wood consumption and supply in the PRC was historically supplemented by imports, which comprised approximately 32 million cubic meters of logs in 2006, with approximately 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian government raised round wood export duties from 6.5% to 25% as of April 2008. In light of the expected decrease in natural forest wood supply from within the PRC due to regulatory restrictions on harvesting and outside of the PRC due to rising export duties by the governments of round wood exporting countries and the expected increase in demand for wood, we believe that sustainable tree plantations will play an increasingly important role in satisfying domestic demand in the future.

Recent changes in the forestry industry that favor sustainable plantations

The wood processing industry has in recent years begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter logs into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of our planted plantations. We believe that these developments will benefit us by increasing demand for logs and standing timber from our tree plantations, as well as increasing demand for wood-based products from our manufacturing plants.

Our Strategy

Our strategy is to build on our competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC. We are establishing operations in close proximity to PRC's key regional markets with the ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. We believe the following key initiatives will allow us to successfully execute our strategy:

Expand our geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufactured products

We intend to increase our plantation area under management by investing in current geographic locations and by expanding into other geographic locations through acquisitions and sustainable replanting.

Improve the yields of our tree plantations through continued investment in research and development and application of advanced forestry management techniques

We intend to further develop and improve our forestry breeding and silviculture through genetic improvement, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields and fibre quality. To support these efforts, we intend to continue our investment in our research and development resources, and collaborate with PRC and overseas academic institutions.

Practice sustainable and environmentally responsible forestry and manufacturing

Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our tree plantations.

Build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams

Our downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify our revenue streams.

Strengthen management processes and information systems to support the growth of our multi-faceted businesses

We plan to invest in additional personnel, managers and technology in order to improve our management processes and information systems. As the area of our tree plantations continues to grow, we will have to develop additional systems and management personnel to achieve greater planning and operational control of our plantations. This will allow us to conduct more frequent sampling checks of our timber resources which will, in turn, allow us to better analyze planting statistics, including growth conditions and the quality of our tree plantations. These will also allow us to maintain more stringent controls over our tree plantation management processes.

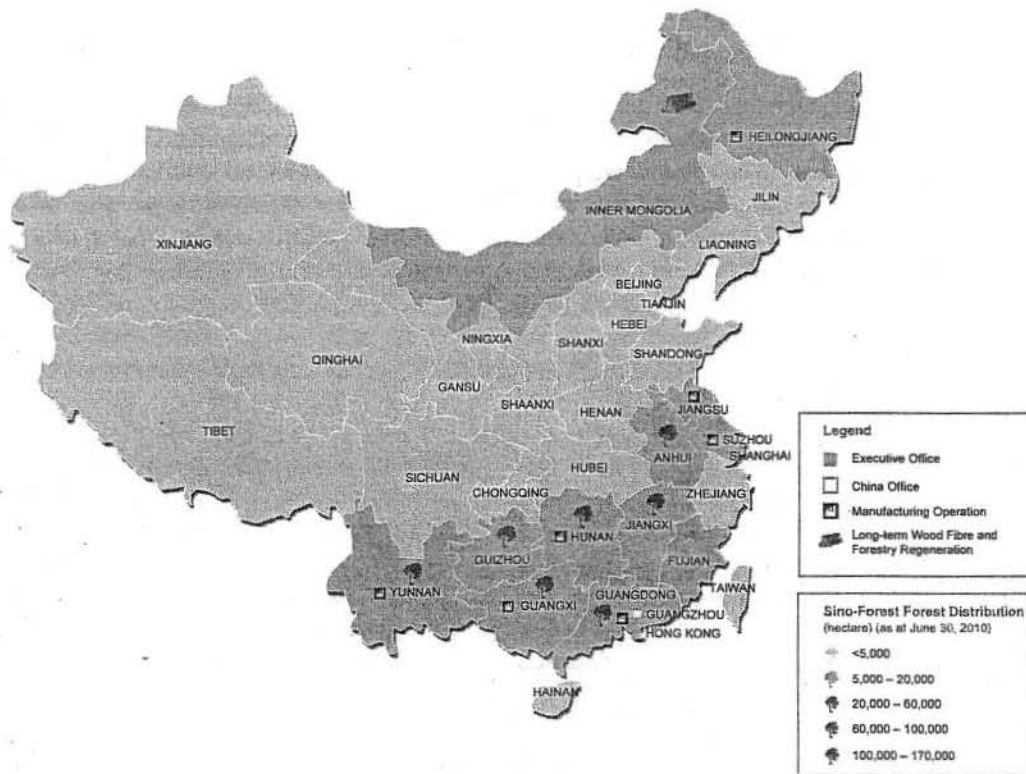
Maintain strategic alignment with PRC government's plans

We align our strategies with the PRC government's published plans to increase forest coverage and productivity, and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets. With respect to the forestry industry, the State Forestry Administration has announced plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. The PRC government indicated at the UN climate change summit held on September 22, 2009 that China is targeting to increase the country's forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic meters by 2020 to absorb carbon emissions, and increase the proportion of energy generated from biofuels. We anticipate the government will further advance the reform of the collectively-owned plantation rights system and commercialize the management of its state-owned forest plantations. Under our long-term master agreements, we will use the integrated plantation model to focus on replanting and converting plantation lands into fast-growing and high-yielding plantations.

Our Wood Fibre Operations

Overview

Our wood fibre operations generate the bulk of our revenue, accounting for 96.3% and 94.9% of our revenue in the year ended December 31, 2009 and the six-month period ended June 30, 2010, respectively. These operations essentially consist of acquiring, cultivating, harvesting and selling logs and standing timber from our tree plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. Most of the standing timber and logs we sell come from our own tree plantations. Our tree plantations are located primarily in the southern and eastern regions of the PRC. The following map highlights the locations of our tree plantations in the PRC as of June 30, 2010:



We had 726,200 hectares (including approximately 155,600 hectares acquired from Mandra Holdings and its subsidiaries) under management as at June 30, 2010.

Tree Plantations and Plantation Business Models

We operate our plantations using three business models: purchased, planted and integrated.

Purchased Plantation Model

In our purchased plantation model, we purchase young trees from local forestry entities and subsequently sell the trees as standing timber when they reach maturity. The purchase agreements for the trees also give us the right to lease the plantation land and replant after we harvest the trees. The right to lease the plantation is subject to negotiation of a definitive plantation land-use agreement and obtaining and completing the requisite government approval and registration procedures. We refer to plantations managed under our purchased plantation model as “purchased plantations.”

The purchase price of the trees takes into account a variety of factors such as tree species, yield, age, size, quality and location of the tree plantation. We also consider soil and weather conditions for replanting, log prices and regional market demand. While we normally do not have to conduct extensive plantation management work with respect to the trees growing on our purchased plantations, we do take measures to ensure that the trees are protected from pests and disease, and apply fertilizer regularly, where appropriate, depending on the age of the trees.

As of June 30, 2010, our purchased plantations represented approximately 648,300 hectares under management. Our purchased plantations are primarily located in Guangdong, Guangxi, Jiangxi, Hunan, Yunnan, Heilongjiang, Guizhou, Fujian and Anhui Provinces. They consist of a diversified mix of tree species, predominantly pine, Chinese fir and eucalyptus. The advantages of purchasing trees include the ability to achieve an expansion of plantation reserves within a shorter time scale than by planting, while at the same time better positioning us to ensure a sizeable harvesting profile.

Planted Plantation Model

In our planted plantation model, we assess the suitability of land where trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to our planted or re-planted trees as “planted plantations.” We choose to plant trees in strategically located areas and operate our commercial plantations using advanced environmentally prudent plantation management practices. We believe our 15-year track record in the PRC using advanced plantation management techniques is a competitive advantage in the country, where the commercial tree plantation industry is comparatively underdeveloped and where there are currently limited large-scale plantations using advanced plantation management practices.

In the fourth quarter of 2007, we completed the conversion of the legal structure of all of our four CJVs to WFOEs in accordance with PRC law. After the conversion, one of the converted WFOEs merged with another WFOE and was deregistered. Under the WFOE structure, we will have overall operational control and management rights of our plantation operations. We have leased and will continue to lease land from the original plantation rights holders and pay the land lease rent. Terms of land leases are between 30 and 50 years, depending on negotiations in different locations. The conversion is expected to provide us with greater control over plantation management through plantation land leasing rather than harvested timber sharing and allow us to capture higher margins. For those plantations originally operated by CJVs, except for those that have been re-registered under the WFOE structure, we are still in the process of negotiating with the original plantation land use rights holders to enter into plantation land use agreements and going through the requisite governmental approval and registration procedures. There is no assurance that we will secure all of these plantation land use rights from the farmers and collective organizations. See “Risk Factors—Risks Related to Our Business.”

We started operating our first planted plantation on barren land in 1995. Our planted plantations now consist primarily of eucalyptus trees in Guangdong, Guangxi and Jiangxi Provinces. As of June 30, 2010, our planted plantations represented approximately 77,900 hectares under management.

Integrated Plantation Model

Pursuant to our integrated plantation model, instead of selling trees from purchased or planted plantations as standing timber, we either sell the logs or vertically integrate them with our manufacturing facilities to produce value-added wood products and lease the underlying land for replanting. Our integrated plantation model is essentially a combination of the purchased and planted plantation models.

The following table sets forth the location and approximate total hectares of our tree plantations as of June 30, 2010:

Tree Plantations Under Management

Location	Planted plantations (in hectares)	Purchased plantations in hectares)	Total Hectares (approximate)
Guangxi.....	13,300	145,300	158,600
Guangdong.....	39,100	9,200	48,300
Hunan.....	13,700	154,100	167,800
Yunnan.....	—	110,700	110,700
Fujian.....	1,000	7,600	8,600
Heilongjiang.....	—	5,500	5,500
Guizhou.....	—	20,600	20,600
Jiangxi.....	9,700	92,400	102,100
Anhui.....	1,100	102,900	104,000
Total.....	<u>77,900</u>	<u>648,300</u>	<u>726,200</u>

As of June 30, 2010, our tree plantations under management represented approximately 726,200 hectares (including approximately 155,600 hectares acquired through Mandra Holdings and its subsidiaries).

Access to Future Purchases of Tree Plantations

Pursuant to our strategy of acquiring plantations inland, where forests are denser and the acquisition of trees and leasing of underlying land tends to be more cost effective, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Fujian, Jiangxi and Guizhou Provinces, giving us the right to acquire up to approximately 1.3 million to 1.4 million hectares of trees, of which approximately 486,000 hectares have been acquired as of June 30, 2010. A description of our main long-term master agreements is provided below.

Long-term Acquisition Agreement in Hunan

We entered into long-term master agreements in September and December 2006 through Sino-Panel (Asia) Inc. (“Sino-Panel”), one of our wholly owned subsidiaries, with Hongjiang City Forestry Technology Integrated Development Services Company, which acted as the authorized agent for the original plantation rights holders, to acquire approximately 400,000 hectares of plantation trees for between RMB10.4 billion to RMB12.5 billion over 14 years in Hunan Province. The purchase price is not to exceed RMB260 per cubic meter. The plantations under this agreement include mature trees with an estimated yield of 100 to 120 cubic meters per hectare, or an aggregate 40 million to 48 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreements, Sino-Panel has the pre-emptive rights to lease the underlying plantation land for up to 50 years. We intend to annually re-plant approximately the same amount of hectares of trees harvested in the previous year over the 14-year period of the agreements. The terms of the lease are to be negotiated with Hongjiang City Forestry Technology Integrated Development Services Company, the counterparty of the master agreements, upon the authorization of the original plantation rights holders and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

Under the provisions of such master agreements, we have acquired approximately 209,398 hectares of standing timber for US\$836.0 million as of June 30, 2010.

Long-term Acquisition Agreement in Yunnan

Pursuant to a master agreement entered into in March 2007 by Sino-Panel with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd. ("Gengma Forestry"), established in Lincang City, Yunnan Province, which acted as the authorized agent for the original plantation rights holders, Sino-Panel has the right to acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan Province for between RMB5.5 billion to RMB10.9 billion over a 10-year period. The purchase price is not to exceed RMB260 per cubic meter. The number of hectares to be acquired each year will be determined by the PRC Subsidiaries by entering into specific purchase agreements with Gengma Forestry. The plantations under this agreement include mature trees with an estimated wood fibre yield of 105 to 210 cubic meters per hectare, or an aggregate 21 to 42 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has the pre-emptive rights to lease the underlying plantation land for up to 50 years. The final terms of the lease are to be further negotiated with Gengma Forestry and the lease is subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

Under the provisions of such master agreement, we have acquired approximately 121,182 hectares of plantation trees for US\$570.7 million as of June 30, 2010.

Long-term Acquisition Agreement in Guangxi

In December 2007, we entered into a master agreement with Zhanjiang Bo Hu Wood Company Limited ("Bo Hu"), which acted as the authorized agent for the original plantation rights holders, to acquire approximately 150,000 hectares of plantation trees in Guangxi Province through Sino-Panel for between RMB5.7 billion to RMB6.8 billion, with a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB380 per cubic meter over a 5-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 to 120 cubic meters per hectare, or an aggregate 15.0 million to 18.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has pre-emptive rights to lease land at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB525 per hectare per annum for 30 years. The land lease can be for up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are determined following the execution of definitive agreements between our PRC subsidiaries and Bo Hu upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations.

Under the provisions of this master agreement, we have acquired approximately 118,856 hectares of plantation trees in Guangxi Province for US\$600.8 million as of June 30, 2010.

Long-term Acquisition Agreement in Fujian

On August 11, 2008, we entered into a master agreement with Zhangzhou Lv Sheng Forestry Development Company Limited ("Lv Sheng") to acquire approximately 200,000 hectares of non-state-owned plantation trees in Fujian Province through Sino-Panel for approximately RMB7.0 billion for a price not to exceed RMB350 per cubic meter over a 10-year period. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The land lease term can be for up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between our PRC subsidiaries and Lv Sheng upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The

plantations under this agreement include mature trees with an estimated wood fibre yield of approximately 100 cubic meters per hectare, or an aggregate 20.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of this master agreement, we have not acquired any plantation trees in Fujian Province as of June 30, 2010.

Long-term Acquisition Agreement in Jiangxi

On June 11, 2009, we, through our wholly owned subsidiary Sino-Panel (China) Investments Limited ("Sino-Panel China"), entered into a master agreement with Jiangxi Zhonggan to acquire between 15.0 million and 18.0 million cubic meters of wood fibre located in plantations in Jiangxi Province over a 3-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we currently plan to acquire such amount of wood fibre within an area of between 150,000 and 300,000 hectares of plantation trees. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel China has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The land lease term can be for up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The plantations under this agreement include trees with an estimated average wood fibre yield of approximately 100 cubic meters per hectare. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of this master agreement, we have acquired 36,577 hectares of plantation trees in Jiangxi Province for US\$144.6 million as of June 30, 2010.

Long-term Acquisition Agreement in Guizhou

On January 28, 2010, we, through our wholly owned subsidiary Sino-Panel China, entered into a master agreement with Guizhou Sen Li Industry Company Limited ("Guizhou Sen Li") to acquire between 10.5 million and 16.5 million cubic meters of plantation wood fibre located in plantations in Guizhou Province over a 3-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we may acquire such amount of wood fibre within an area of 150,000 hectares of plantation trees, which area has an average yield of 70 to 110 cubic meters per hectare. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel China has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The land lease term can be for up to 50 years as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel China and Guizhou Sen Li upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration which the local forestry bureau in compliance with the relevant PRC laws and regulations. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by this agreement which do not meet our specific requirements.

Under the provisions of this master agreement, we have not acquired any plantation trees in Guizhou Province as of June 30, 2010.

Plantation Management

To optimize the yields on our planted plantations, we engage in intensive silviculture and a variety of advanced plantation management techniques. Our advanced management practices include detailed site assessments, site selection and preparation, terracing, use of improved planting materials, density and spacing control, fertilization and tending and monitoring and preventing damage to the trees. We generally engage third parties to perform the day-to-day management of the plantations.

We have developed a sustainable intensive plantation management system to work together with our management practices and environmental policies. This system and our other management practices are designed to produce fast-growing, high-quality sustainable forestry resources, optimize yields, improve resistance to disease, frost and fire, enhance environmental conservation and improve aesthetics. In addition, these practices result in more uniform tree plantations, which increase harvesting efficiency and reduce waste through peeling and sawing.

Plantation Service Providers

We engage third parties for all of the field operations of our tree plantations. During the course of the year, we typically engage approximately 10 to 20 third-party service providers for our planted plantations and our purchased plantations. The terms of our contracts with these service providers vary and can range from one or two years to one plantation cycle. The services to be provided by the plantation service providers must comply with our plantation management systems and operation guidelines. For areas with trees planted by us, the service providers perform all preparatory work and planting work such as clearance of plantation land, preparation for plowing or terracing, leveling of land, planting, fertilization and applying pesticides and other cultivation activities. We are generally responsible for providing seedlings and fertilizer and inspecting and supervising the different stages of work of the service providers. For our purchased plantations, depending on the age profile of the trees, the service provider is engaged to manage the trees, such as applying fertilizers and pesticides.

Domestic Wood Logs

Wood chips operations were ceased due to a lack of chipping capacity available to us. Therefore, from the third quarter 2007 onwards, the wood chips business has been reclassified to report as discontinued operations. The reportable revenue stream now primarily represents the sale of logs.

We now source logs from PRC suppliers, including pursuant to the Inner Mongolia master agreement referred to below, and sell them in the domestic PRC market. Wood logs sales comprised 0.4% of total revenue in 2009, compared to 1.5% of total revenue in 2008.

Imported Wood Products

We also engage in trading activities of wood-based products sourced from outside the PRC. These consist primarily of large diameter logs, sawn timber, veneer and other wood-based products sourced from Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. In these transactions, we purchase wood-based products that correspond to the requirements of wood dealers and sell directly to these dealers. Our customers in these transactions are primarily wood dealers in the PRC. The overseas suppliers generally ship the wood-based products to ports in the PRC designated by the wood dealers.

The purchase contracts and the sales contracts are generally short-term contracts, with delivery within one to two months from the date of the contracts. The sales are usually denominated in U.S. dollars. Payments are usually settled within 45 to 90 days of delivery.

Our Manufacturing and Other Operations

Overview

Our manufacturing operations complement our wood fibre operations by maximizing usage and adding value to upstream fibre.

In 2000, we began the process of developing our manufacturing plants to complement our tree plantation operations using small - diameter logs to manufacture quality wood-based products that are traditionally made from large-diameter logs. To date, we produce engineered wood flooring, sawn timber, finger-joint board, blockboard plywood, veneer and other wood-based products in six provinces in the PRC. In addition, we have a greenery and nursery operation based in Jiangsu Province which was established to source, supply and manage landscaping products for property developers and other organizations.

Particleboard Operation

The particleboard operation in Guangdong Province had a total land area of approximately 122,000 square meters and a total building area of approximately 37,000 square meters, located within the Economic Development Zone of the Pearl River Delta. We ceased our manufacturing operations in Guangdong Province in 2009.

In March 2009, one of our subsidiaries entered into an agreement to dispose of the particleboard manufacturing equipment at its plant in Gaoyao for a total consideration of approximately US\$29.6 million. We retained the ownership of the manufacturing building and property. The purchaser is leasing these premises from us and is operating the equipment on the premises.

Engineered Wood Flooring

The flooring business was established in 2004. We developed the Sino-Maple brand to market our engineering wood products. Seeing the growth opportunities, in 2006 we decided to build our own engineered flooring facility in Suzhou. The Suzhou operation has a total land area of approximately 156,000 square meters and a total building area of approximately 59,700 square meters. The first phase of the manufacturing facilities was completed in the third quarter of 2006 and is in full commercial operation with an annual capacity of approximately 4.0 million square meters. The second phase was completed in 2007, and the combined capacity is approximately 7.0 million square meters. Sino-Maple flooring products are distributed through more than 300 outlets nationwide, including B&Q's large do-it-yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products, which are fast becoming a popular substitute for solid and laminated flooring in the PRC due to its environmentally conscious use of forest plantation logs instead of large diameter natural forest logs.

In addition, an annual capacity of 500,000 square meters of wood flooring and composite flooring is anticipated for ramp up in 2010 at our Guangxi manufacturing facility.

Sawn Timber Facility

Our Yunnan facility was established in the fourth quarter of 2008, producing sawn timber and flooring material with an anticipated annual capacity of 20,000 cubic meters.

In addition, our Heilongjiang facility, established in 2005, has an annual capacity of sawn timber and various products expected to be 60,000 cubic meters.

Finger-Joint Board

We have processing facilities in Hunan Province, producing finger-joint board and blockboard with a total annual capacity of 20,000 cubic meters. We ceased operations at the particleboard production facility in June 2009. Our strategy in Hunan is to maximize the value of our wood fibre through value-added processing. Our Heilongjiang facility also has finger-joint board production capacities.

Plywood and Veneer Products

Our Guangxi facility was established in the third quarter of 2007, producing plywood and veneer products with an anticipated annual start-up capacity of 20,000 cubic meters. We also have an anticipated annual start-up production capacity of 70,000 cubic meters of flooring substrate at our Guangxi facility.

Our Greenery and Nursery Operations

According to the PRC State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the 10 most polluted cities in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape management and supply of tree nursery products, we decided to pursue opportunities in this forest product business segment. With our plantation resources and expertise, we established a greenery and nursery operations in Jiangsu Province to source, supply and manage landscaping products for property developers and other organizations.

Sales and Marketing

Substantially all of our sales are made in the PRC. In the six-month period ended June 30, 2010, sales to customers in the PRC were US\$548.2 million and sales to customers located in other countries were US\$8.6 million. In the years ended December 31, 2007, 2008 and 2009, our domestic sales of wood-based products, wood logs and standing timber accounted for virtually all of our revenue.

One of our marketing strategies is to develop long-term relationships with wood dealers that will engage in sales transactions and trading activities with us year after year. These long-term relationships will enable us to better understand their needs and to take advantage of our competitive strengths, including our market expertise and advanced plantation management practices.

We engage in trading of logs and wood-based products both in the PRC and overseas, generally under short-term contracts. We issue invoices to our AIs in the PRC on a quarterly basis. Sales are usually denominated in Renminbi, with payments usually settled within 60 days of delivery.

With respect to trading activities involving the export of wood-based products overseas, the delivery period of wood-based products is usually one to two months from the date of the contract. The sales are mainly denominated in U.S. dollars and are made pursuant to letter of credit arrangements or through open accounts. Payments are usually settled within 45 to 90 days of delivery. In cases where we purchase imported logs for sale in the PRC, we issue letters of credit for the purchase of the logs. The purchases and sales are denominated in U.S. dollars, with payments usually settled within 45 to 90 days of delivery.

With respect to sales of standing timber, we generally grant buyers a credit period of up to nine months from the date of the contract, with sales generally denominated in Renminbi. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. Pursuant to the sales contract, the buyer is required to harvest the standing timber within 18 months from the date of the contract. We recognize revenue upon such sale.

Our wood-based product manufacturing plants currently consist primarily of sales of wood-based panel to distributors, which engage in further processing before sale to end-user customers, and sales of flooring products to distributors, property developers and contractors. These sales are generally under short- to medium-term contracts and are denominated in Renminbi. Payments are usually settled within 120 days.

Suppliers

The supply of wood logs and wood-based products for our trading activities is sourced primarily from local suppliers of logs and wood-based products in the PRC. We also source logs and wood-based products for our trading activities overseas, primarily from Russia, Suriname, Papua New Guinea, Brazil, Vietnam and New Zealand. The credit terms granted by our suppliers of logs and wood-based products generally range from one to three months on open account and by letters of credit.

In the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, our five largest suppliers accounted for approximately 54.8%, 46.1%, 55.6% and 54.3% of our total costs of sales, respectively. The largest supplier accounted for approximately 32.2%, 16.7%, 15.2% and 16.5% of our total costs of sales, respectively, during such periods. See "Risk Factors—Risks Related to Our Business."

Transportation

Historically, we have not transported logs and wood-based products to customers ourselves, as we mainly engaged in sales of timber from our planted plantations and purchased plantations. In these sales transactions, the customer is responsible for harvesting and transporting the logs out of the forested areas.

With respect to our trading activities of logs and wood-based products sourced from overseas, we generally arrange for the shipping of the logs and wood-based products to ports in the PRC for the customers of the products, who arrange for the transportation of the products once they are unloaded at the port. The logs and wood-based products are generally shipped to ports in the southern region of the PRC.

Customers

Our customers and AIs are mostly wood dealers and panel manufacturers. We intend to expand our customer base to include more end-user customers, such as pulp and panel mills, and, with respect to our wood-based product manufacturing plants, large furniture manufacturers.

In the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, our five largest customers (including AIs) accounted for approximately 58.7%, 56.0%, 71.9% and 60.8% of our revenue, respectively. In the same periods, our largest customer (including AIs) accounted for approximately 15.8%, 14.0%, 15.9% and 14.8% of our revenue, respectively. See "Risk Factors—Risks Related to Our Business."

Competition

The market for logs and wood-based products in the PRC is highly fragmented, with a large number of small operators of tree plantations. There are also large operators of tree plantations in the PRC. These operators normally operate their own plantations and, in certain cases, replant and utilize these plantations as a source for their downstream operations.

The market for wood-based panels in the PRC is also highly fragmented, with a large number of small manufacturers and no dominant manufacturers. We expect that our principal competitors in the wood-based product manufacturing industry will be large domestic and foreign manufacturers of wood-based panels and engineered floorings. A number of domestic and foreign mills have commenced or announced plans to build wood-based panel mills in the PRC, which are expected to increase competition in the wood-based panels market in the PRC. We may also face competition from imports of wood-based panels. The primary competitive factors in the wood-based panels industry are product quality, level of technology in the manufacturing process, product innovation, product mix, price and logistics.

The markets for forest products in the PRC are highly competitive in terms of price and quality. In addition, wood-based products are subject to increasing competition from a variety of substitutes, including non-wood and engineered wood-based products, as well as import competition from other worldwide suppliers. See "Risk Factors—Risks Related to Our Business."

Environmental Matters

Our tree plantation and manufacturing operations are subject to PRC laws and regulations relating to the protection of the environment. We believe that our operations are in substantial compliance with these laws and regulations. There are currently no significant environmental proceedings involving us.

Tree Plantations

We maintain an environmental management system designed to ensure sustainable and responsible resource management. It sets out policies on the social, ecological and environmental aspects of our tree plantation operations and detailed operating procedures on environmental compliance. Some of our plantation operations are managed in accordance with the environmental standards of two of the most recognized international forest certification systems. Besides the environmental requirements of International Organization for Standardization ISO14001, we have also been working since 2000 to integrate FSC principles and criteria into our tree plantation management and operations, which cover all recognized environmental and relevant issues such as the control of soil and water erosion, the conservation of biodiversity and natural habitats, the improvement of environmental conditions, the maintenance of production continuity, health and protection of forests, local community development, etc. We obtained an ISO14001 certificate in 2002 for one of our plantation companies in Guangxi Province, and an FSC Forest Management and Chain-of-Custody ("FM CoC") certificate in 2004 for another in Gaoyao, Guangdong Province (SW-FM/COC-001146). We aim to gradually expand our success in FSC to our other plantation sites.

In the past five years, we have gone through stringent third-party annual assessments and re-assessments by SmartWood, an FSC-accredited, US-based auditor for our FSC operations, continuously improving our environmental performance through the recurrence of prescribed operation, monitoring and inspection, technological development and correction of plantation management. Our efforts in addressing all main environmental concerns or issues are well recognized by the independent assessors. For example, we strive to address: (i) soil erosion issues through sound site preparation, forest road

construction, planting spacing, harvesting planning, and operation season control; (ii) the maintenance of long-term land productivity through soil erosion control, fertilizing, understory vegetation conservation, species rotation, etc.; and (iii) natural disasters such as forest fire, disease and pest, frost and snow through effective fire prevention and control systems, proper management of genetic diversity, development and deployment of resistant varieties etc. Our practice of identifying and conserving biodiversity and the potentially special habitats nested in our plantation forest ecosystems is also recognized.

Besides our commitment to managing our plantation forests in an environmentally friendly manner, we are also actively involved in various activities relevant to environmental protection or enhancement. The PRC launched its first China Green Carbon Foundation, spearheaded by the State Forestry Administration, on July 20, 2007 to develop carbon credit trading, forest biofuels and renewable energy through large-scale tree plantation in a sustainable manner, which will also mitigate greenhouse gas emissions. We are one of the founding members and the only member from the forestry sector. In 2008, we donated approximately US\$769,000 to the establishment of "Applied Research Centre for Pearl River Delta Environment" at Hong Kong Baptist University. A primary goal of the research centre is to develop a competent team to study the pollution problems and provide solutions for industries in the Pearl River Delta Region.

We believe that, with our commitment to corporate responsibility, we will steadily and effectively improve our sustainable plantation management, from economic, environmental and social perspectives.

Manufacturing

We began manufacturing engineered wood products to complement our tree plantation operations in 2000, and now produce mainly flooring, blockboard, finger-joint board, plywood and veneer, which generally cause relatively minor environmental problems. Environmental issues may include, but are not limited to, sawdust emissions, air pollution, glue waste, water pollution, toxic chemical content, fire, health & safety and raw material sourcing. We strive to integrate international standards into our wood product manufacturing by updating our management system and operation procedures in a timely manner.

We are committed to fully utilizing certified and legal raw wood material in our manufacturing, which is considered to be a significant way of protecting regional and even global environments from deforestation. We have obtained FSC Chain-of-Custody ("FSC CoC") certificates (GFA-COC-001561) for our key factories that produce OSB, veneer, etc. We intend on making our wood product manufacturing subject to the FSC CoC certification system, which involves regular stringent inspections carried out by accredited and independent third-parties. Wood products with an FSC CoC certificate must be made from FSC-certified raw materials.

We have acquired advanced facilities and equipment that fully meet the demands of environmental protection, to keep hazardous substance emissions under acceptable levels. We have various procedures in place for controlling environmental issues. Examples of such procedures include the following: (i) sawdust is properly collected and either recycled as product material or used to produce energy in our factories, thus reducing air and water pollution; (ii) polluted water is processed in special facilities for agricultural irrigation; (iii) wood products are always sampled and inspected in a standardized way to control the quality and toxic chemicals such as formaldehyde; and (iv) procedures for preventing and controlling fire and work accidents are implemented to avoid or reduce loss, damage and relevant environmental accidents. All environmental matters associated with our wood product manufacturing are regularly or periodically inspected and assessed by local authorities or relevant parties.

With our wood product manufacturing, some environmental accidents may still occur from daily operation or at old facilities. As with most other labor-intensive companies in China, we often have inexperienced or outsourced workers in our labor force, who may inadvertently cause environmental and safety accidents, even though professional training is always first provided. We strive to implement an integrated training and monitoring system to avoid or minimize accidents. In addition, old inefficient facilities or equipment may emit hazardous chemicals or contaminated materials and as a consequence, timely replacement and effective maintenance of outdated facilities, equipment or their parts are necessary to control environmental accidents in manufacturing operations.

Environmental regulation

As disclosed under "Risk Factors—Risks Related to the PRC," our tree plantations and manufacturing plants are subject to certain environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect our business, financial condition and results of operations.

Research and Development

Research and development is an important function of our tree plantation operations. The goal of our research and development efforts is to improve tree plantation yields and the quality of the trees grown on our tree plantations. We have developed a sustainable intensive plantation management system in order to optimize investment efficiency. The system comprises standardized plantation management operation procedures, genetic improvements, cultivation techniques and inspection and monitoring.

We perform research and development on a wide range of activities, including:

- genetic breeding research, including the breeding, selection and testing of planting materials that perform better, in terms of improved yield, quality and resistance to natural stresses (pests, diseases, low temperature and snow);
- vegetative propagation technology, including lab tissue culture and nursery mass-propagation of cuttings;
- site and nutrition management and fertilizer application for different soil types and developing methods to optimize fertilizer application;
- improved silviculture practices, such as control of stand density, spacing and rotation, and genetic diversity control;
- development of sustainable management system of commercial plantation ecosystems, merging timber production, environmental conservation and social care;
- wood properties and processing (such as change of water content and properties and of short-rotation eucalyptus plantation wood) and value-added products; and
- ecological and environmental technology, including the monitoring and evaluation of ecological and environmental conditions in short-rotation eucalyptus plantations.

In performing our research and development activities, from time to time we also collaborate with, and receive assistance from, research and academic institutions in the PRC. In order to maximize all aspects of the forest product supply chain, we invest in research and development activities. On January 4, 2010, we acquired HOMIX Limited ("HOMIX") for an aggregate purchase price of US\$7.1 million to enhance our research and development portfolio. HOMIX has a research and development laboratory and two engineered-wood production operations based in Guangdong and Jiangsu Provinces, covering eastern and southern China wood product markets. HOMIX develops new technologies suitable for domestic plantation logs including poplar and eucalyptus species. HOMIX specializes in curing, drying and dyeing methods for engineered-wood and has the know-how to produce recomposed wood products and laminated veneer lumber. These engineered-wood products broaden the use of domestic plantation logs and reduce the PRC's need to harvest domestic natural wood or import tropical hardwood. Recomposed wood technology is considered to be environmentally-friendly and versatile as it uses fibre from forest plantations, recycled wood and/or wood residue.

In the years ended December 31, 2007, 2008 and 2009, we spent approximately US\$412,000, US\$1,071,000 and US\$2,726,000, respectively, on research and development activities.

Other Tree Plantation Contractual Arrangements

Inner Mongolia Wood Fibre Supply

On July 31, 2006, we entered into a master agreement with Inner Mongolia Forest and Timber Resources Co., Ltd., an equity joint venture company in the PRC, and Erliaohot Lianhe Forestry Bureau in the Inner Mongolia Autonomous Region, to secure a minimum of 1.5 million cubic meters annually of long-term supply of wood fibre over the period of 12 years by managing a program of secondary forests.

We continue to experience delays in the supply of wood logs from the local partner in Inner Mongolia due to the possible increase in export tariff from 25% to 80% planned by the Russian government. Given the proximity of Inner Mongolia to Russia, and the similarity of certain tree species in those regions, the local partner has decided to delay harvesting in anticipation of higher log prices in the future.

Sino-Forest (Guangzhou) Trading Co., Ltd., which entered into the Inner Mongolia master agreement, has been deregistered and we have entered into an assignment agreement to transfer its rights and obligations under the agreement to another PRC subsidiary before its deregistration.

Mandra Forestry

We completed a series of acquisitions of the outstanding equity securities of Mandra Holdings, which resulted in Mandra Holdings becoming our wholly owned subsidiary.

Pursuant to the terms of a contingency payment agreement dated February 5, 2010 (as amended by a deed of amendment dated August 4, 2010) we initially paid US\$2.0 million in cash followed by a second US\$2.0 million payment in cash on August 5, 2010. Additional contingent consideration amounts of up to \$5.0 million (the "First Supplemental Payment") and \$5.0 million (the "Second Supplemental Payment") were payable based on achieving certain agreed milestones, with (i) 50% of the First Supplemental Payment (the "Initial First Supplemental Payment") paid on August 5, 2010; and (ii) the remaining 50% of the First Supplemental Payment, together with the Second Supplemental Payment, payable on February 5, 2011. On August 5, 2010, we issued 147,908 Common Shares as the Initial First Supplemental Payment at an issuance price of Cdn.\$15.60 per Common Share. The remaining First Supplemental Payment and the Second Supplemental Payment are to be paid by the issuance of our Common Shares at an issuance price based on the volume-weighted average price for the ten trading days preceding January 10, 2011, subject to a minimum per-share price of Cdn.\$7.00. These amounts may be reduced by negotiation if any of the milestones are not met, subject to a maximum reduction of 50%.

Concurrently with the Mandra Holdings acquisition, in February 2010, we completed an exchange with holders of certain notes issued by Mandra Forestry Finance Limited ("Mandra Finance") for additional 2014 Senior Notes issued by us in the aggregate principal amount of US\$187,187,000.

The acquisition of Mandra Holdings has given us access to 155,600 hectares of relatively mature plantation trees located primarily in Anhui and Jiangxi Provinces. As a result of this strategic investment, we have further diversified our portfolio of plantations geographically and reduced our cost per cubic meter to less than half of the capped fibre prices under our master agreements.

We have designated Mandra Holdings and its subsidiaries (including Mandra Forestry) as Unrestricted Subsidiaries under the Notes. They will not guarantee the Notes.

Investment in Greenheart and Omnicorp

We currently hold 59.1% of the voting interest in Omnicorp, after a series of share acquisitions starting in August 2007, and most recently the exercise of convertible bonds issued by Omnicorp for 106,164,150 shares of Omnicorp on September 27, 2010. Omnicorp became our subsidiary on August 3, 2010, when we increased our voting interest in Omnicorp from 19.8% to approximately 53.5%. We will consolidate its results effective August 3, 2010.

Directly and through Omnicorp, we hold all of the outstanding shares of Greenheart, a natural forest concession owner and operator in Suriname, South America.

We have designated Omnicorp and its subsidiaries, including Greenheart and Silver Mount, as Unrestricted Subsidiaries under the Notes. They will not guarantee the Notes.

Insurance

We maintain insurance policies against risks of loss of our tree plantations. These policies cover all our planted plantations and the indemnity will be on the actual insured value of the hectares of damaged plantation after netting deductible. As for our purchased plantations, the coverage of our insurance policy is subject to an annual aggregate loss limit at 15% of the declared value of our total purchased plantation after netting deductible, with any accident loss limit of RMB10 million. Accidents and disasters insured for our tree plantations include fire, lightning, explosion, flooding and windstorm. We believe our insurance coverage is consistent with the practice of other PRC tree plantation operators. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our tree plantations are located in different provinces in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our tree plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

We also maintain property all risks and public liability insurance policies for our manufacturing facilities. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

Intellectual Property

We have registered the "Sino-Forest" trademark in certain classes in the PRC, the United Kingdom and Japan, and we have also registered several other trademarks, including, inter alia, "三月楓" (San Yue Feng) and "北美楓情" (Sino-Maple), for our wood products in the PRC.

Employees

As of June 30, 2010, we had 3,323 full-time employees in Canada, Hong Kong and the PRC. The following table sets forth the number and location of our employees according to category as of June 30, 2010:

	<u>Canada</u>	<u>Hong Kong</u>	<u>PRC</u>	<u>Total</u>
Executives and Senior Management.....	2	9	38	49
General Staff.....	<u>1</u>	<u>72</u>	<u>3,201</u>	<u>3,274</u>
Total.....	<u>3</u>	<u>81</u>	<u>3,239</u>	<u>3,323</u>

We believe that our relationships with our employees are generally good. We have not experienced any significant problems with the recruitment or retention of employees, nor suffered from any material disruption of our business operations as a result of any labor dispute, strike or employee dispute.

Employee Benefits

We provide employee benefits, including provident fund schemes and medical insurance schemes, to our employees. We also provide corporate travel care insurance for our senior management.

Our staff in the PRC are members of a central pension scheme operated by the relevant local government. The subsidiaries in the PRC are required to contribute approximately 12% to 20% of their covered payroll to the central pension scheme to fund the retirement benefits. Adequate provision for the contribution has been made in the accounts in accordance with the rules of the central pension scheme. In addition to pension insurance, we maintain other social insurance for our staff in the PRC as implemented in the relevant regions where our PRC subsidiaries are located, including medical insurance, unemployment insurance, working injury insurance and maternity insurance.

Pension and Other Schemes

We started investing in a mandatory provident fund retirement scheme for our staff in Hong Kong in December 2000. Since then, we have been contributing 5% of the salaries of the staff in Hong Kong to this fund.

Legal Proceedings and Inquiry

From time to time we are involved in litigation arising from the ordinary course of our business. We are not currently involved, and have not recently been involved, in any legal or arbitration proceedings that we believe would be likely to have a material effect on our financial condition or results of operations.

Introduction

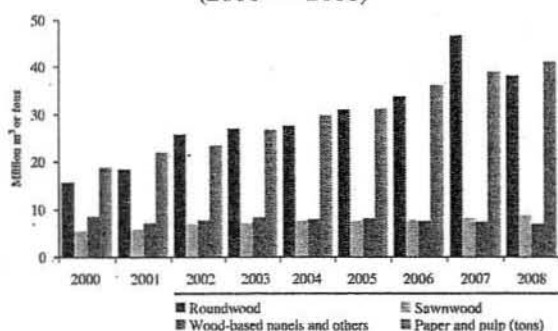
According to the seventh five-year National Forest Inventory released by the State Forest Administration (2004 to 2008) it is estimated that the PRC has 195 million hectares of forest resources. Of this, approximately 120 million hectares are natural forest and 62 million hectares are plantation forest. Standing stock volume of forest was estimated at approximately 14.91 billion cubic meters.

Fibre Supply

Increasing awareness of environmental considerations and efforts to protect natural forests have affected PRC fibre supply. The PRC government through the National Forest Protection Program outlined a logging ban of natural forests in certain regions since 1998. This logging ban of natural forests has tightened the overall domestic supply of fibre.

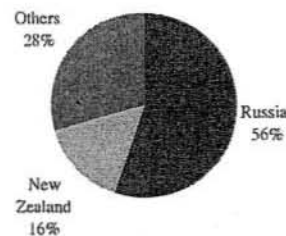
The State Forestry Administration controls annual forest cut in the PRC by the annual allowable cut quota. The annual allowable cut quota increased to 248 million cubic meters under the 11th Five Year Plan (2006 to 2010) from 223 million cubic meters under the 10th Five Year Plan (2001 to 2005).

**PRC Log Imports (by product)
(2000 — 2008)**



Source: Food and Agriculture Organization of the United Nations

**PRC Log Imports (by source)
(January 2009 — August 2009)**



Source: General Administration of Customs of the PRC

The PRC is also a significant importer of wood fibre due to overall shortages in PRC fibre supply. The Food and Agricultural Organization estimates that PRC total roundwood, sawnwood and wood-based panel and other imports increased at an average rate of 7.7% per annum from 2000 to 2008. Total roundwood, sawnwood and wood-based panel and other imports are estimated to have increased to 53.6 million cubic meters in 2008 from 29.6 million cubic meters in 2000.

The Food and Agricultural Organization also estimates that PRC total pulp and paper imports increased at an average rate of 10.2% per annum from 2000 to 2008. Total pulp and paper imports are estimated to have increased to 41.1 million cubic meters in 2008 from 18.8 million cubic meters in 2000. Total imports of wood fibre declined from 2007 to 2008.

The PRC is the largest log importer in the world and currently imports most of its logs from Russia. According to General Administration of Customs of the PRC, imports of logs from Russia represented approximately 56% of the total China logs import. The other main source of imports are from New Zealand (16%) and Papua New Guinea (5%).

In April 2008, Russia introduced a 25% log export tax rate, reducing the competitiveness of Russia as a supplier. The tax was originally scheduled to increase to 80% of value in January 2009, however, the Russian government has delayed the implementation of this higher tax rate due to the economic crisis in 2008.

Fibre Demand

Introduction

Overall strong economic growth in the PRC has been a major driver in PRC fibre demand growth. China's gross domestic product increased at an average rate of 9.9% per annum from 2000 to 2009 and is expected to increase at approximately 9.7% per annum from 2010 to 2015, according to the International Monetary Fund.

The strong economic growth in the PRC has supported rapid urbanization and an increase in demand for housing and building materials. For example, some rural residents have migrated to urban areas seeking better employment opportunities. The strong economic growth in the PRC has also supported infrastructure developments across the country and an increase in demand for construction materials. In November 2008, the Government earmarked a stimulus plan with a budget of RMB4 trillion (approximately US\$586 billion) including support for construction of infrastructure such as roads, railways and airports.

The construction, interior decoration, industrial and manufacturing industries are expected to experience a significant increase from 2010 to 2012 due to favorable near-term government policies. According to a proposal submitted by The Ministry of Housing and Urban-rural Development of the People's Republic of China to the National People's Congress to address middle-income families' housing problems in January 2010, the goal of the proposal is to increase construction of affordable housing through a 30% increase in the level of housing construction from 2009 and doubling the level of construction of low-priced apartments, public rental housing and resettlement housing.

This housing construction plan was formally issued and deployed on June 11, 2010. The Housing and Urban Construction, Ministry of National Development and Reform Commission, Ministry of Finance, Ministry of Land Resources, Ministry of Agriculture and State Forestry Administration jointly issued a notice on the PRC government's efforts to safeguard the social-housing construction plan and its target to add approximately 15.4 million social-housing units from 2010 to 2012.

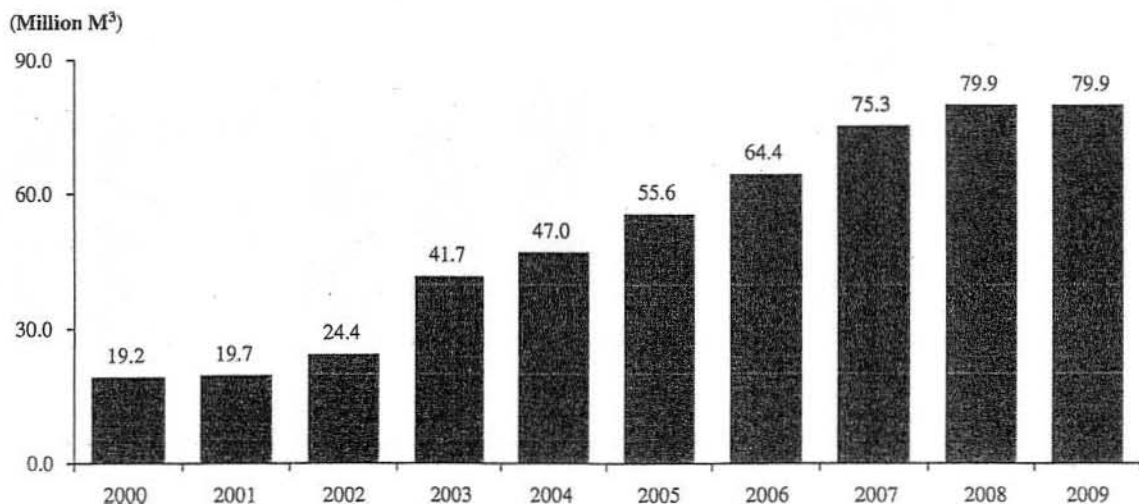
Forest Products

Major forest products include wood-based panels, pulp and paper products and sawn lumber.

1) Wood-Based Panels

The Food and Agriculture Organization estimates that PRC wood-based panel production increased at an average rate of 17.2% per annum from 2000 to 2009. Wood based panel production is estimated to have increased to 79.9 million cubic meters in 2009 from 19.2 million cubic meters in 2000.

PRC Wood-Based Panels Production (2000-2009)

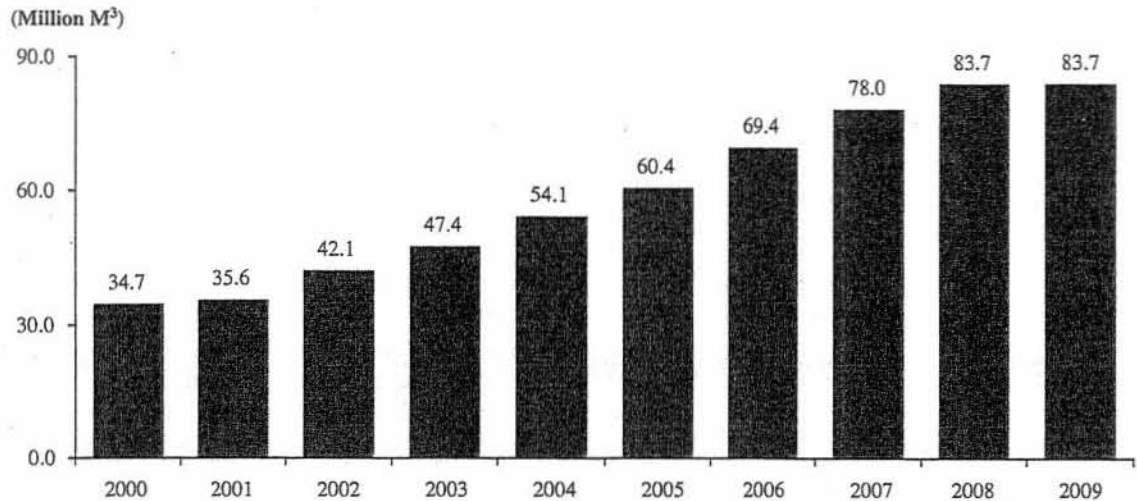


Source: Food and Agriculture Organization of the United Nations (Woodbased Panels data)

2) Pulp and paper

The Food and Agricultural Organization estimates that PRC paper and paperboard production increased at an average rate of 10.3% per annum from 2000 to 2009. Paper and paperboard production is estimated to have increased to 83.7 million cubic meters in 2009 from 34.7 million cubic meters in 2000.

PRC Paper & Paper Board Production (2000-2009)

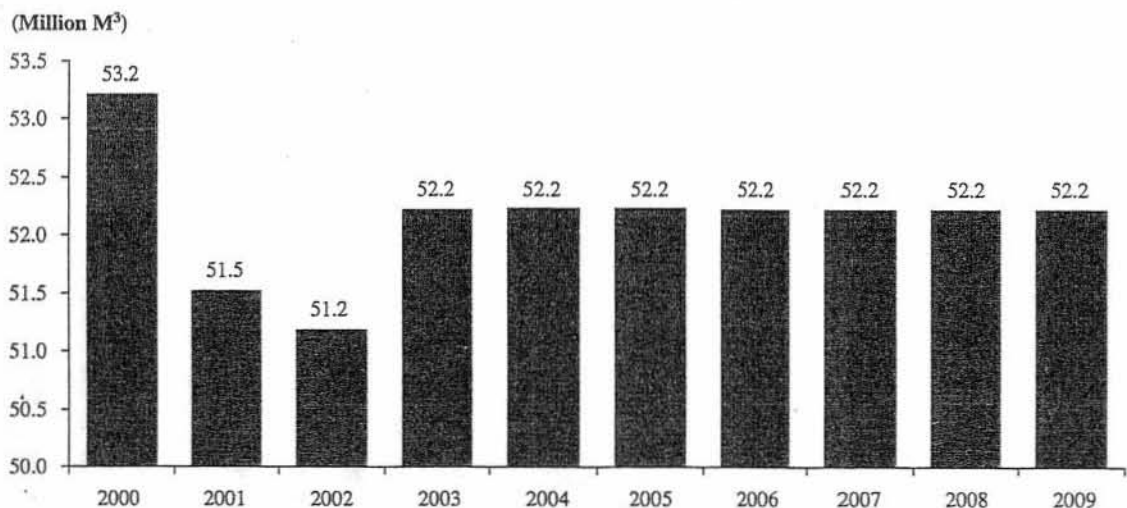


Source: Food and Agriculture Organization of the United Nations (Paper & Paperboard data)

3) Sawn lumber

The Food and Agricultural Organization estimates that PRC sawlog and veneer log production has remained relatively flat from 2000 to 2009. Sawlog and veneer log production is estimated to have remained at approximately 52 million cubic meters from 2003 to 2009. The PRC sawn lumber industry has been structurally affected by the National Forest Protection Program logging ban of natural forests in certain regions since 1998 which has tightened PRC sawn lumber supply.

PRC Sawlog & Veneer Log Production (2000-2009)



Source: Food and Agriculture Organization of the United Nations (Sawlog & Veneer Logs data).

Plantation Industry

Development of the Plantation Industry

The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated The Notice on the Decision to Speed Up the Development of Plantation Industry (Zhong Fa (2003) No. 9) (中共中央國務院關於加快林業發展的決定) dated June 25, 2003. The Key Elements of the Policies in Forestry Industry (林業產業政策要點) were jointly promulgated by the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission on August 10, 2007 for implementing this notice.

The notice records the decisions of the PRC central government to pursue the following main goals:

- to develop the non-state owned plantation industry and to encourage the participation of foreign investors in the plantation industry, either solely or jointly with others;
- to strengthen plantation infrastructure in order to ensure the continued development of the economy of the PRC;
- to expedite and reform the development of the plantation industry;
- to emphasize the importance of the plantation industry in the development and preservation of the ecological environment;
- to increase forest resources and the supply of forest products;
- to promote the infrastructure development of the ecological environment;
- to further improve the system of plantation rights in respect of the plantation land and plantation trees;
- to assist in the processing of transfers, leases, mortgages and pledges and making investments in joint ventures for plantations; and
- to strengthen financial support of the development of the plantation industry by continuing to provide long-term and low interest rate credit facilities and encouraging plantation operators to raise funds from the public.

The Key Elements of the Policies in Forestry Industry describe the following main goals:

- to insist on the consistency of the foreign investment policy, i.e., to favor allocation of foreign investments in areas identified in the Catalog of Foreign-invested Industry Guidance (外商投資產業指導目錄) and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region (中西部地區外商投資優勢產業目錄);
- to encourage and facilitate development and use of critical technologies, equipment and products that favor the upgrade of industrial structure of forestry;
- to gradually establish the Timber Industrial Zone composed of the Southeast Coastal Area, Southern Timberland and Huang-Huai-Hai Plain;
- to encourage the development of non-public-owned forestry, eliminate institutional obstacles to such development and introduce advanced international technologies and management experiences;
- to establish a sound product quality inspection and monitoring system and help forestry corporations obtain the ISO 9000 and ISO 14000 certifications;
- to strictly follow the released tax policy and provide insurance and financial services to companies and individuals in the forestry industry;
- to establish a platform for transactions of plantation land use rights;

- to improve forest harvesting management and facilitate harvesting of artificial commercial plantations, in particular at plantations supplying industrial raw materials, and to strengthen the operators' rights to cultivate the plantations; and
- to create a favorable environment for development of the forestry industry.

On July 14, 2008, the PRC State Council promulgated the Opinions on Comprehensively Promoting the Reform of the Collectively Owned Plantation Right System (中共中央國務院關於全面推進集體林權制度改革的意見) dated June 8, 2008 in order to further liberalize and modernize the forestry industry, develop the productivity of the forestry industry, increase farmers' income and develop the ecological system in the PRC. Such opinions provide that, among others, in accordance with applicable laws and regulations, the farmers with contractual rights over the collectively owned PRC commercial plantations may, without change of the plantation usage, dispose of such rights relating to plantation operations and plantation tree ownership rights through sub-contracts, leases, transfers, mortgages, or as contributions in capital or under cooperative structures.

On October 29, 2009, the PRC State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce and State Administration of Taxation jointly promulgated the Plan of Revitalizing Forestry Industry (2010-2012) (林業產業振興規劃 (2010-2012年)) as guidance to confront the global financial crisis, which sets forth targets such as, among others, increasing domestic demand and supporting the exportation of forestry products, improving quality of wood products, upgrading forestry technology, promoting international cooperation and developing industrial used plantations. The Plan of Revitalizing Forestry Industry also provides a series of policies and measures to develop the forestry industry, including strengthening financial support to forestry industry and lowering the standard of reforestation fund from 20% of the forestry products sales income to 10%, commencing from July 1, 2009.

Permits and Approvals Necessary for the Operation of our Plantation Business

We are required to obtain the following permits and approvals for the operation of our tree plantation business:

- Plantation Rights Certificates in respect of the plantation land use rights and the ownership of our planted trees for our planted plantations;
- Plantation Rights Certificates in respect of the ownership of our purchased trees for our purchased plantations;
- timber logging permits; and
- timber transportation permits.

Plantation Rights Certificates for Our Planted Plantations

The PRC Forestry Law (中華人民共和國森林法) and the Implementation Regulations of the PRC Forestry Law (中華人民共和國森林法實施條例) implement the system of plantation rights registration and issuance of certificates. Pursuant to the Implementation Regulations, all entities should apply to the forestry bureau of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above is responsible for issuing the plantation rights certificates. Applicants for plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry bureau.

Plantation Rights Certificates for Our Purchased Plantations

For our purchased plantations, we have applied for the relevant Plantation Rights Certificates with the relevant local forestry bureaus. As the relevant locations where we purchased our purchased plantations have not fully implemented the new form of Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our purchased plantations. Instead, we obtained confirmation of our ownership of our purchased plantations from the relevant forestry bureaus. Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations.

Timber Logging Permits and Logging Quotas

The Implementation Regulations stipulate that for foreign invested plantation projects, the logging quota will be allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. The WFOEs with planted tree operations will be able to obtain the logging permits within the timber logging quota allocated by the provincial forestry departments.

The logging quota of our purchased plantations have been confirmed by the relevant forestry bureaus where the purchased plantations are located.

Timber Transportation Permit

Upon obtaining the timber logging permit and provision of certain supporting documents required by the local forestry bureaus, such as the quarantine certification, there should not be any legal constraints for the WFOEs to obtain timber transportation permits.

Manufacturing

Engaging in the Timber Business

The Implementation Regulations stipulate that any entity engaged in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau of the local PRC government at the county level or above. Certain PRC provinces impose further requirements for granting permission to engage in the timber business, which means that any entity engaged in the timber operations and processing business within the relevant provinces must also apply for a timber business permit from the forestry bureau of the appropriate jurisdiction.

Regulations that Apply Nationwide

The Implementation Regulations provide that corporations that engage in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau at the county level or above. Any violation of this regulation will result in confiscation of the timber and any illegal gains and payment of a fine of up to twice the amount of the illegal gain.

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council (國務院辦公廳關於加強森林資源保護管理工作通知) implemented on May 16, 1994, provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant forestry bureaus, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and complying with the business objectives as stated on the license.

The Administration of Standardization of Forestry Regulations (林業標準化管理辦法) implemented on September 1, 2003, provides that the technical requirements of forestry products, quality of timber saplings, safety, hygiene standards, testing, packaging, storing and transportation practices and inspection methods, must be standardized.

In October 2006, the PRC State Forestry Administration promulgated the Notice for Further Strengthening the Administration and Supervision of the Timber Operation and Processing (關於進一步加強木材經營加工監督管理的通知) and adopted a series of rules for the administration and adopted a series of rules for the administration and supervision of the timber processing and operating business.

Eleventh Five-Year Plan

The Eleventh Five-Year Plan (2006-2010), implemented during the Tenth National People's Congress held in March 2006, stipulated plans to improve "three rural problems" in the agricultural sector in relation to agricultural, rural areas and farmers. Top priority will be given to solving the issues of rural poverty with an aim to narrow the poverty gap between urban and rural dwellers. The Eleventh Five-Year Plan calls for infrastructure improvement, social development in rural areas, and creation of regional markets to promote a "new socialist countryside." On the forestry front, the State Forestry Administration plans to speed up the development of fast-growing, high-yield plantation and forestry integration by creating synergy between upstream tree plantations and downstream pulp mills and manufacturing operations.

DESCRIPTION OF OTHER INDEBTEDNESS

Our material long-term indebtedness consists of the 2011 Senior Notes, the 2013 Convertible Notes, the 2014 Senior Notes and the 2016 Convertible Notes.

2011 Senior Notes

We entered into a trust indenture dated as of August 17, 2004 among us, Law Debenture Trust Company of New York, as trustee, and certain of our subsidiaries, as amended and supplemented from time to time (the "2011 Indenture").

On July 27, 2009, we consummated an exchange offer, pursuant to which we issued US\$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes. We cancelled such principal amount of 2011 Senior Notes, so that as of June 30, 2010, there was only US\$87.7 million in principal amount of 2011 Senior Notes outstanding. Concurrently with the exchange offer, we consummated a consent solicitation with respect to the 2011 Senior Notes to amend the terms of such notes and the 2011 Indenture, such that the covenants in the 2011 Indenture are not substantially more restrictive than the restrictive covenants under the 2014 Senior Notes, including the limitation on incurrence of indebtedness and on restricted payments.

Outstanding 2011 Senior Notes

As of June 30, 2010, we had US\$87.7 million of 2011 Senior Notes outstanding. The 2011 Senior Notes were issued pursuant to the 2011 Indenture. The 2011 Senior Notes are (i) our general obligations, (ii) guaranteed by certain of our subsidiaries on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2011 Senior Notes and (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law.

Maturity

The maturity date of the 2011 Senior Notes is August 17, 2011.

Interest Rate

The 2011 Senior Notes bear interest at a rate of 9.125% per annum on their principal amount outstanding, payable by two semi-annual installments on February 17 and August 17 of each year.

Guarantee

The 2011 Senior Notes are guaranteed on a senior basis, subject to certain limitations, by the same subsidiaries which are Subsidiary Guarantors under the Notes and the subsidiary guarantors under each of the 2013 Convertible Notes, the 2016 Convertible Notes and the 2014 Senior Notes, as well as Sino-Global Capital.

Security

The 2011 Senior Notes are secured by a security interest in certain of our subsidiaries' shares, ranking *pari passu* with the security interest given by the same subsidiaries under the 2014 Senior Notes. Our payment obligations under the 2011 Senior Notes rank *pari passu* with the claims of all of our unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

Covenants

The 2011 Indenture contains financial covenants. Pursuant to one of these financial covenants, we and certain of our subsidiaries are required, subject to certain exceptions, not to incur new indebtedness without maintaining a Fixed Charge Coverage Ratio of not less than 2.5:1 at any date on which indebtedness is incurred or a restricted payment is made (each, a "Transaction Date"). Under the 2011 Indenture, "Fixed Charge Coverage Ratio" means the ratio of (i) the aggregate amount of "Consolidated

EBITDA” for the then most recent four fiscal quarters prior to such Transaction Date for which our consolidated financial statements are available (the “Four Quarter Period”) to (ii) the aggregate consolidated gross interest expense of us and certain of our subsidiaries, for certain cash and non-cash dividends of us and certain of our subsidiaries, accrued or accumulated during such Four Quarter Period.

The 2011 Indenture also contains certain other covenants which include, but are not limited to:

- (i) limitations on incurrence of indebtedness;
- (ii) limitations on restricted payments;
- (iii) limitations on payments of dividends by us and certain of our subsidiaries;
- (iv) limitations on issuance of guarantees by certain of our subsidiaries;
- (v) limitations on merger, consolidation and asset sales;
- (vi) limitations on certain transactions with affiliates;
- (vii) limitations on liens, securities or pledges;
- (viii) limitations on substantial changes to the general nature of our business; and
- (ix) limitations on sale-leaseback transactions.

In addition, pursuant to the 2011 Indenture, in the case of the occurrence of certain changes of control, we must commence an offer to purchase all of the 2011 Senior Notes then outstanding and failure by us to do so within 30 days of the occurrence of such changes of control is an event of default under the 2011 Indenture.

Events of Default

The 2011 Indenture provides for events of default customary for indentures of this type, including non-payment of principal, interest or other amounts; violations of covenants; material adverse effect; certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; and/or failure to commence an offer to purchase the outstanding 2011 Senior Notes within 30 days of the occurrence of certain changes of control. If such events of default were to occur, our payment obligations under the 2011 Senior Notes may immediately become payable to the holders of the 2011 Senior Notes.

The 2011 Indenture also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries.

2013 Convertible Notes

We entered into a trust indenture dated as of July 23, 2008 among us, The Bank of New York Mellon, as trustee, and certain of our subsidiaries, as amended and supplemented from time to time (the “2013 Convertible Indenture”).

Outstanding 2013 Convertible Notes

As of June 30, 2010, we had US\$345.0 million of 2013 Convertible Notes outstanding. The 2013 Convertible Notes were issued pursuant to the 2013 Convertible Indenture. The 2013 Convertible Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the 2016 Convertible Notes, the 2011 Senior Notes, the 2014 Senior Notes, except for certain of these subsidiaries, on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2013 Convertible Notes and (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law.

Maturity

The maturity date of the 2013 Convertible Notes is August 1, 2013.

Interest Rate

The 2013 Convertible Notes bear interest at a rate of 5.0% per annum on their principal amount outstanding, payable by two semi-annual installments on February 1 and August 1 of each year.

Guarantee

The 2013 Convertible Notes are guaranteed on a senior basis, subject to certain limitations, by the same subsidiaries which are Subsidiary Guarantors under the Notes and subsidiary guarantors under the 2011 Senior Notes (other than with respect to Sino-Capital Global), the 2016 Convertible Notes and the 2014 Senior Notes.

Conversion

The 2013 Convertible Notes may be converted at the option of the holder into our Common Shares, at any time prior to the maturity date at the initial conversion rate of 49.2974 Common Shares per US\$1,000 principal amount of 2013 Convertible Notes. If the entire US\$345.0 million principal amount was converted, it would result in the issuance of 17,007,603 Common Shares at the initial conversion rate.

Covenants

The 2013 Convertible Indenture contains a limited number of covenants. Pursuant to one of these financial covenants, issuance of guarantees by certain of our subsidiaries is limited and merger, consolidation transactions and sales of assets also have to comply with certain requirements.

In addition, pursuant to the 2013 Convertible Indenture, in the case of the occurrence of certain changes of control or other Fundamental Changes (as defined in the 2013 Convertible Indenture), we are required to commence an offer to purchase all of the 2013 Convertible Notes then outstanding and failure by us to do so not less than 30 days nor more than 45 days from notice of such change of control or Fundamental Change has been given to holders of the 2013 Convertible Notes (as set forth in the 2013 Convertible Indenture) is an event of default under the 2013 Convertible Indenture.

Events of Default

The 2013 Convertible Indenture provides for events of default customary for indentures of this type, including non-payment of principal, interest or other amounts; violations of covenants; failure to deliver Common Shares upon conversion; material adverse effect; certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; and/or failure to commence an offer to purchase the outstanding 2013 Convertible Notes. If such events of default were to occur, our payment obligations under the 2013 Convertible Notes may immediately become payable to the holders of the 2013 Convertible Notes.

The 2013 Convertible Indenture also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries.

2014 Senior Notes

We entered into a trust indenture dated as of July 27, 2009 between us, Law Debenture Trust Company of New York, as trustee, and certain of our subsidiaries, as amended and supplemented from time to time (the "2014 Indenture").

On July 27, 2009, we consummated an exchange offer, pursuant to which we issued US\$212.3 million principal amount of 2014 Senior Notes in exchange for an equivalent principal amount of 2011 Senior Notes. The 2014 Senior Notes bear interest at a rate of 10.25% per annum, with interest payable in semi-annual installments.

In February 2010, we completed an exchange with holders of the Mandra Notes and warrants issued by Mandra Holdings, which resulted in the issuance by us of a principal amount of US\$187.2 million of additional 2014 Senior Notes, such that as of June 30, 2010 there was an aggregate principal amount of US\$399.5 million of 2014 Senior Notes outstanding. See "Business—Other Tree Plantation Contractual Arrangements—Mandra Forestry."

Outstanding 2014 Senior Notes

As of June 30, 2010, we had US\$399.5 million of 2014 Senior Notes outstanding. The 2014 Senior Notes were issued pursuant to the 2014 Indenture. The 2014 Senior Notes are (i) our general obligations, (ii) guaranteed by certain of our subsidiaries on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2014 Senior Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) guaranteed by the pledge of the shares of certain of our subsidiaries.

Maturity

The maturity date of the 2014 Senior Notes is July 28, 2014.

Interest Rate

The 2014 Senior Notes bear interest at a rate of 10.25% per annum on their principal amount outstanding, payable by two semi-annual installments on January 26, and July 26, of each year.

Guarantee

The 2014 Senior Notes are guaranteed on a senior basis, subject to certain limitations, by the same subsidiaries which are Subsidiary Guarantors under the Notes and subsidiary guarantors under the 2016 Convertible Notes, the 2013 Convertible Notes and the 2011 Senior Notes (other than with respect to Sino-Capital Global).

Security

The 2014 Senior Notes are secured by a security interest in certain of our subsidiaries' shares, ranking *pari passu* with the security interest given by the same subsidiaries under the 2011 Senior Notes. Our payment obligations under the 2014 Senior Notes rank *pari passu* with the claims of all our unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

Covenants

The 2014 Indenture contains financial covenants. Pursuant to one of these financial covenants, we and certain of our subsidiaries are required, subject to certain exceptions, not to incur new indebtedness without maintaining a Fixed Charge Coverage Ratio of not less than 2.5:1 at any date on which indebtedness is incurred or a restricted payment is made (each, a "Transaction Date"). Under the 2014 Indenture, "Fixed Charge Coverage Ratio" means the ratio of (i) the aggregate amount of "Consolidated EBITDA" for the then most recent four fiscal quarters prior to such Transaction Date for which our consolidated financial statements are available (the "Four Quarter Period") to (ii) the aggregate consolidated gross interest expense of us and certain of our subsidiaries, for certain cash and non-cash dividends of us and certain of our subsidiaries, accrued or accumulated during such Four Quarter Period.

The 2014 Indenture also contains certain other covenants which include, but are not limited to:

- (i) limitations on incurrence of indebtedness;
- (ii) limitations on restricted payments;
- (iii) limitations on payments of dividends by us and certain of our subsidiaries;
- (iv) limitations on issuance of guarantees by certain of our subsidiaries;
- (v) limitations on merger, consolidation and asset sales;
- (vi) limitations on certain transactions with affiliates;
- (vii) limitations on liens, securities or pledges;
- (viii) limitations on substantial changes to the general nature of our business; and
- (ix) limitations on sale-leaseback transactions.

In addition, pursuant to the 2014 Indenture, in the case of the occurrence of certain changes of control, we must commence an offer to purchase all of the 2014 Senior Notes then outstanding and failure by us to do so within 30 days of the occurrence of such changes of control is an event of default under the 2014 Indenture.

Events of Default

The 2014 Indenture provides for events of default customary for indentures of this type, including non-payment of principal, interest or other amounts; violations of covenants; material adverse effect; certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; and/or failure to commence an offer to purchase the outstanding 2014 Senior Notes within 30 days of the occurrence of certain changes of control. If such events of default were to occur, our payment obligations under the 2014 Senior Notes may immediately become payable to the holders of the 2014 Senior Notes.

The 2014 Indenture also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries.

2016 Convertible Notes

We entered into a trust indenture dated as of December 17, 2009 among us, The Bank of New York Mellon, as trustee, and certain of our subsidiaries, as amended and supplemented from time to time (the "2016 Convertible Indenture").

Outstanding 2016 Convertible Notes

As of June 30, 2010, we had US\$460.0 million of 2016 Convertible Notes outstanding. The 2016 Convertible were issued pursuant to the 2016 Convertible Indenture. The 2016 Convertible Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the 2013 Convertible Notes, the 2011 Senior Notes and the 2014 Senior Notes, except for certain of these subsidiaries, on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2016 Convertible Notes and (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law.

Maturity

The maturity date of the 2016 Convertible Notes is December 15, 2016.

Interest Rate

The 2016 Convertible Notes bear interest at a rate of 4.25% per annum on their principal amount outstanding, payable by two semi-annual installments on June 15, and December 15, of each year.

Guarantee

The 2016 Convertible Notes are guaranteed on a senior basis, subject to certain limitations, by the same subsidiaries, which are Subsidiary Guarantors under the Notes and subsidiary guarantors under the 2011 Senior Notes (other than with respect to Sino-Capital Global), the 2013 Convertible Notes and the 2014 Senior Notes.

Conversion

The 2016 Convertible Notes may be converted at the option of the holder into our Common Shares, at any time prior to the maturity date at the initial conversion rate of 47.2619 Common Shares per US\$1,000 principal amount of 2016 Convertible Notes. If the entire US\$460.0 million principal amount was converted, it would result in the issuance of 21,740,474 Common Shares at the initial conversion rate.

Covenants and Events of Default

The 2016 Convertible Indenture contains a limited number of covenants and provides for events of defaults customary for indentures of this type which are similar to the ones included in the 2013 Convertible Indenture. See "Description of Other Indebtedness—2013 Convertible Notes."

MANAGEMENT

Directors and Executive Officers

The management of our business and affairs is supervised by our board of directors. Our board of directors has seven members, including five independent directors. They were elected at the meeting of shareholders held on May 31, 2010. Our directors are elected to serve from the beginning of their respective terms until the close of the next annual meeting of shareholders or until such director's successor is duly elected or appointed.

The following table sets forth information regarding our current directors and executive officers. Unless otherwise indicated, their business address is c/o Sino-Forest Corporation, 3815-29, 38th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong Special Administrative Region, China.

Name and Residence	Position	Age
Board of Directors		
Allen T.Y. Chan Hong Kong	Chairman and Director	58
William E. Ardell ^{(1),(2),(3),(4),(5)} ... Ontario, Canada	Lead Director	66
James M.E. Hyde ^{(1),(2),(3),(4)} Ontario, Canada	Director	56
Edmund Mak ^{(1),(3),(4)} British Columbia, Canada	Director	62
Judson Martin Hong Kong	Vice Chairman and Director	54
Simon Murray ^{(2),(4)} Hong Kong	Director	70
Peter D.H. Wang ⁽⁴⁾ PRC	Director	57
Executive Officers		
Allen T.Y. Chan Hong Kong	Chairman and Chief Executive Officer	58
Judson Martin Hong Kong	Vice Chairman	54
David J. Horsley Ontario, Canada	Senior Vice President and Chief Financial Officer	51

Name and Residence	Position	Age
George Ho Hong Kong	Vice President, Finance, China; Vice President, Finance & CFO, Sino Panel (Asia) Inc.	49
Chen Hua PRC	Senior Vice President, China Operations and Finance	49
Alfred Hung Hong Kong	Vice President, Corporate Planning and Banking	43
Albert Ip Hong Kong	Senior Vice President, Development and Operations, North East and South West China	50
Richard M. Kimel Ontario, Canada	Corporate Secretary	43
Thomas M. Maradin Ontario, Canada	Vice President, Finance (Corporate)	49
Zhao Wei Mao PRC	Senior Vice President, Development and Operations, South and East China	52
Xu Ni Hong Kong	Vice President, Legal Affairs	40
Kai Kit Poon Hong Kong	President	70

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation and Nominating Committee.
- (3) Member of the Corporate Governance Committee.
- (4) Independent Director.
- (5) Lead Director.

A description of the business experience and present position of each director and executive officer is provided below (in alphabetical order).

Allen T.Y. Chan co-founded our Company in 1992 and has been the Chairman, Chief Executive Officer and a director of our Company since 1994. Mr. Chan is responsible for our overall strategic planning and management. Mr. Chan is a recognized leader in the field of sustainable development. Prior to co-founding our Company, he worked for 12 years as a management consultant and project manager in China. He has also worked for the Hong Kong government in new town development and management programs. He spearheaded the Sustainable Development Leadership Program jointly organized by the School of Forestry and Environmental Studies at Yale University and the Nanjing Forestry University in the PRC. Mr. Chan is a well known writer, under the name of “管仲連,” on culture, history and business issues and has published books in Hong Kong and the PRC. He regularly speaks at Hong Kong and Chinese universities. He graduated from the Sociology Department at the Hong Kong Baptist College (currently the Hong Kong Baptist University) in 1979 and was awarded an Honorary University Fellowship from the Hong Kong Baptist University in 2008. In 2007, Mr. Chan joined the Jiangxi

Committee on the Tenth Session of the Chinese People's Political Consultative Conference. Mr. Chan was appointed as Executive Director of Renmin University of China, also known as the People's University of China, for a three-year term effective from October 2007. In August 2010, Mr. Chan was appointed as Chairman and a non-executive director of Omnicorp.

William E. Ardell has been a director of our Company since January 2010 and lead director since June 2010. He was President, Chief Executive Officer and a director of Southam Inc. from January 1992 to September 1996. Subsequent to his departure from Southam Inc. he has sat on a number of public and private sector boards as well as not-for-profit organizations, serving in varying capacities as Chairman, Senior Director and Director and as the Chair and/or member of many board committees. From 2005 to 2006, Mr. Ardell was the President and Chief Executive Officer of Spellread Inc., a start-up learning system company. During his career, Mr. Ardell has had experience in capital markets, acquisitions and divestitures as well as strategic planning and implementation.

George Ho is currently the Vice President, Finance, China of our Company and the Vice President, Finance and CFO of Sino Panel (Asia), Inc. Prior to joining our Company in October 2007, Mr. Ho was a Senior Manager in BDO McCabe Lo Limited, Certified Public Accountants, an international accounting and audit firm from October 2006 to October 2007. Mr. Ho also served as the Chief Financial Officer, China Operations of a NASDAQ listed merchant bank from January 2004 until September 2006, managing a portfolio of investments in the PRC including joint ventures with PRC hospitals, wind energy development, commodities trading and various merger and acquisition activities, including a potential merger with a major state-owned equipment manufacturing enterprise. Before January 2004, Mr. Ho spent 10 years providing professional services in a Canadian accounting and audit firm and most recently served in the capacity as a principal. The firm is involved in the audit of publicly listed companies on the TSX and TSX Venture Exchange as well as those listed on NASDAQ and quoted on the OTC board.

David J. Horsley is currently the Senior Vice President and Chief Financial Officer of our Company. Prior to joining our Company in 2005, Mr. Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent an 11-year career with Canadian General Capital Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

Chen Hua is currently the Senior Vice President, China Operations and Finance, of our Company. Prior to joining our Company in 2002, Ms. Chen was board chair of Suzhou New-Development Area Economic Development Group. Ms. Chen has been part of the management of several large corporations.

Alfred Hung is currently the Vice President, Corporate Planning, Banking and Sales, of our Company. Prior to joining our Company in 1999, Mr. Hung was involved in investment research and management operations for several international firms.

James M.E. Hyde has been a director of our Company since 2004, and a consultant since December 2008. From January 2007 to November 2008, Mr. Hyde was the Executive Vice President and Chief Financial Officer of Resolve Business Outsourcing Income Fund, a TSX-listed income trust fund. Prior to joining our board of directors, Mr. Hyde was the Vice President, Finance and Chief Financial Officer of TSX-listed company GSW Inc., a manufacturer and distributor of consumer durable products, from October 2002 until April 2006 when GSW Inc. was acquired by A.O. Smith Corporation. From April to December 2006, Mr. Hyde was a Consultant to A.O. Smith Corporation. Before October 2002, Mr. Hyde, a Chartered Accountant, was with Ernst & Young LLP (an accounting and auditing firm) for 24 years, including 12 years as a Partner.

Albert Ip is currently the Senior Vice President, Project, Hong Kong, of our Company. Prior to joining our Company in 1997, Mr. Ip was involved in the marketing, production management, project management and corporate business development and operations in the garment, electronics and wood-related industries for several corporations.

Richard Kimel is currently our Corporate Secretary. Mr. Kimel is also a partner of Aird & Berlis LLP, Barristers and Solicitors, and a member of its Corporate/Commercial and Corporate Finance Groups and Mergers & Acquisitions and Venture Capital Teams. Mr. Kimel practices in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, mergers and acquisitions and ongoing general corporate and commercial activities. Mr. Kimel also acts as corporate counsel for numerous companies listed on the TSX and the TSX Venture Exchange.

Edmund Mak has been a director of our Company since 1994. Mr. Mak has over 35 years of business and management experience with several multinational corporations in North America and Hong Kong in a variety of industries: real estate, computer and high technology equipment, transportation, construction, oil and gas, textile and trade in the PRC. He is currently an associate broker of Royal Pacific Realty Corporation in Vancouver, Canada. He was an associate broker of Re/Max Select Properties from January 1999 to October 2008. He is a graduate of the University of Toronto with an M.B.A. degree.

Thomas M. Maradin is currently our Vice President, Finance (Corporate) and has been Vice President, Risk Management since 2005. Prior to joining our Company, Mr. Maradin was a senior consultant to several multinational companies from January 2001 until September 2005, where his responsibilities included strategic planning, system implementations, restructuring of business units, financial reporting and internal control and regulatory compliance; he spent a 15-year career with Ernst & Young LLP, where, most recently, he served as Principal managing a professional services practice.

Judson Martin is currently our Vice Chairman and has been a director of our Company since 2006. Prior to joining our board of directors, Mr. Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis") from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the board of directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 until June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is also Chairman of SWEF Terrawinds Resources Corporation and Chair of its audit committee. In August 2010, Mr. Martin was appointed President and Chief Executive Officer and an executive director of Omnicorp.

Simon Murray, CBE has been a director of our Company since 1999. Mr. Murray was the Group Managing Director of Hutchinson Whampoa Ltd. from 1984 to 1993 and the executive chairman in Asia Pacific of the Deutsche Bank group from 1993 to 1998, before he established his own company, General Enterprise Management Services (GEMS), a mid-sized investment group operating across Asia. He is the Chairman of GEMS. He is also a director of a number of public companies including Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited, Arnold Holdings Limited, USI Holdings Limited, Compagnie Financière Richemont SA, and Vodafone Group Plc. Mr. Murray is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association. In 1994, Mr. Murray was awarded the CBE (Commander of the British Empire) by Her Majesty Queen Elizabeth II for his contributions to the Hong Kong community and the Order of Merit of the French Republic and is a "Chevalier de La Légion d' Honneur."

Kai Kit Poon has been the President of our Company since 1994. Mr. Poon was also a director of our Company from 1994 to May 2009. Mr. Poon is responsible for liaising and coordinating with various PRC provincial government authorities for us. Mr. Poon has more than 20 years of experience in the forestry industry. He is one of our founders and joined us in January 1994.

Peter D.H. Wang has been a director of our Company since 2007. Mr. Wang also serves as Senior Commercial Consultant of Zijin Copper, a subsidiary of Zijin Mining Group, a Hong Kong listed company, and China Far East International Trading Company, Shanghai, one of the PRC's major state-owned tendering companies. Mr. Wang has over 30 years' experience in Sino-foreign projects and business affairs, predominantly related to the petrochemical and mining industries, as well as wood-based panel industries. He was involved in a number of pioneering projects when the PRC first opened up its foreign markets in the late 1970s. He was a member of the Formulation Committee of Chinese-Foreign Contract, Guangdong Province and was also a member of the delegation team travelling with the PRC Premier Wen Jiabao to India in 2005 to execute contracts and projects related to highway and power stations, and to expand Sino-Indian bilateral trade and economic cooperative ties.

Zhao Wei Mao is currently the Senior Vice President, China Plantation, of our Company. Prior to joining our Company in 2002, Mr. Zhao was General Manager of Everbright Group Corp., where he received extensive experience in wood product manufacturing and knowledge of international wood material markets.

Xu Ni is currently the Vice President, Legal Affairs, of our Company. From January 2007 to March 2009, Ms. Xu was the Assistant Vice President, Legal Affairs of our Company. From April 2003 to December 2006, she was the Senior Manager, Legal Affairs of our Company. Prior to joining our Company, Ms. Xu was involved in PRC legal advising in connection with investments in the PRC market and worked for several international law firms based in Singapore.

Directors' Interests

The directors' total direct and indirect holdings of our Common Shares as of October 11, 2010 are as follows:

Name	Number of Common Shares Owned	Percentage of Common Shares Owned ⁽¹⁾
		%
Allen T.Y. Chan	6,580,753	2.68
Edmund Mak	110,000	0.04
Simon Murray	195,553	0.08
James M.E. Hyde	10,000	<0.01
Judson Martin	30,000	0.01
William E. Ardell	2,000	<0.01
Peter Wang	Nil	—

Note:

(1) On a non-diluted basis.

Board Committees

Our board of directors currently has three committees: the Audit Committee, the Corporate Governance Committee, and the Compensation and Nominating Committee. The committees, their mandates and memberships are discussed below. We also maintain a Disclosure Committee made up of senior management.

Audit Committee

The Audit Committee's primary purpose is to assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting and accounting compliance, the audit process, and processes for identifying, evaluating and monitoring the management of our principal risks impacting financial reporting. The committee also assists the board of directors with the oversight of financial strategies and overall risk management.

The Audit Committee is composed of Mr. James M.E. Hyde (Chairman), Mr. William E. Ardell and Mr. Edmund Mak, each of whom is one of our directors. Each of the members of the Audit Committee is "independent" and "financially literate" as such terms are defined in National Instrument 52-110—Audit Committees.

A copy of the charter of the Audit Committee is attached as an appendix to the Annual Information Form of the Company for the year ended December 31, 2009, a copy of which is available electronically at www.sedar.com (the official site providing access to most public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators in the SEDAR filing system). The section of the Annual Information Form entitled "Audit Committee" contains disclosure required by National Instrument 52-110—Audit Committees.

Corporate Governance Committee

The role of the Corporate Governance Committee is to develop and recommend standards of performance for the board of directors, its committees and individual directors. The Corporate Governance Committee is composed of Mr. James M.E. Hyde (Chairman), Mr. William E. Ardell and Mr. Edmund Mak.

Compensation and Nominating Committee

The Compensation and Nominating Committee meets on compensation matters as and when required with respect to executive compensation. The primary goal of the Compensation and Nominating Committee as it relates to compensation matters is to ensure that the compensation provided to our executive officers is determined with regard to our business strategies and objectives, such that the financial interest of the executive officers is aligned with the financial interest of shareholders, and to ensure that their compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives. Our board of directors (exclusive of our officers who are also members of the board of directors) reviews such recommendations and is responsible for ultimately determining executive compensation.

The Compensation and Nominating Committee is also responsible for coordinating and managing the process of recruiting, interviewing, and recommending candidates to the board of directors. This committee has a formal written charter which outlines the committee's responsibilities, requisite qualifications for new directors, the appointment and removal of directors and the reporting obligations to the board of directors. In addition, the Compensation and Nominating Committee is given the authority to engage and compensate any outside advisor that it determines to be necessary to carry out its duties.

The Compensation and Nominating Committee is composed of Mr. William E. Ardell (Chairman), Mr. James M.E. Hyde and Mr. Simon Murray, all of whom are considered "independent."

Disclosure Committee

A Disclosure Committee has been established to assist our executive officers in fulfilling their responsibility for oversight of the completeness, accuracy and timeliness of the disclosures made by us. The current members of the committee are Mr. Thomas Maradin (Chairman), Vice President Finance (Corporate); Mr. Alfred Hung, Vice President, Corporate Planning and Banking; Mr. George Ho, Vice President, Finance (China); Mr. Eric Chan, Assistant Vice President, Finance (Hong Kong); Ms. Louisa Wong, Senior Manager, Investor Relations; Ms. Emilia Sin, Manager, Company Secretary and Compliance; Ms. Xu Ni, Vice President, Legal Affairs; and Ms. Tang Bin, Senior Manager, PRC Legal Affairs.

The Disclosure Committee is responsible for (i) timely disclosure in accordance with applicable regulatory requirements, (ii) determining whether information is material, (iii) designing and establishing controls and other procedures to ensure information required is recorded, processed, summarized and reported to management including the senior officers, (iv) monitoring compliance with the disclosure policy, (v) reviewing in advance all financial and other information to be posted on our website, (vi) educating directors, officers and certain employees about disclosure issues and disclosure policy, (vii) evaluating the effectiveness of the controls and (viii) reviewing and supervising the preparation of our public representations.

Compensation

In the year ended December 31, 2009, the aggregate compensation that we paid to our five highest paid officers (i.e., our Chairman and Chief Executive Officer, our President, our Senior Vice President and Chief Financial Officer, our Vice President, Finance (Corporate) and our Senior Vice President, Development and Operations, North East and South West China) and directors in such capacity was US\$12.3 million. In the year ended December 31, 2009, such officers were granted options to purchase up to an aggregate of 363,990 Common Shares. The aggregate value of unexercised in-the-money options held by such officers was valued at Cdn.\$34.5 million (or approximately US\$33.0 million, based on an

exchange rate of Cdn.\$1.0461 to US\$1.00, being the applicable exchange rate for December 31, 2009) as at December 31, 2009, based on the difference between the closing price of Cdn.\$19.38 for our Common Shares on the TSX on December 31, 2009 and the exercise price of such options, multiplied by the number of unexercised options held by each such officers.

In addition, the total retainer and meeting fees paid during the year ended December 31, 2009 to our directors for attending Board and Committee meetings were as follows:

Name	Fees (annual) (Cdn.\$)
Peter Wang	33,000
Edmund Mak.....	68,250
Simon Murray	17,250
Judson Martin.....	113,500
James M.E. Hyde.....	83,500

Deferred Stock Unit Plan

On March 10, 2009, we approved a non-executive directors' Deferred Stock Unit Plan ("DSU Plan"), which became effective on March 31, 2009. Under the DSU Plan, our non-executive directors receive an amount equal to their annual retainer (but not in substitution for) in the form of deferred stock unit awards ("DSUs") and may elect to receive all or a part of their annual retainer (excluding retainer fees for acting as Lead Director) in the form of DSUs. In addition to the annual grant of DSUs, the non-executive directors may elect to received, in lieu of cash payment up to and including 100% of their annual retainer fees in the form of DSUs. On the last business day of each three-month period commencing on June 1 of each year, such number of DSUs as is equal to 25% of the applicable annual retainer fees divided by the applicable closing price of our Common Shares on the TSX shall be credited to the holder's account. The DSUs can be redeemed for cash or, at the election of the non-executive director, in the form of Common Shares acquired by us on the open market on such director's behalf through an independent broker, when the holder ceases to be a director of our Company.

Corporate Governance Initiatives

Maintaining a high standard of corporate governance is a top priority for our board of directors and our management, as both believe that effective corporate governance will help create and maintain shareholder value in the long term. Our board of directors has carefully considered our corporate governance practices against best practices and against the applicable corporate governance guidelines.

Employment Agreements

We entered into an employment agreement with David J. Horsley as of October 10, 2005. The agreement provides that Mr. Horsley is to be employed by us for an indefinite period unless terminated by us or Mr. Horsley earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of US\$350,000 (which amount is subject to annual review by the board of directors) and a monthly car allowance. Mr. Horsley is entitled to participate in our bonus plan for executives as determined on an annual basis. In the event of a termination of employment without cause, Mr. Horsley is entitled to a lump sum equal to his then current annual base salary plus an amount equal to the bonus, if any, paid to Mr. Horsley by us with respect to the prior fiscal year. In the event of a termination without cause within 180 days of a "Change in Control" (as such term is defined in the agreement), Mr. Horsley is entitled to payment of a lump sum equal to two times the severance entitlement described above. He may terminate his employment on three months' prior notice.

We entered into an employment agreement with Thomas M. Maradin dated July 1, 2010. The agreement provides that Mr. Maradin is to be employed by us for an indefinite period unless terminated by us or Mr. Maradin earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of US\$250,000. Mr. Maradin is also entitled to participate in our employee bonus plan as determined on an annual basis. In the event that Mr. Maradin's employment is terminated without cause, he shall be paid an amount equal to the sum of 1.5 times his salary and 1.5 times his bonus (if any) paid in the calendar year immediately preceding the year of such termination.

Albert Ip entered into an employment agreement with Sino-Wood Partners, Limited, one of our subsidiaries, dated July 15, 1997. The agreement provides that two months' prior notice is required by either party in order to terminate Mr. Ip's employment. Mr. Ip's employment was transferred to one of our other subsidiaries, Sino-Panel (Asia) Inc., on December 1, 1999. His employment terms and conditions remained unchanged.

Judson Martin entered into an executive service agreement dated June 22, 2010 with our wholly owned subsidiary Sino-Wood Partners, Limited ("Sino-Wood"). The agreement provides that Mr. Martin is to be employed for an indefinite period unless terminated by Sino-Wood or Mr. Martin earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of HK\$3.9 million (which amount is subject to annual review by our board of directors) and monthly car and housing allowances. Mr. Martin also received a relocation allowance for the costs associated with his family's relocation to Hong Kong. Mr. Martin is entitled to participate in our bonus plan for executives as determined on an annual basis. In the event of a termination of employment without cause, Mr. Martin is entitled to payment equal to the sum of two times his average base annual salary for the two years immediately preceding the termination date and two times his average annual bonus, if any, paid to Mr. Martin in the two years immediately preceding the termination date. In the event of a termination within one year of a "Change of Control" (as such term is defined in the agreement), Mr. Martin is entitled to payment equal to the sum of three times his average base annual salary for the three years immediately preceding the Change of Control and three times his average annual bonus, if any, paid to Mr. Martin in the three years immediately preceding the Change of Control. Mr. Martin may terminate his employment on six months' prior notice.

Except as described under "Consulting Agreements" below, no other executive officer or director is a party to a contract providing for benefits upon termination of employment.

Consulting Agreements

Allen Chan, our Chairman and Chief Executive Office is a director of Win Fair Holdings Group Limited. Pursuant to the terms of a consulting agreement between one of our subsidiaries and Win Fair Holdings Group Limited, we may terminate this consulting agreement upon 12-months' prior notice or upon payment of the applicable monthly fees (HK\$250,000 per month for the year ended December 31, 2009) for the 12 months following the effective date of written notice. Win Fair Holdings Group Limited may terminate this consulting agreement upon six months' prior notice.

Kai Kit Poon, our President, is a director of Telstar Enterprises Limited. Pursuant to the terms of a consulting agreement between one of our subsidiaries and Telstar Enterprises Limited, we may terminate this consulting agreement upon 12-months' prior notice or upon payment of the applicable monthly fees (HK\$145,000 per month for the year ended December 31, 2009) for the 12 months following the effective date of written notice. Telstar Enterprises Limited may terminate this consultancy agreement upon six months' prior notice.

For further details on these consulting agreements, see "Related Party Transactions."

Stock Options

Incentive Stock Option Plan

We have adopted, and currently maintain, an incentive stock option plan (the "Plan") in order to provide effective incentives to our directors, officers, employees and consultants and to enable us to attract and retain experienced and qualified individuals in those positions by permitting such individuals to directly participate in an increase in per share value created for our shareholders. Options under the Plan are typically granted in such numbers as reflect the level of responsibility of the particular optionee and his or her contribution to our business and activities.

The maximum number of Common Shares issuable pursuant to exercises of options granted under the Plan is 10,000,000. As of October 11, 2010, 3,157,103 Common Shares, being approximately 1.3% of the currently issued and outstanding number of Common Shares, were issuable pursuant to unexercised options granted to such date under the Plan and options to purchase a further 790,898 Common Shares, being approximately 0.3% of the currently issued Common Shares, remained available for grant under the Plan as of such date. During the year ended December 31, 2009 and the six-month period ended June 30, 2010, options to acquire 654,618 and 216,143 Common Shares, respectively, were granted to officers and employees at exercise prices ranging from Cdn\$8.01 to Cdn.\$19.56.

PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the direct and indirect, legal and beneficial ownership and control of our Common Shares, as of October 11, 2010, by: (i) our directors and executive officers and (ii) each person known by us to own beneficially 10% or more of our Common Shares. As of October 11, 2010, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control over, 7,619,191 Common Shares, representing approximately 3.10% of the issued and outstanding Common Shares.

Name	Number of Common Shares Owned	Percentage of Common Shares Owned
		%
Directors and Executive Officers:		
Allen T.Y. Chan	6,580,753	2.68
Kai Kit Poon.....	177,505	0.07
Simon Murray.....	195,553	0.08
Edmund Mak	110,000	0.04
James M.E. Hyde.....	10,000	<0.01
Judson Martin	30,000	0.01
William E. Ardell.....	2,000	<0.01
David J. Horsley	150,000	0.06
Chen Hua.....	42,680	0.02
Alfred Hung.....	169,000	0.07
Albert Ip	5,900	<0.01
Zhao Wei Mao	30,200	0.01
Xu Ni.....	115,000	0.05
Richard Kimel.....	600	<0.01
Principal Shareholders:		
Paulson & Co. Inc.	39,492,700 ⁽¹⁾	16.1
Davis Selected Advisors, L.P.....	30,910,590 ⁽¹⁾	12.6

Note:

(1) The above shareholdings are based upon information available on the public record.

RELATED PARTY TRANSACTIONS

We enter into certain transactions and agreements with our directors and officers.

Consultancy Fees

The fees related to consulting services provided by our Chairman and Chief Executive Officer and our President to us were determined pursuant to agreements entered into between us and companies controlled by such persons. These consultancy fees for the six-month period ended June 30, 2010 amounted to an aggregate of US\$305,000. In 2007, 2008 and 2009, we incurred US\$4.6 million, US\$6.0 million and US\$7.6 million, respectively, in consultancy fees to companies controlled by these persons. These arrangements are reviewed annually by the Compensation and Nominating Committee.

We had other payables and accruals of US\$3.0 million, US\$4.9 million and US\$7.0 million owed to the companies controlled by these persons in 2007, 2008 and 2009, respectively. In the six-month period ended June 30, 2010, we had no other payables and accruals owed to the companies controlled by these persons. For further details on these consulting agreements, see "Management—Consulting Agreements."

In addition, among the vendors of the Omnicorp ordinary shares and convertible bonds we purchased in February 2009 was one of our directors and an entity controlled by him, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction. See "Business—Other Tree Plantation Contractual Arrangements."

In addition, among the vendors of the Greenheart ordinary shares we purchased in June 2010, was an entity beneficially owned by one of our directors, which owns approximately 5.3% of the ordinary shares we acquired.

DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company," "we" and "our" refers to Sino-Forest Corporation, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which Guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such Guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an Indenture, to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Law Debenture Trust Company of New York, as trustee (the "Trustee").

The following is a summary of certain material provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee in New York.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "—The Subsidiary Guarantees" and in "Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees;"
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law); and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

In addition, on the Original Issue Date, subject to the limitations described in "Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees" and the terms and conditions of the Amended Intercreditor Agreement (as defined below), the Notes will be secured by a pledge of the Collateral as described below under the caption "—Security" and will:

- be entitled to a first priority lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on October 21, 2017, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "—Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of Notes" include any Additional Notes that are actually issued. The Notes will initially bear interest at 6.25% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on April 21 and October 21 of each year (each an "Interest Payment Date"), commencing April 21, 2011.

Interest will be paid to Holders of record at the close of business on April 7 or October 7 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal or interest on the Notes shall not be a Business Day in the relevant place of payment, then payment of principal or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place.

Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$2,000 of principal amount and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee, currently located at 400 Madison Avenue, 4th floor, New York, NY 10017), and the Notes may be presented for registration of transfer or exchange at such office or agency; provided that, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least pari passu with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to priority rights of such unsubordinated Indebtedness pursuant to applicable law).

In addition, subject to the limitations described therein and in "Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees," the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor (as defined below):

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption "—Security;" and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to priority rights of such unsecured obligations pursuant to applicable law).

Under the Indenture, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors have (1) agreed that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waived their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees will be made in U.S. dollars.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Sino-Panel Holdings Limited (BVI), Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Grandeur Winway Ltd. (BVI), Sinowin Investments Ltd. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio-Science Limited (formerly known as: Sino-Two Limited) (BVI), Sino-Forest Resources Inc. (BVI), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Forest Investments

Limited (BVI), Sino-Wood (Guangxi) Limited (HK), Sino-Wood (Jiangxi) Limited (HK), Sino-Wood (Guangdong) Limited (HK), Sino-Wood (Fujian) Limited (HK), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Guangxi) Limited (BVI), Sino-Panel (Yunnan) Limited (BVI), Sino-Panel (North East China) Limited (BVI), Sino-Panel [Xiangxi] Limited (formerly known as: Rich Base Worldwide Limited) (BVI), Sino-Panel ([Hunan]) Limited (formerly known as Comtech Universal Limited) (BVI), SFR (China) Inc. (BVI), Sino-Panel [Suzhou] Limited (formerly known as: Pacific Harvest Holdings Limited) (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), Sino-Panel (Guangzhou) Limited (BVI), Sino-Panel (North Sea) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (formerly known as Sino-Panel (Jiayu) Ltd.) (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Amplemax Worldwide Limited (BVI), Ace Supreme International Limited (BVI), Express Point Holdings Limited (BVI), Glory Billion International Limited (BVI), Smart Sure Enterprises Limited (BVI), Expert Bonus Investment Limited (BVI), Dynamic Profit Holding Limited (BVI), Alliance Max Limited (BVI), Brain Force Limited (BVI), General Excel Limited (BVI), Poly Market Limited (BVI), Prime Kinetic Limited (BVI), Trillion Edge Limited (BVI), Sino-Panel (China) Nursery Limited (BVI), Sino-Wood Trading Limited (BVI), Homix Limited (BVI), Sino-Panel Trading Limited (BVI), Sino-Panel (Russia) Limited (BVI), Sino-Forest International (Barbados) Corporation (Barbados), Sino-Global Management Consulting Inc. (BVI), Value Quest International Limited (BVI), Well Keen Worldwide Limited (BVI), Harvest Wonder Worldwide Limited (BVI), Cheer Gold Worldwide Limited (BVI), Regal Win Capital Limited (BVI), Rich Choice Worldwide Limited (BVI) and Mega Harvest International Limited (BVI).

Not all of the Company's Restricted Subsidiaries will guarantee the Notes. Sino-Capital Global Inc. (BVI) (the "Initial Non-Guarantor Subsidiary"), which is among the Company's Subsidiaries that have guaranteed the 2011 Senior Notes, will not be a Subsidiary Guarantor at the date of issue of the Notes. In addition, none of the Company's over 40 significant current operating or other PRC Subsidiaries, or our Initial Unrestricted Subsidiaries (as defined herein), will provide a Subsidiary Guarantee. See "Corporate Structure." Each of the Company's Subsidiaries that does not guarantee the Notes, including the Initial Non-Guarantor Subsidiary, is referred to as a "Non-Guarantor Subsidiary." In addition, no future Subsidiaries of the Company that may be organized under the laws of the PRC or another jurisdiction that prohibits such Subsidiary from guaranteeing the payment of the Notes will provide a Subsidiary Guarantee, such Subsidiaries referred to herein as "Foreign Subsidiaries." In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors including, in the case of the Initial Non-Guarantor Subsidiary, holders of the 2011 Senior Notes, before it will be able to distribute any of its assets to the Company or a subsidiary of the Company, as the case may be. The Subsidiary Guarantors are primarily either holding companies that operate through subsidiaries or entities that directly hold property and assets and/or engage in business operations and generate income. Although under the accounting standards applicable to us and our subsidiaries, such Subsidiary Guarantors recognized a significant portion of our income and held a significant portion of our assets on a consolidated basis as of and for the six month period ended June 30, 2010, most of such property and assets are physically located, and most of such income is earned and held, in the PRC and denominated in Renminbi. As a result, even though such Subsidiary Guarantors have agreed to guarantee the obligations of the Company under the Notes, their assets and cash are unlikely to be available to service our obligations under the Notes due to PRC foreign currency exchange controls or uncertainties in the PRC legal system and/or payments from them may be delayed or subject to PRC tax regimes. See "Risk Factors—Risks Related to the PRC."

In addition, our Subsidiaries that do not guarantee the Notes hold significant amounts of our assets and/or generate a significant portion of our income and the portion of assets held or income generated by Subsidiary Guarantors may decrease in the future. See "Risk Factors—Risks Related to the Notes—We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries."

If the Initial Non-Guarantor Subsidiary is not required to register as an investment company under the U.S. Investment Company Act of 1940, as amended, as determined in good faith by us within 30 days after the date on which the most recently available non-consolidated financial statements of the Initial Non-Guarantor Subsidiary and consolidated financial statements of the Company have been provided to the Trustee (or if not timely provided, would have been required to be provided) pursuant to the Indenture, the Company will promptly cause the Initial Non-Guarantor Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which the Initial Non-Guarantor Subsidiary will guarantee the payment of the Notes.

In addition, if the Non-consolidated Cash of the Initial Non-Guarantor Subsidiary when it is not, at the relevant time, a Subsidiary Guarantor, accounts for more than 10% of the Consolidated Cash of the Company, based on the most recently available non-consolidated financial statements of the Initial Non-Guarantor Subsidiary and consolidated financial statements of the Company which have been provided to the Trustee (or if not timely provided, required to be provided) pursuant to the Indenture, the Company will, within 30 days after the date on which such financial statements are available and have been so provided (or if not timely provided, required to be provided), cause the Initial Non-Guarantor Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which the Initial Non-Guarantor Subsidiary will guarantee the payment of the Notes.

For the purposes of the foregoing paragraph:

“Non-consolidated Cash” of the Initial Non-Guarantor Subsidiary means cash and cash equivalents held by such person on a non-consolidated basis, and not including, for the avoidance of doubt, cash and cash equivalents held by Subsidiaries of such person.

“Consolidated Cash” of the Company means cash and cash equivalents of the Company on a consolidated basis.

The Company will cause each of its future Restricted Subsidiaries (other than Subsidiaries organized under the laws of the PRC or Foreign Subsidiaries), immediately upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes.

Under the Indenture, and any supplemental indenture thereto, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to insolvency, fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally or the ability of related parties to provide guarantees. If a Subsidiary Guarantee were to be rendered void or voidable, it could be rendered ineffective or subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee could be reduced to zero.

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under “—Defeasance;”
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with terms of the Indenture; or
- upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under the captions “Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “Certain Covenants—Limitation on Asset Sales” and “Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

Limitations on Subsidiary Guarantees and Enforcement of Security

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee and the enforceability of the Collateral granted in respect of such Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. The guarantee by a Subsidiary Guarantor may be voided or subject to review under applicable

insolvency or fraudulent transfer laws, or subject to a lawsuit by or on behalf of creditors of such Subsidiary Guarantor. See “Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees—The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.”

Unrestricted Subsidiaries

As of the date of the Indenture, all of the Company’s Subsidiaries, except Omnicorp and each of its Subsidiaries (including Greenheart and Silver Mount), and Mandra Holdings and each of its Subsidiaries (the “Initial Unrestricted Subsidiaries”) will be “Restricted Subsidiaries.” Additionally, under the circumstances described below under the caption “—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its other Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries (including the Initial Unrestricted Subsidiaries) will not be subject to many of the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries (including the Initial Unrestricted Subsidiaries) will not Guarantee the Notes.

Omnicorp and its subsidiaries and Mandra Holdings and its subsidiaries represented less than 3% and 7%, respectively, of the Company’s total assets as of June 30, 2010.

Security

Subject to the arrangements described under the caption “—Intercreditor Agreement” below, the Company has agreed, for the benefit of the Holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the “Collateral”) on a first priority basis (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgors under their respective Subsidiary Guarantees. Such Collateral will also secure, on a pro rata basis, the Company’s and the Subsidiary Guarantor Pledgors’ respective obligations to the other Secured Parties under the 2011 Senior Notes and the 2014 Senior Notes.

The initial Subsidiary Guarantor Pledgors will be Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Sinowood Limited (Cayman Islands), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Panel (Asia) Inc. (BVI), Sino-Panel Holdings Limited (BVI), Dynamic Profit Holdings Limited and Sino-Forest International (Barbados) Corporation (Barbados).

The Company has also agreed, for the benefit of the Holders of the Notes, to pledge, or cause each Subsidiary Guarantor (including the Initial Non-Guarantor Subsidiary if it becomes a Subsidiary Guarantor) to pledge the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that is a Restricted Subsidiary or becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC or any other jurisdiction that prohibits the Capital Stock of such Restricted Subsidiaries from being pledged to secure the obligations of the Company or such Subsidiary Guarantor) after the Original Issue Date, promptly upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above. Such additional Collateral will also secure, on a pro rata basis, the Company’s and the Subsidiary Guarantor Pledgors’ respective obligations to the other Secured Parties under the 2011 Senior Notes and the 2014 Senior Notes.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may not be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and their respective obligations to the other Secured Parties under the 2011 Senior Notes and the 2014 Senior Notes, and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See “—Release of Security” and “Risk Factors—Risks Related to the Collateral and the Subsidiary Guarantees—The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes.”

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors and the

Company's and the Subsidiary Guarantor Pledgors' respective obligations to the other Secured Parties under the 2011 Senior Notes and the 2014 Senior Notes. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Default has occurred and is continuing, and subject to the terms of the Security Documents, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive and retain any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

The Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral pari passu with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, "Permitted Pari Passu Secured Indebtedness"); *provided that* (i) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption "Limitation on Indebtedness and Disqualified or Preferred Stock," (ii) the holders of such Indebtedness (or their representative) become party to the Amended Intercreditor Agreement referred to below, (iii) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents and (iv) the Company and such Subsidiary Guarantor Pledgor deliver to the Security Trustee an Opinion of Counsel with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee and the Security Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Amended Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

As of the Original Issue Date, the Collateral was pledged to secure the obligations of the Company and the subsidiary guarantors under the 2011 Senior Notes and the 2014 Senior Notes, pursuant to the terms of such Indebtedness, the security documents related thereto (the "Existing Security Documents") and an intercreditor agreement (the "Existing Intercreditor Agreement") between Law Debenture Trust Company of New York as trustee for the holders of 2011 Senior Notes, Law Debenture Trust Company of New York as trustee for the holders of 2014 Senior Notes and Law Debenture Trust Company of New York as security trustee for the benefit of the secured parties under the Existing Intercreditor Agreement, and acknowledged by the Company. This Existing Intercreditor Agreement, together with the Existing Security Documents, provide, among other things, (1) that the parties thereto (excluding the security trustee) share equal priority and pro rata entitlement in and to the Collateral; (2) for the conditions under which the parties thereto will consent to the release of or granting of any lien on such Collateral; and (3) for the conditions under which the parties thereto will enforce their rights with respect to such Collateral and the Indebtedness secured thereby. The collateral securing the obligations of the Company and the subsidiary guarantors under the 2011 Senior Notes and the 2014 Senior Notes (the "Existing Collateral") includes the Collateral, except that the Capital Stock of certain of the Company's Restricted Subsidiaries that are owned by the Initial Non-Guarantor Subsidiary also secure the 2011 Senior Notes (the "Excluded Collateral").

On the Original Issue Date, the Trustee on behalf of the Holders of the Notes will enter into an amendment of the Existing Intercreditor Agreement (the "Amended Intercreditor Agreement"), and Law

Debenture Trust Company of New York will act as security trustee (the "Security Trustee") for the Holders of the Notes and the other Secured Parties, such that the Holders of the Notes will share equal priority and pro rata entitlement in and to the Collateral (but not with respect to the Excluded Collateral) with the holders of any 2011 Senior Notes and any 2014 Senior Notes remaining outstanding after the Original Issue Date.

The Amended Intercreditor Agreement will also provide that when the Capital Stock of any Person that is or becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC or any other jurisdiction that prohibits such Restricted Subsidiaries from guaranteeing the payment of the Notes) is delivered as security as described in the third paragraph of "—Security" above, such Capital Stock would also be deemed to be Collateral, and subject to the sharing of interest in such security by the Holders of the Notes, under the terms of the Amended Intercreditor Agreement.

Prior to the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes) after the Original Issue Date, the Amended Intercreditor Agreement shall be amended in a form satisfactory to the parties thereto and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative) to include the holders of such Permitted Pari Passu Secured Indebtedness (or their representative) as additional secured parties to the agreement.

Enforcement of Security

The First Priority Lien securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Security Trustee. The Security Trustee will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the Secured Parties (or their respective representatives) to exercise remedies under the Security Documents. The Security Trustee will agree to act as secured party on behalf of the Secured Parties (or their respective representatives) under the applicable Security Documents, to follow the instructions provided to it by the Secured Parties (or their respective representatives) under the Security Documents and to carry out certain other duties. The Trustee will give instructions to the Security Trustee in accordance with instructions it receives from the Holders under the Indenture.

The Indenture and/or the Security Documents will principally provide that, at any time while the Notes are outstanding, the Security Trustee will have the exclusive right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of a Default under the Indenture.

All payments received and all amounts held by the Security Trustee in respect of the Collateral under the Security Documents will be applied as follows:

first, to the Security Trustee to the extent necessary to reimburse the Security Trustee for any expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and preserving the Collateral and all amounts for which the Security Trustee is entitled to indemnification under the Security Documents;

second, to the Trustee for its benefit and the benefit of Holders, to the other Secured Parties (or their respective representatives), to the Paying Agent and Registrar and, to the extent applicable, to holders of Permitted Pari Passu Indebtedness (or their representative); and

third, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Security Trustee may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Security Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Security Trustee's Liens on the Collateral. Neither the Security Trustee nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the

Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents will provide that the Company and the Subsidiary Guarantor Pledgors will Indemnify the Security Trustee for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Security Trustee arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the negligence or willful misconduct of the Security Trustee.

This section, “—Enforcement of Security,” shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with “—Permitted Pari Passu Secured Indebtedness” above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, subject to the terms of the Security Documents and the Amended Intercreditor Agreement, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption “—Defeasance”;
- upon certain dispositions of the Collateral in compliance with the covenants under the captions “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries” or “—Limitation on Asset Sales” or in accordance with the provision under the caption “—Consolidation, Merger and Sale of Assets”; and
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture.

Further Issues

The Company may, from time to time, without notice to or the consent of the Holders, create and issue further debt securities having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for issue date, issue price, and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such subsequently issued debt securities may be consolidated and form a single series with the previously outstanding Notes; *provided that* the issuance of any such further debt securities shall then be permitted under the first paragraph of the “Limitation on Indebtedness and Disqualified or Preferred Stock” covenant described below, *provided further that* any Additional Notes must be treated as part of the same issue as the Notes for U.S. federal income tax purposes.

Optional Redemption

At any time and from time to time on or after October 21, 2014, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of the principal amount set forth below plus accrued and unpaid interest to the redemption date if redeemed during the twelve-month period beginning on October 21 of the years indicated below:

12- month period commencing in the year	Redemption Price
2014	103.125%
2015	101.563%
2016 and thereafter	100.000%

At any time prior to October 21, 2014, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.

At any time prior to October 21, 2013, the Company may redeem up to 35% of the principal amount of the Notes with the Net Cash Proceeds of one or more sales of its Common Stock in an Equity Offering at a redemption price of 106.25% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date; *provided that* at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related sale of Capital Stock.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed, selection of the Notes for redemption will be made by the Trustee by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.

However, no Note of US\$1,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note.

Repurchase of Notes Upon a Change of Control Triggering Event

The Company must commence, within 30 days of the occurrence of a Change of Control Triggering Event, and consummate an Offer to Purchase for all Notes then outstanding (a "Change of Control Offer"), at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Payment Date.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit or require the Company to repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. Holders may not be entitled to require the Company to purchase their Notes in certain circumstances involving a significant change in the composition of Board of Directors, including in connection with a proxy contest where the Board of Directors does not approve a dissident slate of directors but approves them as continuing directors, even if the Board of Directors initially opposed the directors.

If a Change of Control Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the purchase price for all the Notes that might be tendered by the Holders seeking to accept the Change of Control Offer. In the event that the Company purchases Notes pursuant to a Change of Control Offer, the Company expects that it would seek third party financing to the extent it does not have available funds to purchase the Notes. However, there can be no assurance that the Company would be able to obtain such financing.

In order to repurchase the Notes in an Offer to Purchase, the Company will, unless consents are obtained, be required to repay all Indebtedness then outstanding which by its terms would prohibit such Note repurchase, either prior to or concurrently with such Note repurchase.

Sinking Fund

There will be no sinking fund payments for the Notes.

Additional Amounts

All payments of, or in respect of, principal of, and premium (if any) and interest in respect of the Notes or the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "—Consolidation, Merger and Sale of Assets") or the applicable Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the

Holder of each Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (a) for or on account of:
 - (i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
 - (A) the existence of any present or former connection between the Holder of such Note and the Relevant Jurisdiction other than merely holding such Note, including such Holder being or having been a national, domiciliary or resident of or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
 - (B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;
 - (C) the failure of the Holder, despite being required by law, to comply with a timely request of the Company addressed to the Holder or beneficial owner to provide information concerning such Holder's nationality, residence, identity or connection with Canada or any political subdivision or authority thereof, or other Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any taxes as to which Additional Amounts would have otherwise been payable to such Holder; or
 - (D) the presentation of such Note (where presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;
 - (ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
 - (iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2004/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or
 - (iv) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii) and (iii);
- (b) with respect to any payment of the principal of, or any premium, if any, or interest on, such Note to such Holder if such Holder, together with any persons related to such Holder, owns greater than 50% of the voting securities of the Company or such Holder otherwise has de facto control of the Company; or
- (c) with respect to any payment of the principal of, or any premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee to the Holder, if such Holder is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of the Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor, with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner, person or beneficial owner been the registered Holder thereof.

Whenever there is mentioned in any context the payment of principal, any premium or interest, in respect of any Note or Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or Surviving Person, as a whole but not in part, at any time, upon giving not less than 30 days nor more than 60 days notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment, or order by a court of competent jurisdiction),

which change, amendment, application or interpretation (a) in the case of the Company, Surviving Person and any initial Subsidiary Guarantor becomes effective on or after the Original Issue Date and (b) in the case of any successor to a Subsidiary Guarantor or a future Subsidiary Guarantor becomes effective after such Subsidiary Guarantor assumes the obligations under the Indenture or becomes a Subsidiary Guarantor, with respect to any payment due or to become due under the Notes or the Indenture, the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next interest payment date would be, required to withhold or deduct any tax, duty, assessment or other governmental charge imposed, levied, collected, withheld or assessed by a Relevant Jurisdiction and to pay Additional Amounts, and in each case, such requirement to withhold or deduct cannot be avoided by the taking of reasonable measures by the Company, Surviving Person or a Subsidiary Guarantor; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes was then due.

Prior to the publication and mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company or Surviving Person will deliver to the Trustee (a) a certificate signed by a duly authorized officer stating that the Company or Surviving Person is entitled to effect the redemption under the Indenture and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred and (b) an Opinion of Counsel or tax consultant of recognized standing to the effect that based on such statement of facts the circumstances referred to in the prior paragraph exist. The Trustee shall accept such Opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Disqualified or Preferred Stock

- (a) The Company will not Incur any Indebtedness or Disqualified Stock, provided that the Company may Incur Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio would be not less than 2.0 to 1.0. The Company will not permit any Restricted Subsidiary to Incur any Indebtedness (including Acquired Indebtedness), Disqualified Stock or Preferred Stock (other than Disqualified Stock or Preferred Stock of Restricted Subsidiaries held by the Company or a Subsidiary Guarantor, so long as it is so held).

Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):

- (1) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;
- (2) any Pari Passu Subsidiary Guarantees by Subsidiary Guarantors;
- (3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clauses (4) and (5);

- (4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Wholly-Owned Restricted Subsidiary; provided that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Wholly-Owned Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (4) and (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor;
- (5) Indebtedness of the Company or any Restricted Subsidiary, the aggregate principal amount of which at any time outstanding does not exceed the greater of (i) an amount equal to 10.0% of Total Assets of the Company and (ii) an amount equal to 2.0 multiplied by the Consolidated EBITDA of the Company, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom and giving effect to the pro forma adjustment set forth in clauses (A) through (E) of the definition of "Fixed Charge Coverage Ratio," for the four fiscal quarters immediately preceding the date of determination for which consolidated financial statements of the Company are available and have been provided to the Trustee, less any amount of such Indebtedness permanently repaid as provided under the covenant under the caption "—Limitation on Asset Sales";
- (6) Indebtedness issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph or clauses (1) or (2) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); provided that (a) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is pari passu with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (6) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is pari passu with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made pari passu with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (b) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (c) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause (6) by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;
- (7) the Incurrence by the Company or any Restricted Subsidiaries of Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;
- (8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 90 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement; and

- (9) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (5), (7) or (8) above.
- (b) For purposes of determining compliance with this "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (a), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness.
- (c) The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is subordinate in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also subordinate in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of its Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any of its Restricted Subsidiaries' Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly-Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock, but excluding any Indebtedness of the Company or any Restricted Subsidiary that is not subordinated in right of payment to the Notes or any Subsidiary Guarantee that is convertible into Capital Stock of the Company) held by any Persons other than the Company or any Wholly-Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Wholly-Owned Restricted Subsidiaries); or
- (4) make any Investment, other than a Permitted Investment, in any Person;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (A) a Default shall have occurred and be continuing;
- (B) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;" or
- (C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Measurement Date, shall exceed the sum of
 - (1) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter immediately following the Measurement Date and ending

on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment; plus

- (2) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Company, including any such Net Cash Proceeds received upon (x) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Restricted Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; *plus*
- (3) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (a) payments of interest on Indebtedness, dividends or repayments of loans or advances, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), or (b) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person; *plus*
- (4) US\$350.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the Notes or to any Subsidiary Guarantee with the Net Cash Proceeds of, or in exchange for, Indebtedness Incurred under clause (6)(y) of the second paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;"
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a capital contribution or a substantially concurrent sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the Notes or to any Subsidiary Guarantee in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent offering of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable on a *pro rata* basis to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly, through Restricted Subsidiaries by the Company;

- (6) payments or distributions to holders of any class or series of Disqualified Stock outstanding on the Original Issue Date in accordance with the terms of such class or series on the Original Issue Date;
- (7) any Investment in a Unrestricted Subsidiary that is engaged in a Permitted Business which, when taken together with the total amount of all other Investments made pursuant to this clause (7), will not exceed US\$350.0 million (or the Dollar Equivalent thereof);
- (8) any Investment in a Joint Venture which, when taken together with the total amount of all other Investments made pursuant to this clause (8), will not exceed US\$250.0 million (or the Dollar Equivalent thereof); or
- (9) Restricted Payments, if, at the time of the making of such payments, and after giving effect thereto (including, without limitation, the incurrence of any Indebtedness to finance such payment) and giving effect to the pro forma adjustment set forth in clauses (A) through (E) of the definition of "Fixed Charge Coverage Ratio," the Leverage Ratio would not exceed 3.5:1.0;

provided that, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clauses (1), (5), (6), (7), (8) and (9) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of international standing if the Fair Market Value exceeds US\$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in an amount in excess of US\$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officer's Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant under the caption "—Limitation on Restricted Payments" were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to (1) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary, (2) pay any Indebtedness owed to the Company or any other Restricted Subsidiary, (3) make loans or advances to the Company or any other Restricted Subsidiary or (4) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

The foregoing provisions shall not restrict any encumbrances or restrictions:

- (1) existing in agreements as in effect on the Original Issue Date, in the Notes, the Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, and any extensions, refinancings, renewals, supplements, amendments or replacements of any of the foregoing agreements; *provided that* the encumbrances and restrictions in any such extension, refinancing, renewal, supplement, amendment or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed, supplemented, amended or replaced;
- (2) existing under or by reason of applicable law;

- (3) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; provided that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
- (4) in the case of clause (4) of the first paragraph of this covenant, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is a lease, license, conveyance or contract or similar property or asset, or (ii) exist by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) arise or are agreed to in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;
- (5) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries,” “—Limitation on Indebtedness and Disqualified or Preferred Stock” and “—Limitation on Asset Sales” covenants.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly-Owned Restricted Subsidiary;
- (2) to the extent such Capital Stock represents director’s qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly-Owned Restricted Subsidiary;
- (3) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the “—Limitation on Asset Sales” covenant; and
- (4) the issuance and sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided that* the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “—Limitation on Asset Sales” covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any other Restricted Subsidiary, unless (1)(a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (a) (3), (4), (5) or (9)(ii) (other than, in the case of clause 9(ii), a Guarantee by a Restricted Subsidiary organized under the laws of the PRC of the Indebtedness of a non-PRC Restricted Subsidiary) under the caption “—Limitation on Indebtedness and Disqualified or Preferred Stock.”

If the Guaranteed Indebtedness (A) ranks pari passu in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank pari passu in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 5% or more of any class of Capital Stock of the Company or (y) with any Affiliate of the Company or any Restricted Subsidiary (each an "Affiliate Transaction"), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with an unrelated Person; and
- (2) the Company delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million (or the Dollar Equivalent thereof), an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;
- (2) transactions between or among the Company and any of its Wholly-Owned Restricted Subsidiaries or between or among Wholly-Owned Restricted Subsidiaries;
- (3) issuances or sales of Capital Stock (other than Disqualified Stock) of the Company or options, warrants or other rights to acquire such Capital Stock;
- (4) transactions or payments pursuant to any employee, officer or director compensation or benefit plans or similar arrangements (including consultancy agreements pursuant to which officers and directors are compensated) entered into in the ordinary course; and
- (5) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption "—Limitation on Restricted Payments" if permitted by that covenant.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) transactions between or among the Company and any of its Restricted Subsidiaries that is not a Wholly-Owned Restricted Subsidiary to the extent entered into in the ordinary course of business, (ii) Investments (other than Permitted Investments) not prohibited by the "—Limitation on Restricted Payments" covenant, (iii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Offering Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date; *provided that*, in the case of (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or suffer to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or suffer to exist any Lien on any of its assets or properties of any kind (other than the Collateral), now owned or hereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale-Leaseback Transactions

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided that* the Company may enter into a Sale and Leaseback Transaction if:

- (1) the Company could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of the covenant described above under “—Limitation on Indebtedness and Disqualified or Preferred Stock” and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption “—Limitation on Liens”;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company applies the proceeds of such transaction in compliance with, the covenant described below under the caption “—Limitation on Asset Sales.”

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;
- (3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US\$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption “—Limitation on Indebtedness and Disqualified or Preferred Stock” after giving *pro forma* effect to such Asset Disposition; and
- (4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided that* in case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets (i) the Company delivers to the Trustee an Officer’s Certificate stating that (a) the Company’s chief executive officer or chief financial officer has approved such Asset Sale, (b) such Asset Sale is on fair and reasonable terms on an arm’s length basis, and (c) the Fair Market Value of the Replacement Assets, together with any cash consideration is no less than the Fair Market Value of the assets subject to such Asset Sale, and (ii) with respect to any such Asset Sale involving an aggregate consideration with a Fair Market Value in excess of US\$25.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:
 - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary, assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

- (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

- (1) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or
- (2) make an Investment in Replacement Assets.

Pending the final application of any Net Cash Proceeds, the Company may temporarily reduce revolving credit borrowings or otherwise invest the Net Cash Proceeds in any manner that is not prohibited by the Indenture.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "Excess Proceeds." Excess Proceeds of less than US\$15.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When the aggregate amount of Excess Proceeds exceeds US\$15.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase to all Holders (and, with respect to Indebtedness of the Company, that ranks equally with the Notes, containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets, to the holders of such Indebtedness, including any Permitted Pari Passu Indebtedness) to purchase the maximum principal amount of Notes (and any such other pari passu Indebtedness) that may be purchased out of the Excess Proceeds. The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

Notwithstanding the foregoing, the Company will not, and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of any shares of Capital Stock of Sino-Forest (China) Investments Limited or of any Restricted Subsidiary that owns directly or indirectly any shares of Capital Stock of Sino-Forest (China) Investments Limited.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other pari passu Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other pari passu Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided*, however, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption "—Limitation on Restricted Payments."

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary, unless a Subsidiary of such Restricted Subsidiary is a Restricted Subsidiary (and is not concurrently being designated as an Unrestricted Subsidiary); *provided that* (i) Sino-Forest (China) Investments Limited shall always be a Restricted Subsidiary, (ii) such designation would not cause a Default, (iii) a Restricted Subsidiary cannot be a Subsidiary of an Unrestricted Subsidiary and (iv) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary would be permitted to be made by the covenant described under "—Limitation on Restricted Payments."

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* (i) such designation shall not cause a Default, (ii) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by

such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption “—Limitation on Indebtedness and Disqualified or Preferred Stock;” (iii) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption “—Limitation on Liens;” (iv) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary), (v) if such Restricted Subsidiary is not organized under the laws of the PRC and is not a Foreign Subsidiary, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor, and (vi) if such Restricted Subsidiary is not organized under the laws of the PRC or any other jurisdiction that prohibits the Capital Stock of such Restricted Subsidiary from being pledged to secure the obligations of the Company or a Subsidiary Guarantor, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under “—Security.”

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (i) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses, (ii) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens and (iii) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure to so obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (A) the business, results of operations or prospects of the Company and its Restricted Subsidiaries taken as a whole or (B) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Provision of Financial Statements and Reports

The Company will file with the Trustee and provide the holders of the Notes with the documents required to be sent to the Company’s shareholders pursuant to applicable securities laws in the Provinces of Canada in which the Company is a reporting issuer and within the time prescribed by such applicable securities laws. In the event the Company is no longer subject to such applicable securities laws, it will continue to provide the Trustee and the holders of the Notes (i) within 90 days after the end of each fiscal year, copies of its annual audited report and annual consolidated financial statements, (ii) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, interim unaudited consolidated financial statements which shall, at a minimum, contain such information required to be provided in quarterly reports under the applicable securities laws of the Province of Ontario, Canada, and (iii) an Officer’s Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation.

In addition, the Company will provide the Trustee and the holders of the Notes (i) within 120 days after the end of each fiscal year, copies of annual non-consolidated financial statements of the Initial Non-Guarantor Subsidiary and (ii) within 60 days after the end of each of the first three quarters of each fiscal year, interim non-consolidated financial statements of the Initial Non-Guarantor Subsidiary.

Each of the foregoing reports or financial statements will be prepared in accordance with GAAP.

The foregoing reporting obligations shall terminate with respect to the Initial Non-Guarantor Subsidiary in the event that it becomes a Subsidiary Guarantor pursuant to the terms of the Indenture.

In addition, the Company and each Subsidiary Guarantor has agreed that, for as long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or

such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

- (a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (b) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;
- (c) default in the performance or breach of the provisions of the covenants described under "—Consolidation, Merger and Sale of Assets," "—Limitation on Indebtedness and Disqualified or Preferred Stock," "—Limitation on Restricted Payments," "—Limitation on Liens," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "—Repurchase of Notes upon a Change of Control Triggering Event" or "—Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create a First Priority Lien on the Collateral (subject to any Permitted Liens) in accordance or otherwise comply with the covenant described under the caption "—Security;"
- (d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (B) the failure to make a principal payment when due;
- (f) any final judgment or order for the payment of money in excess of US\$10.0 million (or the Dollar Equivalent thereof) in the aggregate for all such final judgments or orders shall be rendered against the Company or any Restricted Subsidiary and shall not be paid or discharged for a period of 60 days during which a stay of enforcement of such final judgment or order shall not be in effect;
- (g) a court having jurisdiction in the premises enters a decree or order for (A) relief in respect of the Company or any Restricted Subsidiary in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (including any proceeding under any corporate law seeking an arrangement of, or stay of proceedings to enforce, some or all of its debts), (B) appointment of a receiver, liquidator, assignee, custodian, monitor, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (C) the winding up or liquidation of the affairs of the Company or any Restricted Subsidiary and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;
- (h) the Company or any Restricted Subsidiary (A) commences a voluntary case or proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or proceeding under any such law, (B) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, monitor, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (C) effects any general assignment for the benefit of creditors;

- (i) any Subsidiary Guarantor repudiates its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;
- (j) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or
- (k) the Company or any Subsidiary Guarantor Pledgor repudiates its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. In the event of a declaration of acceleration because an Event of Default set forth in clause (e) above has occurred and is continuing, such declaration of acceleration shall be automatically rescinded and annulled if the event of default triggering such Event of Default pursuant to clause (e) shall be remedied or cured by the Company or the relevant Restricted Subsidiary or waived by the holders of the relevant Indebtedness within 60 days after the declaration of acceleration with respect thereto. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee, may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if (x) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived and (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction. For information as to the waiver of defaults, see “—Amendments and Waiver.”

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, instruct the Security Trustee to foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See “—Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

- (1) the Holder gives the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligations, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture.

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of Canada and shall expressly assume, by a supplemental indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;"
- (5) the Company delivers to the Trustee (x) an Officer's Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption "—Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

- (1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the first paragraph of the covenant under the caption “—Limitation on Indebtedness and Disqualified or Preferred Stock;”
- (5) the Company delivers to the Trustee (x) an Officer's Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the “Limitation on Asset Sales” covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under “— Release of the Subsidiary Guarantees.”

The foregoing provisions would not necessarily afford holders of the Notes protection in the event of highly leveraged or other transactions involving the Company that may adversely affect holders of the Notes.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder of any Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indentures or the Notes unless such consideration is offered to be paid or is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 365th day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

- (A) the Company has deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance

with their terms will provide money in an amount sufficient (in the case of U.S. Government Obligations, in the opinion of a reputable firm of certified accountants) to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes,

- (B) the Company has delivered to the Trustee (1) either (x) an Opinion of Counsel to the effect that, as a result of a change occurring after the Original Issue Date in applicable U.S. federal income tax law, Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance" provision and will be subject to United States federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (2) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 365 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law, and
- (C) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 365th day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Covenants," clause (c) under "Events of Default" with respect to such clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets," clause (d) under "Events of Default" with respect to such other covenants and clauses (e), (f), (i), (j) and (k) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (B)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel to the effect that, among other things, the Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture or any Security Document may be amended, without the consent of any Holder, to:

- (1) cure any ambiguity, defect or inconsistency in the Indenture, the Notes or any Security Document;
- (2) comply with the provisions described under "Consolidation, Merger and Sale of Assets;"
- (3) evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;
- (5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;
- (7) add additional Collateral to secure the Notes or any Subsidiary Guarantee;
- (8) effect any change to the Indenture in a manner necessary to comply with the procedures of DTC;
- (9) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture); or
- (10) make any other change that does not materially and adversely affect the rights of any Holder.

Amendments with Consent of Holders

Amendments of the Indenture or any Security Document may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes; provided, however, that no such modification or amendment may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the currency of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;
- (7) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;
- (8) release any Collateral, except as provided in the Indenture and the Security Documents;
- (9) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (10) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

- (11) amend, change or modify any provision of any Security Document, or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale must be made or by which the Notes may be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;
- (13) change the redemption date or the redemption price of the Notes from that stated under the captions "Optional Redemption" or "Redemption for Taxation Reasons;"
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Paying Agent

Law Debenture Trust Company of New York is to be appointed as Trustee under the Indenture and Citibank, N.A. is to be appointed as registrar and paying agent (the "Paying Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions; *provided*, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Law Debenture Trust Company of New York will initially act as Security Trustee under the Security Documents in respect of the Security over the Collateral. The Security Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Security Trustee may have obligations under the Security Documents that are in conflict with the interests of the Holders. The Trustee and the Security Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders unless such Holders have offered to the Trustee and the Security Trustee indemnity or security

reasonably satisfactory to the Trustee and the Security Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee and the Security Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Security Trustee in respect of such risks.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for definitive Notes, we will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for definitive Notes, an announcement of such exchange shall be made by or on behalf us through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with Citibank, N.A. as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with Citibank, N.A. as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Subsidiary Guarantors, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to

owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by a Holder (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the dealer manager. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and

Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Initial settlement for the Notes will be made in immediately available funds. All Notes issued in the form of global notes will be deposited with Citibank, N.A. as custodian for DTC. Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date. Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading between DTC Participants. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

Trading between Euroclear and Clearstream Participants. Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

Trading between DTC Seller and Euroclear or Clearstream Purchaser. When Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Notes. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. After settlement has been completed, the Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Notes were credited to their accounts. However, interest on the Notes would accrue from the value date. Therefore, in many cases, the investment income on Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

- (1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;
- (2) borrowing the Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or
- (3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

Trading between Euroclear or Clearstream Seller and DTC Purchaser. Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream will credit the Notes to the DTC participant's account against payment. Payment will include interest accrued on the Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See "—Trading between DTC Seller and Euroclear or Clearstream Purchaser" above.

None of the Company, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mail (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. Federal or New York State court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Services, Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"2011 Senior Notes" means any and all outstanding notes of the initially issued US\$300,000,000 9.125% Guaranteed Senior Notes due 2011 of the Company.

"2014 Senior Notes" means any and all outstanding notes of the initially issued US\$399,517,000 10.25% Guaranteed Senior Notes due 2014 of the Company.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Amended Intercreditor Agreement" has the meaning set forth under "—Security."

“Applicable Premium” means with respect to an Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note at October 21, 2014 (such redemption price being set forth in the table appearing under the caption “—Optional Redemption”), plus (y) all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through October 21, 2014, computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries, or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person other than the Company or any Wholly-Owned Restricted Subsidiary; provided that “Asset Sale” shall not include:

- (a) sales or other dispositions of inventory, receivables and other current assets (including, but not limited to wood chips, logs, lumber, and manufactured wood and wood panel products) or standing timber in the ordinary course of business,
- (b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the “Limitation on Restricted Payments” covenant,
- (c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions,
- (d) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries,
- (e) any, transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien, or
- (f) a transaction covered by the covenant under the caption “—Consolidation, Merger and Sale of Assets.”

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, United States or in London, England (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding any debt securities convertible into such equity.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation, or consolidation of the Company with or into another Person or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;
- (2) any “person” or “group” (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company;
- (3) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (4) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Decline.

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes, any Subsidiary Guarantee, Permitted Pari Passu Secured Indebtedness or any Pari Passu Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of all Capital Stock of the initial Subsidiary Guarantors held by the Company or a Subsidiary Guarantor Pledgor, and may include any other Capital Stock of any Person owned by the Company or any Subsidiary Guarantor Pledgor that becomes a Restricted Subsidiary (other than those organized under the laws of the PRC, or are a Foreign Subsidiary) as may be pledged by the Company or the Subsidiary Guarantor Pledgors from time to time pursuant to the section “Security.”

“Commodity Agreement” means any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to October 21, 2014 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to October 21, 2014.

"Comparable Treasury Price" means, with respect to any redemption date:

- (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities;" or
- (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense,
- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets),
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than depletion of timber holdings or non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP, *provided that* if any Restricted Subsidiary is not a Wholly-Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries.

"Consolidated Fixed Charges" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non cash dividends, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly-Owned Restricted Subsidiary.

"Consolidated Interest Expense" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, *plus*, to the extent not included in such gross interest expense, and to the extent incurred or paid during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations, (ii) amortization of debt issuance costs and original issue discount expense and non cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the interest equivalent costs associated with Interest Rate Agreements, (vi) interest actually paid by the Company or any Restricted Subsidiary on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary and (vii) any capitalized interest, *provided that* interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"Consolidated Net Income" means, with respect to any specified Person for any period, the aggregate of the net income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided that* the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except to the extent of the amount of dividends or similar distributions actually paid in cash to the specified Person or a Restricted Subsidiary of the Person during such period;
- (2) the net income (and loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;
- (3) the net income of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles will be excluded;
- (5) any net after tax gains (or losses) realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains (or losses).

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available quarterly or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, *plus*, to the extent not included, any Preferred Stock of the Company, *less* any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided that* any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of such Notes as are required to be repurchased pursuant to the "Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control Triggering Event" covenants.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"DTC" means The Depository Trust Company, a New York corporation, and its successors.

"Equity Offering" means any primary private or public offering of Common Stock of the Company after the Original Issue Date; *provided that* the aggregate gross cash proceeds received by the Company from such offering shall be no less than US\$25.0 million (or the Dollar Equivalent thereof).

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Fair Market Value" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution; provided, however, that for purposes of clause (4)(a) under the caption "*—Certain Covenants—Limitation on Asset Sales,*" such determination may instead be made by the Company's Chief Executive Officer or Chief Financial Officer.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Four Quarter Period") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (A) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period;
- (B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (C) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (D) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (E) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (D) or (E) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“Foreign Subsidiary” means any Restricted Subsidiary of the Company organized under the laws of a jurisdiction that prohibits such Subsidiary from guaranteeing payments under the Notes.

“GAAP” means generally accepted accounting principles in Canada applicable to publicly accountable enterprises as set out in the Handbook of the Canadian Institute of Chartered Accountants, as amended from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided that* (1) any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence,” “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations;
- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided that* the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person; and
- (8) to the extent not otherwise included in this definition, obligations under Commodity Agreements, Currency Agreements and Interest Rate Agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, *provided*

- (A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,
- (B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest, and
- (C) that the amount of Indebtedness with respect to any Commodity Agreements, Currency Agreements and Interest Rate Agreements shall be equal to the net amount payable if such agreements terminated at that time due to default by such Person.

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement.

"Investment" means:

- (i) any direct or indirect advance, loan or other extension of credit (other than Trade Payables that are, in conformity with GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the Company or its Restricted Subsidiaries) to another Person,
- (ii) capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),
- (iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or
- (iv) any Guarantee of any obligation of another Person;

provided that an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of common equity securities of the Company shall not be deemed to be an Investment.

For the purposes of the provisions of the "Designation of Restricted and Unrestricted Subsidiaries" and "Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody's or both, as the case may be.

"Joint Venture" means any Person engaged in a Permitted Business of which the Company, together with its Restricted Subsidiaries, directly holds or, as a result of the respective Investment, will hold, at least 25% of its Capital Stock.

"Leverage Ratio" means, as at the time of determination, the aggregate principal amount of Indebtedness of the Company and the Restricted Subsidiaries outstanding at such time determined on a consolidated basis, divided by the Consolidated EBITDA of the Company for the four fiscal quarters immediately preceding the date of determination for which consolidated financial statements of the Company are available and have been provided to the Trustee.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Measurement Date" means July 27, 2009.

"Moody's" means Moody's Investors Service and its affiliates.

"Net Cash Proceeds" means:

- (a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of
 - (1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;
 - (2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;
 - (3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;
 - (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and
- (b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorney's fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;
- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Payment Date");
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Payment Date;

- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US\$2,000 or integral multiples of US\$1,000.

On the Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officer's Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US\$2,000 or integral multiples of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company, or, in the case of a Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor.

"Officer's Certificate" means (i) a certificate signed by two Officers or (ii) in the event the relevant entity has one appointed Officer only, a certificate signed by such Officer or (iii) in the event the relevant entity has no appointed Officer, a certificate signed by either its sole director or two directors if such entity has more than one director.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Pari Passu Subsidiary Guarantee" means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided that* (i) the Company or such Subsidiary Guarantor was permitted to incur such Indebtedness under the covenant under the caption "Limitation on Indebtedness and Disqualified or Preferred Stock" and (ii) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor.

"Permitted Businesses" means the Permitted Forestry Plantation Business and the manufacturing of wood and wood-based products and related businesses and activities incidental to such activities.

"Permitted Forestry Plantation Business" means the operation of forestry plantations and production and processing facilities, the processing, sale, distribution, transportation, cultivation and development of wood fibers and logs, and other similar wood and wood-based products, including bio-fuels, the operation of plantation nurseries, and the sale and distribution of seeds and saplings, inputs and similar

products, or intermediate products and by-products used or produced in connection with such activities, the planting of saplings and trees in city greening and urban landscaping projects, including the design and implementation of such projects, the import and export of logs, lumber and other wood and wood-based products, trading agency activities related to the foregoing, and related businesses and activities incidental to any of the foregoing activities.

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business;
- (2) Temporary Cash Investments;
- (3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) Commodity Agreements, Interest Rate Agreements and Currency Agreements designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;
- (7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) any securities, non-cash consideration or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under “—Limitation on Asset Sales;”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens” or made in connection with Liens permitted under the covenant described under “—Limitation on Liens;”
- (10) loans or advances to employees made in the ordinary course of business and consistent with past practices of the Company or past practices of a Restricted Subsidiary, as the case may be, in an aggregate amount outstanding not to exceed at any one time US\$500,000 (or the Dollar Equivalent thereof); and
- (11) loans to employees, directors and officers not exceeding the amount required to exercise an option to purchase the Company’s Capital Stock held by such individual, *provided that* the Capital Stock issued upon exercise of such option is pledged to the Company as security for such loan.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;
- (5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;
- (6) any interest or title of a lessor in the property subject to any operating lease;
- (7) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided that* such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired;
- (8) Liens in favor of the Company or any Wholly-Owned Restricted Subsidiary;
- (9) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;
- (10) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (11) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;
- (12) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities;
- (13) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business in accordance with the past practices of the Company and its Restricted Subsidiaries prior to the Original Issue Date;
- (14) Liens existing on the Original Issue Date;
- (15) Liens on real property, trees or current assets securing Indebtedness which is permitted to be Incurred under clause (5) or (8) of the second paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant;
- (16) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (6) of the second paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (17) Liens under the Security Documents; and
- (18) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "Security—Permitted Pari Passu Secured Indebtedness."

"Permitted Pari Passu Secured Indebtedness" has the meaning set forth under "Security—Permitted Pari Passu Secured Indebtedness."

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Rating Agencies” means (i) S&P and (ii) Moody’s and (iii) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both, as the case may be.

“Rating Category” means (i) with respect to S&P, any of the following categories: BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Moody’s, any of the following categories: Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (+ and —for S&P; 1, 2 and 3 for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from BB+ to BB, as well as from BB— to B+, will constitute a decrease of one gradation).

“Rating Date” means (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control, or (ii) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (i) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any member or members of management of the Company to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (ii) in connection with actions contemplated under the caption “—Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both Moody’s and S&P on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

“Replacement Assets” means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business and shall include Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business and will upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, become a Restricted Subsidiary.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Group and its affiliates.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"Secured Party" means any of (i) the holders of the 2011 Senior Notes, (ii) the holders of the 2014 Senior Notes and (iii) the Holders.

"Security Documents" means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Security Trustee, the Trustee and/or any Holders in any or all of the Collateral.

"Senior Indebtedness" of the Company or a Subsidiary Guarantor, as the case may be, means all Indebtedness of the Company or the Subsidiary Guarantor, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be not senior in right of payment to the Notes or, in respect of such Subsidiary Guarantor, its Subsidiary Guarantee; *provided that* Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"Subordinated Indebtedness" means any Indebtedness of the Company which is subordinated or junior in right of payment to the Notes pursuant to a written agreement to such effect.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"Subsidiary Guarantee" means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"Subsidiary Guarantor" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which is required to guarantee the payment of the Notes pursuant to the Indenture and the Notes; *provided that* Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"Subsidiary Guarantor Pledgor" means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which is required to pledge Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided that* a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

"Temporary Cash Investment" means any of the following:

- (1) direct obligations of the United States of America or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America or any agency thereof, in each case maturing within 24 months;
- (2) time deposit accounts, certificates of deposit and money market deposits maturing within 24 months of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, Hong Kong.

Singapore or Canada, and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;
- (4) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof, Canada or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-3" (or higher) according to Moody's or "A-3" (or higher) according to S&P;
- (5) securities with maturities of 24 months or less from the date of acquisition issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's;
- (6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and
- (7) time deposit accounts, certificates of deposit and money market deposits with (i) Bank of China, Industrial Commercial Bank of China, Construction Bank of China, Shanghai Pudong Development Bank, Bank of Shanghai, (ii) any other bank or trust company organized under the laws of the PRC whose long term debt is rated as high or higher than any of those banks or (iii) any other bank organized under the laws of the PRC, *provided that*, in the case of clause (iii), such deposits do not exceed US\$5.0 million (or the Dollar Equivalent thereof) with any single bank or US\$75.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP, as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company are available; *provided*, that Total Assets shall be calculated after giving effect to include the cumulative value of all real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefore or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institution lender providing such Indebtedness.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Transaction Date" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"Unrestricted Subsidiary" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided herein; and (2) any Subsidiary of an Unrestricted Subsidiary.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the Company thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such

custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wholly-Owned" means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly-Owned Subsidiaries of such Person.

TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Offering Memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision of a prospective purchaser to acquire or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. You are advised to consult your own tax advisors concerning the overall tax consequences of the purchase, ownership and disposition of the Notes.

Canada

Canadian federal income tax considerations

In the opinion of Aird & Berlis LLP, Canadian counsel to the Company and Stikeman Elliot LLP, Canadian counsel to the Initial Purchasers (collectively, "**counsel**"), the following is a summary of the principal Canadian federal income tax considerations generally applicable to a holder who acquires Notes as beneficial owner pursuant to this Offering Memorandum and who, at all relevant times, for the purposes of the *Income Tax Act* (Canada) (the "**Tax Act**"): (i) holds such Notes as capital property; (ii) deals at arm's length with the Company and each of the Initial Purchasers, and (iii) is not affiliated with the Company (a "**Holder**"). The Notes will generally be considered capital property to a Holder unless either (i) the Holder holds the Notes in the course of carrying on a business of buying and selling securities, or (ii) the Holder has acquired the Notes in a transaction or transactions considered to be an adventure or concern in the nature of trade. This summary is not applicable to: (i) a Holder that is a financial institution (as defined in the Tax Act for purposes of the mark-to-market rules in the Tax Act); (ii) a Holder an interest in which is a tax shelter investment (as defined in the Tax Act), or (iii) a Holder who reports its Canadian tax results (as defined in the Tax Act) in a currency other than Canadian currency. Such Holders should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "**Regulations**") and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"). This summary also takes into account all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (collectively, the "**Proposed Tax Amendments**") and assumes that all such Proposed Tax Amendments will be enacted in the form proposed. No assurances can be given that the Proposed Tax Amendments will be enacted or will be enacted as proposed. Other than the Proposed Tax Amendments, this summary does not take into account or anticipate any changes in the law or the administrative policies or assessing practices of CRA, whether by judicial, legislative, governmental or administrative decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder and no representations with respect to the Canadian federal income tax consequences to any particular Holder are made. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective investors in Notes should consult their own tax advisors with respect to their own particular circumstances. In particular, the Trust Indenture provides for the defeasance by the Company of the Notes provided that certain conditions are satisfied. The Canadian federal income tax consequences to Holders who are resident in Canada associated with a defeasance of the Notes are uncertain and this summary does not consider the potential Canadian federal income tax implications to such Holders of such a defeasance. Accordingly, Holders who are resident in Canada should consult with their own tax advisors regarding the Canadian federal income tax consequences of a defeasance of the Notes.

Currency conversion

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Notes, including interest, adjusted cost base and proceeds of disposition must be converted into Canadian dollars based on the United States-Canadian dollar exchange rate quoted by the Bank of Canada at noon on the relevant date of the related acquisition, disposition or recognition of income or such other rate of exchange that is acceptable to the CRA.

Residents of Canada

The following portion of this summary is generally applicable to a Holder who, at all relevant times, for the purposes of the Tax Act, is or is deemed to be resident in Canada (a "Resident Holder"). Certain such Resident Holders whose Notes might not otherwise qualify as capital property may be entitled to obtain such qualification in certain circumstances by making the irrevocable election permitted by subsection 39(4) of the Tax Act to deem the Notes and every other Canadian security (as defined in the Tax Act) owned by such Resident Holder in the taxation year in which the election is made, and in all subsequent taxation years, to be capital property.

Taxation of interest on the Notes

A Resident Holder that is a corporation, partnership, unit trust or trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest on a Note that accrues or is deemed to accrue to the Resident Holder to the end of that taxation year or becomes receivable or is received by the Resident Holder before the end of that taxation year, except to the extent that such amount was already included in the Resident Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing its income for a taxation year any interest on a Note that was received or became receivable by such Resident Holder in that year (depending upon the method regularly followed by the Resident Holder in computing income), to the extent that such amount was not otherwise already included in the Resident Holder's income for a preceding taxation year. In addition, any such Resident Holder who holds a Note on any anniversary day (as defined in the Tax Act) of the Note shall be required to include in computing its income for a taxation year any interest that accrued or was deemed to have accrued to the Resident Holder on the Note to the end of that day, to the extent the interest was not otherwise included in the Resident Holder's income for the year or any preceding taxation year. For this purpose, an anniversary day means the day that is one year after the day immediately preceding the date of issue of the Note, the day that occurs at every successive one year interval from that day and the day on which the Note is disposed of.

In addition, any amount paid by the Company as a penalty or bonus to a Resident Holder as a result of the early redemption of all or part of the principal amount of the Notes by the Company will generally be deemed to be interest received by a Resident Holder at the time of the redemption and will be required to be included in computing the Resident Holder's income as described above to the extent that it can reasonably be considered to relate to, and does not exceed the value at the time of the redemption of, the interest that would have been paid or payable by the Company on the Notes for a taxation year ending after the redemption.

On an assignment or other transfer of a Note, including a redemption, a payment on maturity, or a purchase for cancellation, a Resident Holder will generally be required to include in income for the taxation year in which the disposition occurs, the amount of interest accrued on the Note from the date of the last interest payment to the date of such assignment or other transfer to the extent that such amount has not otherwise been included in the Resident Holder's income for the taxation year or a preceding taxation year.

A Resident Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable for a refundable tax of 6 $\frac{2}{3}$ % on its aggregate investment income (as defined in the Tax Act). For this purpose, aggregate investment income will generally include interest income.

Disposition of Notes

In general, a disposition or deemed disposition of a Note, including a redemption, payment on maturity, purchase for cancellation, assignment or transfer of a Note will give rise to a capital gain (capital loss) to the extent that the proceeds of disposition, net of any accrued interest and any other amounts included in the Resident Holder's income on such disposition or deemed disposition as interest, exceed (are less than) the adjusted cost base of the Note to the Resident Holder immediately before the disposition or deemed disposition and any reasonable costs of disposition.

One-half of the amount of any capital gain (a “**taxable capital gain**”) realized by a Resident Holder in a taxation year generally must be included in the Resident Holder’s income in that year, and, subject to and in accordance with the provisions of the Tax Act, one-half of the amount of any capital loss (an “**allowable capital loss**”) realized by a Resident Holder in a taxation year generally must be deducted from the taxable capital gains realized by the Resident Holder in that year. Allowable capital losses in excess of taxable capital gains realized in any particular year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances described in the Tax Act.

As discussed above, a Resident Holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable for an additional refundable tax of 6 $\frac{2}{3}$ % on its aggregate investment income (as defined in the Tax Act). For this purpose, aggregate investment income will generally include net taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Non-Residents of Canada

The following portion of this summary is generally applicable to a Holder who for purposes of the Tax Act: (i) is not, has not been, and will not be, or deemed to be, resident in Canada at any time while holding the Notes; (ii) has never used or held, does not use or hold, will never use or hold, and is not deemed to use or hold, the Notes in or in the course of carrying on business in Canada, and (iii) is not an insurer who carries on an insurance business in Canada and elsewhere (a “**Non-Resident Holder**”).

Any principal, interest or premium paid or credited by the Company to a Non-Resident Holder in respect of the Notes will not be subject to Canadian non-resident withholding tax. No other tax on income (including capital gains) will be payable under the Tax Act by a Non-Resident Holder in respect of the acquisition, holding, redemption or other disposition or deemed disposition of the Notes, or the receipt of any interest, principal or premium thereon.

US Federal Income Taxation

TO ENSURE-COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the “issue price” (as described below) that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as certain financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

For purposes of this discussion, the issue price of a Note will generally be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers.

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or other entity taxable as a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships and partners in such partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

It is expected, and this discussion assumes, that the Notes will not be issued with original issue discount for United States federal income tax purposes. Accordingly, interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale and Retirement of the Notes

A U.S. Holder will generally recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

Backup Withholding and Information Reporting

Payments of principal and interest on, and the proceeds of sale or other disposition of Notes through a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

PLAN OF DISTRIBUTION

We intend to offer the Notes through Banc of America Securities LLC ("BoA") and Credit Suisse Securities (USA) LLC ("Credit Suisse," together with BoA, the "Initial Purchasers"). Subject to the terms and conditions contained in a purchase agreement dated as of October 14, 2010 by and among us, the Subsidiary Guarantors and the Initial Purchasers (the "Purchase Agreement"), we have agreed to sell to the Initial Purchasers, and each of the Initial Purchasers, severally and not jointly, has agreed to purchase from us, the principal amount of the Notes listed opposite its name below.

<u>Initial Purchaser</u>	<u>Principal Amount</u>
Banc of America Securities LLC.....	US\$300,000,000
Credit Suisse Securities (USA) LLC.....	US\$300,000,000
Total.....	<u>US\$600,000,000</u>

Subject to the terms and conditions contained in the Purchase Agreement, the Initial Purchasers have agreed to purchase all of the Notes being sold pursuant to the Purchase Agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the Purchase Agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the Purchase Agreement may be terminated. The Initial Purchasers have advised us that they propose initially to offer the Notes for resale at the issue price that appears on the cover of this Offering Memorandum. After the initial offering, the offering price may change.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of those liabilities.

The Initial Purchasers are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the Purchase Agreement, such as the receipt by the Initial Purchasers of officers' certificates and legal opinions. The Initial Purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The purchase price to be paid by the Initial Purchasers for the Notes in this offering will be 98.0% of the principal amount thereof.

We estimate that the net proceeds from the offering of the Notes will be approximately US\$586,000,000 after giving effect to the Initial Purchasers' discount and offering expenses payable by us.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be

“qualified institutional buyers” as defined in Rule 144A, or pursuant to offers and sales that occur outside the United States to non-U.S. persons in accordance with Regulation S. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Initial Purchaser severally represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), it has not made and will not make an offer of Notes to the public in that Relevant prior to the publication of a prospectus in relation to the Notes which are the subject of the offering contemplated by the Offering Memorandum to the public in that Relevant Member State other than:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the manager for any such offer; or
- in any other circumstances falling within to Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require us or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Initial Purchaser has severally represented and agreed that (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (“FSMA”) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us or any Subsidiary Guarantor) and (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Initial Purchaser has represented and agreed that it has not offered or sold and will not offer or sell in Hong Kong, by means of any document any Notes, other than, (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (ii) in circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. Each Initial Purchaser has represented and agreed that it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation

or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are intended to be disposed of to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made thereunder.

Singapore

Each Initial Purchaser has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Initial Purchaser has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law; or
- (iv) as specified in Section 276(7) of the SFA.

PRC

This Offering Memorandum does not constitute a public offer of the Notes, whether by way of sale or subscription, in the PRC (excluding, for purposes of this paragraph only, Hong Kong, Macau and Taiwan). The Notes are not being offered and may not be offered or sold, directly or indirectly, in the PRC to or for the benefit of, legal or natural persons of the PRC except pursuant to applicable laws and regulations of the PRC, including but not limited to the laws and regulations applicable to qualified domestic institutional investors as approved by competent authorities in the PRC.

Canada

In Canada, the Notes will be offered and sold only to investors who are "accredited investors" within the meaning of National Instrument 45-106—Prospectus and Registration Exemptions.

France

Each Initial Purchaser has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any Notes to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering

Memorandum or any other offering material relating to the Notes and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (investisseurs qualifiés), as defined in, and in accordance with, Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French Code monétaire et financier.

No Sales of Similar Securities

During a period of 120 days from the date of the Offering Memorandum, the Company will not, without the prior written consent of the Initial Purchasers, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of, any other debt securities of the Company or securities of the Company that are convertible into, or exchangeable for, the Notes or such other debt securities.

New Issue of Notes

The Notes are a new issue of securities for which there currently is no market. We have made an application for the listing of the Notes on the SGX-ST. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the offering. However, the Initial Purchasers are under no obligation to do so and may discontinue any market-making activities at any time without any notice.

The Notes have not been registered under the Securities Act or any state securities laws and will be subject to restrictions on resale. Prior to the offering, there has been no active market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

Price Stabilization and Short Positions

In connection with the offering, the Stabilizing Manager may engage in transactions that stabilize the market price of the Notes. Such transactions include, without limitation, bids or purchases to peg, fix or maintain the price of the Notes. If the Initial Purchasers create a short position in the Notes in connection with the offering, i.e., if they sell more Notes than are on the cover page of this Offering Memorandum, the Stabilizing Manager may reduce that short position by purchasing Notes in the open market. Purchases of a security to stabilize the price or to reduce a short position may cause the price of the security to be higher than it might be in the absence of such purchases.

Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that the Stabilizing Manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Purchase for Own Account

The Initial Purchasers or their respective affiliates may purchase the Notes for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of ours, the Subsidiary Guarantors or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

Electronic Distribution

Each Initial Purchaser will be facilitating an Internet distribution for this offering to some of its Internet subscription customers. An electronic Offering Memorandum is available on the Internet website maintained by each Initial Purchaser. The information on an Initial Purchaser's website is not part of this Offering Memorandum.

Other Relationships

The Initial Purchasers and their affiliates have engaged in, and may in the future engage in, investment banking, commercial banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

Settlement

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this Offering Memorandum, which will be on or about the fifth business day following the pricing date of the Notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal advisor.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any resale, pledge or transfer of the Notes.

United States Restrictions

This offering is being made pursuant to Rule 144A and Regulation S under the Securities Act. The Notes (including the Subsidiary Guarantees attached thereto) have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state in the United States or other jurisdiction. Accordingly, the Notes (including the Subsidiary Guarantees attached thereto) are being offered and sold only (a) to "qualified institutional buyers" ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or (b) outside the United States to persons other than U.S. persons (as defined in Regulation S) in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any other applicable law.

Transfer Restrictions on the 144A Notes

Each purchaser of Notes pursuant to Rule 144A (such Notes, the "Rule 144A Notes") will, by its acceptance thereof, be deemed to have acknowledged, represented to and agreed with us, the Trustee and the Initial Purchasers that:

1. The Rule 144A Notes (and the Subsidiary Guarantees attached thereto) have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;
2. The purchaser is a QIB purchasing the Rule 144A Notes (including the Subsidiary Guarantees attached thereto) for its own account, or for the accounts of one or more QIBs with respect to which account it exercises sole investment discretion, and the purchaser is aware that the transferor of such Notes (including the Subsidiary Guarantees attached thereto) is relying on the exemption from registration under the Securities Act provided by Rule 144A for the transfer;
3. It will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A Notes (including the Subsidiary Guarantees attached thereto) except as permitted by the applicable legend set forth in paragraph 4 below;
4. The Rule 144A Notes will bear a legend to the following effect, unless we determine otherwise in compliance with applicable law, and that it will observe the transfer restrictions contained therein:

THE NOTES (THE "SECURITIES") AND THE GUARANTEES EVIDENCED HEREBY, HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A NOTE OR AN INTEREST IN THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT

UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR REALES OF THIS RULE 144A NOTE;

5. The Rule 144A Notes offered in this offering will initially be evidenced by a Rule 144A Global Note and before any beneficial interest in the Rule 144A Notes evidenced by such Rule 144A Global Note may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Notes evidenced by the Regulation S Global Note, the transferor will be required to provide a written certification, as described below in "Other Provisions Regarding Transfer of the Notes";
6. Any resale or other transfer, or attempted resale or other transfer, of the Rule 144A Notes made other than in compliance with the above-stated restrictions shall not be recognized by us in respect of the Rule 144A Notes; and
7. That it will inform each person to whom it transfers Notes of any restrictions on the transfer of such Notes.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A

Transfer Restrictions on the Regulation S Notes

Each purchaser of Regulation S Notes outside the United States pursuant to Regulation S by its acceptance thereof will be deemed to have acknowledged and represented to and agreed with us, the Trustee and the Initial Purchasers that:

1. The Regulation S Notes (including the Subsidiary Guarantees attached thereto) have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States;
2. It is purchasing the Regulation S Notes (including the Subsidiary Guarantees attached thereto) in an offshore transaction meeting the requirements of Regulation S, is not a U.S. person and is located outside the United States and is not an affiliate of us or a person acting on behalf of such affiliate; and
3. It will not offer or sell the Regulation S Notes (including the Subsidiary Guarantees attached thereto), (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Regulation S Notes (including the Subsidiary Guarantees attached thereto) (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes (including the Subsidiary Guarantees attached thereto) within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them in Regulation S.
4. The Regulation S Notes will bear a legend to the following effect, unless we determine otherwise in compliance with applicable law, and that it will observe the transfer restrictions contained therein:

THE NOTES (THE "SECURITIES") AND THE GUARANTEES EVIDENCED HEREBY, HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE LATEST CLOSING DATE, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE

PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE SECURITIES ACT IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S NOTE OR AN INTEREST IN THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

Other Provisions Regarding Transfer of the Notes

The above legends and the certifications as further described in the Indenture prohibit or restrict certain transfers as summarized below. Interests in Notes evidenced by the Rule 144A Global Note may be transferred to a person whose interest in such Notes is subsequently represented by the Regulation S Global Note only upon receipt by the transfer agent of such written certifications from the transferor and the transferee to the effect that such transfer is being made in accordance with Regulation S. Interests in Notes represented by the Regulation S Global Note may be transferred to a person whose interest in such Notes is subsequently evidenced by the Rule 144A Global Note only upon receipt by the transfer agent of such written certifications from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 144A. Any interest in Notes evidenced by one of the Global Notes that is transferred to a person whose interest in such Note is subsequently evidenced by an interest in the other Global Note will, upon transfer, cease to be an interest in the Notes evidenced by such first Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in Notes evidenced by the such other global note for so long as it remains such an interest.

Except in the limited circumstances described the Indenture, no person will be entitled to receive physical delivery of definitive Notes. The Notes are not issuable in bearer form.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

Canadian Restrictions

Each purchaser of Notes by its acceptance thereof will be deemed to have acknowledged and represented to and agreed with us, the Trustee and the Initial Purchasers that it will not transfer, sell, or otherwise dispose of Notes (or any legal or beneficial interest in those securities), in, or to a resident of, Canada, or through a Canadian stock exchange or over-the-counter trading market operating in Canada, until the date that is four months and one day following the closing of this offering, unless such transfer, sale, or other disposition is made to a person that is an "accredited investor" within the meaning of applicable Canadian securities laws or unless the principal amount of Notes transferred, sold or otherwise disposed of is in a principal amount that is not less than Cdn.\$150,000.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Our audited consolidated financial statements for the years ended December 31, 2007 and 2008 and the auditors' report of Ernst & Young LLP dated March 13, 2009, with respect to our consolidated financial statements for the years ended December 31, 2007 and 2008, filed with the provincial securities commissions or similar authorities in Canada on March 18, 2009 are specifically incorporated by reference in and form an integral part of this Offering Memorandum.

Our audited financial statements for the years ended December 31, 2008 and 2009 and the auditors' report of Ernst & Young LLP dated March 15, 2010, with respect to our consolidated financial statements for the years ended December 31, 2008 and 2009, filed with the provincial securities commissions or similar authorities in Canada on March 16, 2010 and our unaudited interim consolidated financial statements for the six-month periods ended June 30, 2009 and 2010, included in our interim financial statements (from page 27 to page 55) filed with the provincial securities commissions or similar authorities in Canada on August 10, 2010 are specifically incorporated by reference in and form an integral part of this Offering Memorandum.

A copy of each of these documents is available electronically at www.sedar.com (the official site providing access to most public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators in the SEDAR filing system).

Any statement contained in this Offering Memorandum or a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except in its modified or superseded form, to constitute part of this Offering Memorandum.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Aird & Berlis LLP as to Canadian law, Linklaters as to Hong Kong, United Kingdom and United States federal and New York law, Chancery Chambers as to Barbados law and Appleby as to British Virgin Islands and Cayman Islands law, and for the Initial Purchasers by Stikeman Elliot LLP as to Canadian law and by Davis Polk & Wardwell LLP as to United States federal and New York law. Certain legal matters as to the law of the People's Republic of China will be passed upon for us by Jingtian & Gongcheng, and for the Initial Purchasers by Commerce & Finance Law Offices.

INDEPENDENT AUDITORS

Our consolidated financial statements for the years ended December 31, 2007, 2008 and 2009 were audited by Ernst & Young LLP, independent auditors, as stated in their reports incorporated by reference in this Offering Memorandum. Such financial statements have been incorporated by reference in this Offering Memorandum with the consent of and in reliance upon the reports of Ernst & Young LLP.

GENERAL INFORMATION

- 1 **Clearing Systems:** The Notes have been accepted for clearance through the DTC, Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN	Common Code
Rule 144A Notes.....	82934H AF8	US82934HAF82	055182264
Regulation S Notes	82934H AG6	US82934HAG65	055182728

- 2 **Authorizations:** We have obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes.
- 3 **No Material Adverse Change:** Except as disclosed in this Offering Memorandum, there has been no material adverse change in our financial or trading position or prospect since June 30, 2010.
- 4 **Litigation:** Save as disclosed in this Offering Memorandum, neither we nor any of our subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Notes nor are we aware that any such proceedings are pending or threatened.
- 5 **Available Documents:** For so long as the Notes are outstanding, our latest annual report and consolidated financial statements and our latest unaudited interim consolidated financial statements, as well as the Indenture and the underwriting agreement relating to the issue and offering of the Notes, will be available for inspection at the specified office of the payment agents at Law Debenture Trust Company of New York, 400 Madison Ave. 4th Floor, New York, NY 10017, USA during normal business hours.
- 6 **Auditors:** Our consolidated financial statements for the years ended December 31, 2007, 2008, and 2009 were audited by Ernst & Young LLP, independent auditors, as stated in their report incorporated by reference herein.
- 7 **Certain Reporting Obligations in Canada:** As a result of our status as a reporting issuer in all of the provinces of Canada and our Common Shares being listed on the TSX, we are subject to certain ongoing reporting obligations. Among other things, we publicly disclose and file with the Canadian securities regulatory authorities (i) annual audited financial statements and related management's discussion and analysis of financial conditions and results of operations within 90 days of the end of our financial year, (ii) interim quarterly unaudited financial statements and related management's discussion and analysis of financial conditions and results of operations within 45 days of the end of the respective interim period and (iii) an annual information form within 90 days of the end of our financial year setting out all material information with respect to our business (e.g., information with respect to our business, operations and capital structure).

SUMMARY OF CERTAIN DIFFERENCES BETWEEN CANADIAN GAAP AND U.S. GAAP

The financial information of our Company included in the audited financial statements incorporated by reference in this Offering Memorandum is prepared and presented in accordance with Canadian GAAP, which differs in certain material respects from U.S. GAAP. Certain significant differences between Canadian GAAP and U.S. GAAP that may be relevant to our Company are summarized below. This summary should not be construed to be complete and only illustrates some of the differences between Canadian GAAP and U.S. GAAP as of June 30, 2010 that may be relevant to our Company. No attempt has been made to identify all recognition, measurement, disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or notes thereto as of June 30, 2010. Further, no attempt has been made to identify future differences between Canadian GAAP and U.S. GAAP as a result of changes in accounting standards and regulations with effective dates after June 30, 2010 and no attempt has been made to identify any future differences between Canadian GAAP and U.S. GAAP that may affect our financial information as a result of transactions, events or accounting changes that may occur in the future. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and our financial information contained herein. Potential investors should consult their own professional advisors for an understanding of the differences between Canadian GAAP and U.S. GAAP, and how these differences might affect the financial information herein.

Inventories

Accounting for inventories under Canadian GAAP and U.S. GAAP is substantially the same. Under Canadian GAAP, inventory provisions are reversible whenever they are no longer required. Under U.S. GAAP, a provision to write down inventories to market value cannot be reversed until the related inventory item is sold.

Deferred Financing Costs

Under Canadian GAAP, from January 1, 2007, debt issuance costs are not classified as deferred charges, but instead are deducted from the carrying value of the debt which deduction is then accreted through charges to earnings using the effective interest rate method. Prior to January 1, 2007, debt issuance costs were treated as deferred financing costs and amortized over the life of the debt instrument on a straight line basis. On January 1, 2007, a catch up adjustment to retained earnings was made, without restatement of comparative periods, to reflect the accumulated difference between the straight line and effective interest methods and the adjusted deferred financing costs were reclassified as reduction of the related debt carrying value.

Under U.S. GAAP, debt issuance costs paid to the lender are generally treated in the same manner as current Canadian GAAP and other issuance costs are generally treated as deferred financing costs which are recognized as additional interest expense over the life of the debt instrument using the effective interest method.

Borrowing Costs

Under Canadian GAAP, borrowing costs may be, but are not required to be, capitalized in the year in which they are incurred if such costs relate to the acquisition, construction or development of capital assets over time.

Under U.S. GAAP, interest cost must be capitalized as part of the historical cost of capital assets that are acquired constructed or developed over time.

Future Income Taxes

Under Canadian GAAP, future income taxes are accounted for using the liability method and are recognized for all deductible temporary differences and the carry forward of unused tax assets and unused tax losses, to the extent that it is more likely than not that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilized. Future tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Under U.S. GAAP, the liability method is also applied. Deferred tax is accounted for on all temporary differences and the carry forward of unused tax losses. All deferred tax assets and liabilities are recorded. A valuation allowance with respect to deferred tax assets is recognized to reduce the total deferred tax assets to an amount which is "more likely than not" to be realized. Deferred tax assets and liabilities are measured based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated.

Stock Based Compensation

Stock options are required to be accounted for using the fair value method under both Canadian and U.S. GAAP. Canadian GAAP allows forfeitures to be estimated in advance or to be accounted for as they occur. Accordingly, under Canadian GAAP, the Company accounts for forfeitures as they occur. Under U.S. GAAP, the compensation expenses recognized for stock-based compensation awards must reflect an estimate of award forfeitures at the time of grant, which estimate is revised in subsequent periods, if necessary.

Business Combination

Current Canadian GAAP accounting for business combinations is substantially the same as U.S. GAAP through December 31, 2008. However, for business combinations consummated on or after January 1, 2009, U.S. GAAP was revised and ASC 805 *Business Combinations* became effective. Canadian GAAP will change for business combinations consummated on or after January 1, 2011 (earlier adoption is permitted) to a model that is substantially similar to the U.S. GAAP ASC 805 model.

Under U.S. GAAP, ASC 805 *Business Combinations* applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009 and significantly changes the accounting and reporting for business combinations and any non-controlling interests in consolidated financial statements. Amongst other things, it requires the use of the acquisition method to account for business combinations, of which the fair value of the underlying exchange transaction should be used to establish a new accounting basis for the acquired entity including remeasurement of previously held interests in acquirees for business combinations achieved in stages. In addition, acquisition-related costs are not considered part of the fair value exchange between the buyer and seller for the acquired business and, therefore, are expensed as incurred. Contingent consideration is estimated at the acquisition date rather than being treated as an additional cost of the acquisition when the contingency is resolved. As a result, there are Canadian and U.S. GAAP differences on accounting for the acquisitions of Mandra Holdings and Homix.

Convertible Debentures

Under Canadian GAAP, financial instruments with both liability and equity components are required to be bifurcated. The value of the conversion option has been recorded using the residual method.

Under U.S. GAAP, ASC 470-20 *Debt with Conversion and Other Options* states that all of the proceeds received from the issuance of convertible debt generally should be recorded as a liability on the balance sheet. That is, no portion of the proceeds from the issuance of the convertible debt instruments described in ASC 470-20-25-11 generally should be attributed to the conversion feature unless a beneficial conversion feature exists.

ASC 470-20-15 (which is effective for fiscal years beginning after December 15, 2008) clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by ASC 470-20. The ASC requires the issuer of convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's nonconvertible debt borrowing rate.

Convertible debt has an embedded written call option, but does not require separate accounting pursuant to ASC 815-10-15-74(a) (as interpreted by ASC 815-40) if the embedded written call option (1) is indexed to the reporting entity's own stock and (2) would be classified in stockholders' equity if it were issued as a separate instrument.

ASC 815-40 provides guidance to determine whether the embedded written call is indexed to the entity's own stock (condition 1 above). Its provisions address both exercise contingencies and the determination of the settlement amount when evaluating the embedded feature.

ASC 815-40 provides guidance to determine whether the conditions necessary for equity classification have been met. ASC 815-40 generally requires, among other conditions described in the next paragraph, the written call option on a company's own stock to be classified as equity if it:

- Requires physical settlement or net-share settlement.
- Provides the issuer with a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). These contracts are classified as equity regardless of the intent of the company.

In addition, ASC 815-40-25 impose conditions for equity classification of freestanding derivative contracts. But these additional conditions do not apply to the evaluation of the embedded written call option in "conventional convertible debt." ASC 815-40 states that "conventional" convertible debt is limited to those instruments that provide the holder with an option to convert into a fixed number of shares (or an equivalent amount of cash at the discretion of the issuer) and the ability to exercise that option based on the passage of time or a contingent event. In the event that the convertible debt is not considered "conventional," the additional requirements described in ASC 815-40-25 must be met to conclude that the written call option need not be bifurcated and separately accounted for pursuant to ASC 815-10.

If an embedded derivative must be bifurcated from the convertible debt instrument, the issuer should account for the embedded derivative in the same manner as a freestanding derivative under ASC 815-10.

As a result, significant differences may arise between Canadian GAAP and U.S. GAAP with respect to the accounting for convertible debt.

Non-controlling Interests

Under Canadian GAAP, non-controlling interests are measured at the carrying value recorded in the accounting records of the subsidiary company.

Under U.S. GAAP ASC 810 *Consolidation*, non-controlling interests, formerly referred to as minority interests, are measured at 100% of the fair value of assets acquired and liabilities assumed. For presentation and disclosure purposes, non-controlling interests are classified as a separate component of shareholders' equity. In addition, consolidated net earnings and comprehensive income are adjusted to include the earnings and comprehensive income attributed to non-controlling interests.

ASC 810 revises how changes in ownership percentage are accounted for, including when a parent company deconsolidates a subsidiary but retains a non-controlling interest. As well, attribution of losses to the non-controlling interest is no longer limited to the original carrying amount. The requirements of ASC 810 are to be applied prospectively for fiscal years beginning on or after December 15, 2008 with the exception of the guidance on presentation and disclosure, which is to be applied retrospectively for all years presented in the financial statements.

ANNEX A

AUDITORS' CONSENT

We have read the offering memorandum of Sino-Forest Corporation (the "Company") dated October 14, 2010 relating to the offer of US\$600,000,000 6¼% Guaranteed Senior Notes Due 2017. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned offering memorandum of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2009, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended; our reports are dated March 15, 2010 and March 13, 2009.

Toronto, Canada
October 14, 2010

(Signed) ERNST & YOUNG LLP,
Chartered Accountants
Licensed Public Accountants

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US\$600,000,000



Sino-Forest Corporation

(a company existing under the laws of Canada with limited liability)

6¹/₄% Guaranteed Senior Notes due 2017

OFFERING MEMORANDUM

BofA Merrill Lynch

Credit Suisse

October 14, 2010
