REPORT TO SHAREHOLDERS

[All amounts are expressed in U.S. dollars, unless otherwise indicated]

Sino-Forest is pleased to report strong financial performance in the second quarter of 2009. Revenue from continuing operations of $224.4 million grew 21.3%, compared to last year. Overall gross profit increased 20.6% to $82.4 million, EBITDA rose 35.0% to $145.4 million and net income was up 3.8% to $45.0 million over the same period in 2008.

Wood Fibre Operations includes plantation fibre and other fibre (imported wood products and wood logs).

- Sales of plantation fibre increased $33.3 million or 26.5% to $158.9 million in the second quarter of 2009, mainly due to increased volume of fibre sold.
- Sales of imported wood products increased $12.8 million or 29.9% to $55.7 million from $42.9 million mainly due to higher volume of wood logs traded.

Manufacturing and Other Operations includes engineered wood flooring, oriented strand board, sawn timber, finger-joint board, block board and nursery businesses.

- Revenue decreased 43.1% in the second quarter of 2009 to $8.8 million. In 2008, we processed approximately 18,000 m^3 from our integrated plantation model compared to zero m^3 in 2009.

We have witnessed an increase in fibre demand, which was attributable to China's economic stimulus spending and rebuilding work in Sichuan province post-earthquake, while fibre prices remained steady during the quarter.

The second quarter of 2009 was a busy period for us on both a corporate and operational level, as we raised gross proceeds of approximately Cdn.$380 million by issuing 34.5 million common shares, through a public offering and international private placement, and launched an offer to exchange $300 million 9.125% guaranteed senior notes due 2011 (the "2004 Senior Notes") for 10.25% new guaranteed senior notes due 2014. On July 27, 2009, we successfully exchanged approximately $212 million of the outstanding 2004 Senior Notes for 10.25% new guaranteed senior notes due 2014, and amended certain covenants in the indenture governing the 2004 Senior Notes. In addition, we signed our fifth long-term master agreement to acquire between 15 and 18 million cubic metres of wood fibre located in Jiangxi Province.

Outlook

We are optimistic about the outlook of China's forestry sector and demand for wood fibre due to the positive effects of China's stimulus plan which called for further infrastructure development, rebuilding of Sichuan and building of low-income housing for rural areas. Log prices have rebounded since Q408/Q109; however, we do not anticipate prices will reach the overall 2008 levels until the latter part of 2009. We continuously monitor market prices before deciding to sell wood fibre as standing timber and/or as harvested logs to maximize our return on investment.

We continue to focus on acquiring standing timber and improving our operating practices, while building a plantation platform of over one million hectares for replanting. As at June 30, 2009, we had 434,000 hectares of trees under management and over 900,000 hectares of trees available to be acquired under our five long-term master agreements. We believe that we are well positioned to benefit from the Central Government's goal of doubling fast-growing, high-yield plantations to 13 million hectares by 2015.

Allen T.Y. Chan
Chairman and Chief Executive Officer

August 10, 2009

Management's Discussion and Analysis

August 10, 2009

Management's Discussion and Analysis (MD&A) relates to the financial condition and results of Sino-Forest Corporation's operations for the three month and six month periods ended June 30, 2009. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with Sino-Forest's unaudited interim consolidated financial statements and related notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

Additional information relating to the Company, including our annual information form for the year ended December 31, 2008 and other statutory reports, are available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on the relationship with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of our provision for income and related taxes and economic, political and social conditions and government policy in the PRC, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report, except as required by law.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forestry plantation operator in the PRC. As at June 30, 2009, we had approximately 434,000 hectares of forestry plantations located primarily in southern and eastern China.

Our principal businesses include the ownership and management of forestry plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products.

Management's Discussion and Analysis

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments - **Wood Fibre Operations** is the major revenue contributor, while our **Manufacturing & Other Operations** enables us to add value to our fibre by producing downstream products.

Revenue from Wood Fibre Operations is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantation business models in eight provinces and regions across China.

Other Fibre

- wood logs – we source logs from PRC suppliers and sell them in the domestic PRC market; and
- imported wood products – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing & Other Operations include:

- engineered-wood flooring produced in Jiangsu province and sold through over 200 stores nationwide in the PRC;
- oriented-strand board manufactured in Heilongjiang province;
- sawn timber produced in Yunnan province;
- finger-joint board and block board produced in Hunan province; and
- greenery and nursery operation based in Jiangsu province.

Our Vision and Strategy

Our vision is to become the leading commercial forestry plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC.

Our strategy is to build on our competitive strengths and seize business opportunities in the PRC in order to become a leading plantation developer and wood resource supplier with established operations in or close to PRC regional markets, providing wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements for executing our strategy:

- expand geographically, 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 manufacturing products;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;
- improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing; and
- strengthen management processes and information systems to support the growth of our multi-faceted businesses.

Other Key Factors Affecting Our Business

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. 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 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. 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 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;
- interest rates;
- government regulations and policies;
- population growth and changing demographics; and
- seasonal weather cycles (e.g. 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.

Our decisions and abilities to develop and operate future forestry plantations are subject to various factors and uncertainties. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

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 and the results of our research and development efforts.

We rely on our relationships with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on a number of large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

We are heavily dependent on the expertise of our senior management in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes and relationships cultivated by them with our major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. Violations of PRC laws or regulations, including PRC environmental policies and programs that apply to our forestry plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business.

The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of our control. 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 forestry plantations are located.

Our manufacturing plants are in an early stage of development and have a short operating history. Our manufacturing plants may not be profitable or successful and are subject to the risks inherent in establishing a new business, including competitive pressures, which could have a material adverse effect on our business, financial condition and results of operations.

We report our financial statements in United States dollars, while substantially all of our revenue is denominated in Renminbi. Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the United States dollar, the Canadian dollar and the Hong Kong dollar, or in the United States dollar against the Renminbi, the Canadian dollar or the Hong Kong dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into United States dollars, Canadian dollars or otherwise, of our revenue and net income.

Significant Accounting Policies and Interpretation

Costs of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (4) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

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 plantation fibre 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.

EBITDA

Defined as income from continuing operations for the period after adding back depreciation and amortization, as well as 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.

SIGNIFICANT BUSINESS ACTIVITIES

Significant activities that have occurred during the six months ended June 30, 2009 and to the date of this report were as follows:

Increased Investment in Omnicorp Limited

In February 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21.7 million (equivalent to approximately HK$168 million) 4% secured convertible bonds of Omnicorp Limited ("Omnicorp") from various vendors. The purchase price consisted of cash of approximately $4.3 million and approximately 2,700,000 common shares of the Company. Total consideration was approximately $25.8 million (equivalent to approximately HK$201 million). Among the vendors were a director of the Company 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.

Entered into Agreement to dispose equipment at Gaoyao Plant

In March 2009, a subsidiary of the Company signed an agreement to sell the particleboard manufacturing equipment at its plant in Gaoyao for total consideration of approximately $30 million. The Company retained the ownership of the manufacturing building and property. The purchaser has leased these Gaoyao premises from the Company for five years and operates the equipment in the premises.

Released Independent 2008 Forest Asset Valuation Report

In April 2009, the Company released its yearly, independent forest valuation report conducted by Pöyry Forest Industry Consulting Limited ("Pöyry"). Pöyry has estimated the valuation of the Company's existing forest assets as at December 31, 2008 based on a single rotation was $1.64 billion, and based on a perpetual rotation was $1.69 billion (using a pre-tax discount rate of 11.5%). Pöyry's original 2007 valuation, based on a perpetual rotation, included forest assets assumed to be acquired under the three master agreements in Hunan, Yunnan and Guangxi Provinces (the "Master Agreements"). Pöyry's revised 2007 valuation, based on a perpetual rotation, excluding forest assets assumed to be acquired under the three Master Agreements, was $1.47 billion. Pöyry's 2008 valuations represent increases of 32% based on a single rotation and 15% based on a perpetual rotation, compared to the revised 2007 valuations.

A full copy of the valuation report is posted on our website at www.sinoforest.com under "Investor Relations, Filings" and is also available on SEDAR at www.sedar.com.

Completed a Cdn.$379.5 million Public Offering

In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares at Cdn.$11.0 per share for gross proceeds of Cdn.$379,500,000. The offering included the exercise in full of the over-allotment option by the underwriters to purchase 4,500,000 common shares. The net proceeds of the offering will be used primarily for the acquisition of commercial plantation forests in Jiangxi Province in the PRC and for general corporate purposes.

Entered into Master Agreement to Acquire 150,000 to 300,000 hectares of standing timber in Jiangxi Province

In June 2009, a subsidiary of the Company entered into a master agreement with Jiangxi Zhonggan Industrial Development Company Limited to acquire between 15 million and 18 million cubic metres ("m^3") of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per m^3, to the extent permitted under the relevant PRC laws and regulations. The plantations in which such amount of wood fibre being acquired is between 150,000 and 300,000 hectares to achieve an estimated average wood fibre yield of approximately 100 m^3 per hectare, and include tree species such as pine, Chinese fir and others. The agreement also provides the Company pre-emptive rights to lease the underlying plantation land at a price not to exceed RMB450 per hectare per annum for 30 years after harvesting. The land lease can also be extended to 50 years as permitted under the PRC laws and regulations.

Completed Bond Exchange Offer

In June 2009, the Company offered to exchange (the "Exchange Offer") any and all of its outstanding $300 million 9.125% guaranteed senior notes due 2011 (the "2004 Senior Notes") held by eligible holders for up to $300 million 10.25% new guaranteed senior notes due 2014 (the "Exchange Notes"). The Company also solicited consents (the "Consent Solicitation") from holders of the 2004 Senior Notes to amend certain of the provisions of the indenture governing the 2004 Senior Notes (the "2004 Indenture").

The Exchange Offer closed on July 27, 2009 and an aggregate principal amount of approximately $212.3 million of the 2004 Senior Notes, representing approximately 70.8% of the aggregate principal amount of the 2004 Senior Notes that were outstanding prior to the expiration of the Exchange Offer, was validly tendered and not withdrawn in the Exchange Offer. The Company issued approximately $212.3 million in aggregate principal amount of the Exchange Notes. The remaining principal amount of approximately $87.7 million of the 2004 Senior Notes will be repaid upon maturity date at 2011. The Consent Solicitation also closed on July 27, 2009. Having received the requisite consents from holders of the 2004 Senior Notes, the outstanding 2004 Senior Notes are now subject to the terms of the amended 2004 Indenture.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Second Quarter and Year-to-Date Financial Information

The following selected financial information has been derived from our unaudited consolidated financial statements for the three month and six month periods ended June 30, 2009 and 2008 and our financial positions as at June 30, 2009 and December 31, 2008:

	Three months ended June 30,		**Six months ended June 30,**	
(in thousands, except earnings per share)	**2009 $**	2008 $	**2009 $**	2008 $
Operating Results				
Revenue	**224,419**	184,981	**401,653**	320,476
Cost of sales	**142,005**	116,672	**252,403**	205,093
Gross profit (1)	**82,414**	68,309	**149,250**	115,383
Net income from continuing operations	**47,019**	46,576	**74,941**	63,819
Net income	**45,049**	43,401	**68,054**	57,928
EBITDA (2)	**145,393**	107,663	**260,319**	182,155
Earnings per share from continuing operations (3)				
Basic	**0.24**	0.26	**0.40**	0.35
Diluted	**0.24**	0.25	**0.39**	0.35
Earnings per share (3)				
Basic	**0.23**	0.24	**0.36**	0.32
Diluted	**0.23**	0.24	**0.36**	0.31

(in thousands, except cash dividends declared per share and common shares outstanding)	**As at June 30, 2009 $**	As at December 31, 2008 $
Financial Position		
Current assets	**951,316**	811,457
Non-current assets	**2,075,241**	1,792,467
Total assets	**3,026,557**	2,603,924
Current liabilities (including current portion of long-term debt)	**322,580**	290,692
Long-term debt (net of current portion)	**684,382**	714,468
Total shareholders' equity (net assets)	**2,019,595**	1,598,764
Cash dividends declared per share	**Nil**	Nil
Common shares outstanding	**220,279,062**	183,119,072

RESULTS OF OPERATIONS – SIX-MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

Revenue

The following table sets forth the breakdown of our total revenue for the six month periods ended June 30, 2009 and 2008:

	2009 $'000	**%**	2008 $'000	%
Wood Fibre Operations				
Plantation Fibre	**286,866**	**71.4**	228,261	71.2
Other Fibre	**94,529**	**23.6**	68,195	21.3
Manufacturing and Other Operations	**20,258**	**5.0**	24,020	7.5
Total	**401,653**	**100.0**	320,476	100.0

Our revenue increased 25.3% from $320.5 million in the six month period ended June 30, 2008 to $401.7 million in the same period in 2009. The increase in revenue was mainly due to the increase in sales from our wood fibre operations, primarily plantation fibre.

Wood Fibre Operations Revenue

Plantation Fibre

The following table sets forth revenue from our plantation fibre operations for the six month periods ended June 30, 2009 and 2008:

	2009			2008		
Plantation Model	**Hectares**	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**30,743**	**9,200**	**282,840**	23,303	5,749	133,976
Integrated plantations	—	—	—	7,463	12,523	93,461
Planted plantations	**3,273**	**1,230**	**4,026**	392	2,102	824
Total	**34,016**	**8,433**	**286,866**	31,158	7,326	228,261

Revenue from sales of plantation fibre increased 25.7% from $228.3 million in the six month period ended June 30, 2008 to $286.9 million in the same period in 2009, mainly due to an increased volume of fibre sold in the six month period ended June 30, 2009.

The total volume of fibre sold during the six month period ended June 30, 2009 was approximately 4.7 million m^3 from purchased and planted plantations. During the same period last year, we sold a total of approximately 3.1 million m^3, with approximately 2.2 million m^3 from purchased and planted plantations and approximately 0.9 million m^3 from integrated plantations.

The average yield of fibre sold under the purchased and planted plantations in the six month period ended June 30, 2009 was 139 m^3 per hectare compared to 95 m^3 per hectare in the same period last year and both periods obtained an average selling price of approximately $61 per m^3.

The average yield of harvested logs sold under the integrated plantations in the six month period ended June 30, 2008 was 120 m^3 per hectare and it commanded an average selling price of $105 per m^3.

Plantation fibre sales comprised 71.4% of total revenue in the six month period ended June 30, 2009, compared to 71.2% in the same period in 2008.

Other Fibre

Revenue from sales of imported wood products increased 39.5%, from $66.9 million in the six month period ended June 30, 2008 to $93.4 million in the same period in 2009. This increase was primarily due to higher volume of imported logs sold.

Revenue from sales of wood logs decreased 9.8% to $1.1 million in the six month period ended June 30, 2009 from $1.3 million in the same period in 2008.

Other fibre sales comprised 23.6% of total revenue in the six month period ended June 30, 2009, compared to 21.3% of total revenue in the same period in 2008.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations decreased 15.7% from $24.0 million in the six month period ended June 30, 2008 to $20.3 million in the same period in 2009. In the six month period ended June

30, 2008, we processed approximately 36,000 m^3 from our integrated plantation model compared to zero m^3 in the same period in 2009.

Gross Profit

Gross profit increased 29.4%, from $115.4 million in the six month period ended June 30, 2008 to $149.3 million in the same quarter of 2009. Gross profit margin, being gross profit expressed as a percentage of revenue, increased from 36.0% in the six month period ended June 30, 2008 to 37.2% in the same period in 2009, mainly due to increased sales from plantation fibre operations which earn a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

Plantation Fibre

Gross profit margin from sales of purchased and planted plantations decreased from 61.3% in the six month period ended June 30, 2008 to 49.8% in the same period in 2009, mainly due to the sales of plantations with a higher fibre cost per m^3 as compared to the same period in 2008.

The gross profit margin for sales of logs under the integrated plantations operations was 31.8% or $33 per m^3 in the six month period ended June 30, 2008.

Other Fibre

Gross profit margin from sales of imported wood products increased from 3.9% in the six month period ended June 30, 2008 to 4.4% in the same period in 2009.

Gross profit margin from sales of wood logs decreased from 21.6% in the six month period ended June 30, 2008 to 16.7% in the same period in 2009.

Manufacturing and Other Operations Gross Profit

Gross margin from our manufacturing and other operations increased from 0.6% in the six month period ended June 30, 2008 to 10.6% in the same period in 2009, primarily due to an improvement in the flooring segments.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 60.7%, from $20.3 million in the six month period ended June 30, 2008 to $32.6 million in the same period in 2009, due primarily to additional staff complement, increased accrued incentive compensation and increased research & development expenses.

Depreciation and Amortization

Depreciation and amortization increased 63.1%, from $1.4 million in the six month period ended June 30, 2008 to $2.3 million in the same period in 2009, mainly due to increased capital assets.

Income from Operations

Income from operations increased 22.1%, from $93.7 million in the six month period ended June 30, 2008 to $114.4 million in the same period in 2009, due to the factors explained above. Our income from operations as a percentage of revenue decreased from 29.2% in the six month period ended June 30, 2008 to 28.5% in the same period in 2009.

Interest Expense

Interest expense increased 67.2%, from $20.2 million in the six month period ended June 30, 2008 to $33.8

million in the same period in 2009, due primarily to the interest on the 5.0% convertible senior notes issued in the third quarter of 2008.

Interest Income

Our interest income decreased 20.6%, from $5.3 million in the six month period ended June 30, 2008 to $4.2 million in the same period in 2009, due primarily to the decrease in the interest rate earned on deposits in 2009.

Exchange Losses

The Company incurred an exchange loss of $0.4 million in the six month period ended June 30, 2009.

Gain (Loss) on Changes in Fair Value of Financial Instrument

In the six month period ended June 30, 2009, the Company recorded a gain of $1.6 million related to changes in fair value of financial instruments, which resulted from a gain of $2.2 million on the change in fair value of embedded conversion option of the convertible bonds issued by Omnicorp, offset by a loss of $0.6 million on the foreign currency swap.

EBITDA

EBITDA increased 42.9%, from $182.2 million in the six month period ended June 30, 2008 to $260.3 million in the same period of 2009, as a result of the increase in revenue in 2009.

Provision for Income Taxes

The provision for income taxes was $12.3 million in the six month period ended June 30, 2009 compared to $9.5 million in the same period in 2008; the increase was due primarily to the higher income earned during the period.

Net Income for the Period

As a result of the foregoing, net income for the period increased 17.5%, from $57.9 million in the six month period ended June 30, 2008 to $68.1 million in the same period in 2009. Overall net income for the period as a percentage of revenue decreased from 18.1% in the six month period ended June 30, 2008 to 16.9% in the same period in 2009.

Cash Flows

The following table sets forth a condensed summary of our statements of cash flows:

Six months ended June 30, *(in millions)*	**2009** **$**	2008 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations (4)	**228.0**	162.9
Net change in working capital (5)	**96.3**	(27.3)
Total	**324.3**	135.6
Cash flows used in operating activities of discontinued operations	**(2.6)**	(3.5)
Cash flows used in investing activities	**(438.8)**	(252.5)
Cash flows from (used in) investing activities of discontinued operations	**9.1**	(0.4)
Cash flows from (used in) financing activities	**324.4**	(5.8)
Cash flows used in financing activities of discontinued operations	—	(0.5)
Effect of exchange rate changes on cash and cash equivalents	—	2.5
Net increase (decrease) in cash and cash equivalents	**216.4**	(124.6)

Cash Flows from Operating Activities of Continuing Operations

Net cash provided from operating activities increased from $135.6 million in the six month period ended June 30, 2008 to $324.3 million in the same period in 2009. The increase was due to the increase in cash provided by operations and cash provided by working capital that resulted from the decrease in accounts receivables of wood fibre operations.

Cash Flows Used in Investing Activities

In the six month periods ended June 30, 2009 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $199.0 million in the six month period ended June 30, 2008 and $425.8 million in the same period in 2009. Our cash outlays for our manufacturing facilities and other capital assets amounted to $18.1 million in the six month period ended June 30, 2008 and $5.9 million in the same period in 2009. Our cash outlays for other assets amounted to $23.1 million in the six month period ended June 30, 2008 and $5.6 million in the same period in 2009. The increase in non-pledged short-term deposits was $10.4 million in the six month period ended June 30, 2008 and $1.5 million in the same period in 2009. In addition, we paid $1.9 million in the six month period ended June 30, 2008 in business acquisitions and $0.2 million during the acquisition of convertible bonds of Omnicorp in the six month period ended June 30, 2009. We also received $0.1 million from the proceeds of disposal of capital assets in the six month period ended June 30, 2009.

Cash Flows From (Used in) Financing Activities

In the six month period ended June 30, 2009, cash flows from financing activities consisted of the net proceeds from the issuance of shares of $323.9 million, a decrease in pledged short-term deposits of $1.3 million and an increase in bank indebtedness of $2.0 million, offset by the payment on derivative financial instrument of $2.9 million. In the six month period ended June 30, 2008, cash flows used in financing activities consisted of a decrease in bank indebtedness of $1.3 million, an increase in pledged short-term deposits of $2.7 million and payment on derivative financial instrument of $2.1 million, offset by the net proceeds from the issuance of shares of $0.3 million.

RESULTS OF OPERATIONS – THREE-MONTH PERIODS ENDED JUNE 30, 2009 AND 2008

Revenue

The following table sets forth the breakdown of our total revenue for the three months ended June 30, 2009 and 2008:

	2009		2008	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**158,898**	**70.8**	125,591	67.9
Other Fibre	**56,771**	**25.3**	44,008	23.8
Manufacturing and Other Operations	**8,750**	**3.9**	15,382	8.3
Total	**224,419**	**100.0**	184,981	100.0

Our revenue increased 21.3% from $185.0 million in the three month period ended June 30, 2008 to $224.4 million in the same period in 2009. The increase in revenue was mainly due to the increase in sales from our wood fibre operations, primarily plantations fibre.

Wood Fibre Operations Revenue

Plantation Fibre

The following table sets forth revenue from plantation fibre operation for the three month periods ended June 30, 2009 and 2008:

Plantation Model	2009 Hectares	2009 Sales per hectare $	2009 Total revenue $'000	2008 Hectares	2008 Sales per hectare $	2008 Total revenue $'000
Purchased plantations	**16,970**	**9,225**	**156,556**	14,128	5,927	83,732
Integrated plantations	—	—	—	3,209	12,811	41,112
Planted plantations	**1,568**	**1,494**	**2,342**	328	2,277	747
Total	**18,538**	**8,571**	**158,898**	17,665	7,110	125,591

Revenue from sales of plantation fibre increased 26.5% from $125.6 million in the three month period ended June 30, 2008 to $158.9 million in the same period in 2009, mainly due to an increased volume of fibre sold.

The total volume of fibre sold during the three month period ended June 30, 2009 was approximately 2.6 million m^3 from purchased and planted plantations. During the same period last year, we sold a total of approximately 1.8 million m^3, with approximately 1.4 million m^3 from purchased and planted plantations and approximately 0.4 million m^3 from integrated plantations.

The average yield of fibre sold under the purchased and planted plantations in the three month period ended June 30, 2009 was 141 m^3 per hectare compared to 96 m^3 per hectare in the same period last year and both periods obtained an average selling price of approximately $61 per m^3.

The average yield of harvested logs sold under the integrated plantations in the three month period ended June 30, 2008 was 120 m^3 per hectare and it commanded an average selling price of $107 per m^3.

Plantation fibre sales comprised 70.8% of total revenue in the three month period ended June 30, 2009, compared to 67.9% in the same period in 2008.

Other Fibre

Revenue from sales of imported wood products increased 29.9%, from $42.9 million in the three month period ended June 30, 2008 to $55.7 million in the same period in 2009. This increase was primarily due to higher volume of imported logs sold.

Revenue from sales of wood logs decreased 6.8% to $1.1 million in the three month period ended June 30, 2009 from $1.1 million in the same period in 2008.

Other fibre sales comprised 25.3% of total revenue in the three month period ended June 30, 2009, compared to 23.8% of total revenue in the same period in 2008.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations decreased 43.1% from $15.4 million in the three month period ended June 30, 2008 to $8.8 million in the same period in 2009. In the three month period ended June 30, 2008, we processed approximately 18,000 m^3 from our integrated plantation model compared to zero m^3 in the same period in 2009.

Gross Profit

Gross profit increased 20.6%, from $68.3 million in the three month period ended June 30, 2008 to $82.4 million in the same quarter of 2009. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased slightly from 36.9% in the three month period ended June 30, 2008 to 36.7% in the same period in 2009.

Wood Fibre Operations Gross Profit

Plantation Fibre

Gross profit margin from sales of purchased and planted plantations decreased from 60.3% in the three month period ended June 30, 2008 to 49.7% in the same period in 2009, mainly due to the sales of plantations with a higher fibre cost per m^3 as compared to the same period in 2008.

The gross profit margin for sales of logs under the integrated plantations operations was 37.1% or $40 per m^3 in the three month period ended June 30, 2008.

Other Fibre

Gross profit margin from sales of imported wood products increased from 4.5% in the three month period ended June 30, 2008 to 4.7% in the same period in 2009.

Gross profit margin from sales of wood logs decreased from 23.4% in the three month period ended June 30, 2008 to 17.2% in the same period in 2009.

Manufacturing and Other Operations Gross Profit

Gross profit margin from our manufacturing and other operations increased from gross loss margin of 0.3% in the three month period ended June 30, 2008 to gross profit margin of 6.5% in the same period in 2009, primarily due to an improvement in the flooring segments.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 70.9%, from $9.6 million in the three month period ended June 30, 2008 to $16.5 million in the same period in 2009, due primarily to additional staff complement and increased accrued incentive compensation.

Depreciation and Amortization

Depreciation and amortization increased 58.6%, from $0.7 million in the three month period ended June 30, 2008 to $1.2 million in the same period in 2009, mainly due to increased capital assets.

Income from Operations

Income from operations increased 11.8%, from $58.0 million in the three month period ended June 30, 2008 to $64.8 million in the same period in 2009, due to the factors explained above. Our income from operations as a percentage of revenue decreased from 31.3% in the three month period ended June 30, 2008 to 28.9% in the same period in 2009.

Interest Expense

Interest expense increased 74.7%, from $9.8 million in the three month period ended June 30, 2008 to $17.0 million in the same period in 2009, due primarily to the interest on the 5.0% convertible senior notes issued in the third quarter of 2008.

Interest Income

Our interest income decreased 4.5%, from $2.4 million in the three month period ended June 30, 2008 to $2.3 million in the same period in 2009, due primarily to the decrease in the interest rate earned on deposits in 2009.

Exchange Losses

The Company incurred an exchange loss of $0.3 million in the three month period ended June 30, 2009.

Gain (Loss) on Changes in Fair Value of Financial Instrument

In the three month period ended June 30, 2009, the Company recorded a gain of $2.6 million related to changes in fair value of financial instruments, which resulted from a gain of $2.6 million on the change in fair value of embedded conversion option of the convertible bonds issued by Omnicorp and a gain of $26,000 on the foreign currency swap.

EBITDA

EBITDA increased 35.0%, from $107.7 million in the three month period ended June 30, 2008 to $145.4 million in the same period of 2009, as a result of the increase in revenue in 2009.

Provision for Income Taxes

The provision for income taxes was $6.4 million in the three month period ended June 30, 2009 compared to $5.2 million in the same period in 2008; the increase was due primarily to the higher income earned during the period.

Net Income for the Period

As a result of the foregoing, net income for the period increased 3.8%, from $43.4 million in the three month period ended June 30, 2008 to $45.0 million in the same period in 2009. Overall net income for the period as a percentage of revenue decreased from 23.5% in the three month period ended June 30, 2008 to 20.1% in the same period in 2009.

Cash Flows

The following table sets forth a condensed summary of our statements of cash flows:

Three months ended June 30, *(in millions)*	**2009** **$**	2008 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations (4)	**128.8**	98.5
Net change in working capital (5)	**28.0**	3.1
Total	**156.8**	101.6
Cash flows from (used in) operating activities of discontinued operations	**0.2**	(1.6)
Cash flows used in investing activities	**(195.4)**	(130.5)
Cash flows from (used in) investing activities of discontinued operations	**10.1**	(0.4)
Cash flows from financing activities	**318.7**	3.8
Cash flows used in financing activities of discontinued operations	—	(0.1)
Effect of exchange rate changes on cash and cash equivalents	**0.1**	1.1
Net increase (decrease) in cash and cash equivalents	**290.5**	(26.1)

Cash Flows from Operating Activities of Continuing Operations

Net cash provided from operating activities increased from $101.6 million in the three month period ended June 30, 2008 to $156.8 million in the same period in 2009. The increase was due to the increase in cash provided by operations and cash provided by working capital that resulted from the decrease in accounts receivables of wood fibre operations.

Cash Flows Used in Investing Activities

In the three month periods ended June 30, 2009 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $115.4 million in the three month period ended June 30, 2008 and $191.9 million in the same period in 2009. Our cash outlays for our manufacturing facilities and other capital assets amounted to $8.1 million in the three month period ended

June 30, 2008 and $2.6 million in the same period in 2009. Our cash outlays for other assets amounted to $0.7 million in the three month period ended June 30, 2008 and $0.4 million in the same period in 2009. The increase in non-pledged short-term deposits was $6.4 million in the three month period ended June 30, 2008 and $0.6 million in the same period in 2009. In addition, we received $0.1 million from the proceeds from disposal of capital assets in the three month period ended June 30, 2009.

Cash Flows From Financing Activities

In the three month period ended June 30, 2009, cash flows from financing activities consisted of a decrease in pledged short-term deposits of $1.1 million and the net proceeds from the issuance of shares of $323.9 million, offset by a decrease in bank indebtedness of $6.3 million. In the three month period ended June 30, 2008, cash flows from financing activities consisted of an increase in bank indebtedness of $4.3 million and the net proceeds from the issuance of shares of $0.3 million, offset by an increase in pledged short-term deposits of $0.8 million.

Issued and Outstanding Share Capital

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 220,279,062 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 241,405,291 common shares outstanding as of the date of this MD&A, assuming the exercise of 4,118,626 outstanding stock options and the issuance of 17,007,603 common shares upon the conversion of the $345,000,000 convertible senior notes.

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 forestry plantations in the form of standing timber to develop our existing forestry 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.

The Company ended the second quarter of 2009 with a strong financial position. Cash and cash equivalents of $657.5 million allows Sino-Forest to manage the pace of its vision and strategies during the current global recession, the duration of which is difficult to predict. Sino-Forest continually assesses the quality of its accounts receivable, cash and cash equivalent and other assets and will take appropriate actions in response to changing market conditions.

Financing Arrangements and Contractual Obligations

As of June 30, 2009, we had secured and unsecured short-term borrowings of $75.2 million (including $6.0 million from discontinued operations), comprising $42.2 million of short-term bank loans and $33.0 million of trust receipt loans. We had long-term debt, including its current portion, of $721.9 million. Our borrowings were mainly denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of June 30, 2009, we had $183.0 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. Pursuant to the amended indenture governing the non-convertible senior notes, the maximum aggregate amount of the short-term borrowings which at any time outstanding does not exceed an amount equal to 10.0% of total consolidated assets of the Company, but in any case not in excess of $400.0 million. As of June 30, 2009, $75.2 million in respect of bank indebtedness and $18.9 million in respect of other bank instruments were utilized. Interest is payable on these short-term borrowings at a weighted average rate of 5.0% per annum, and the borrowings are either repayable on demand or due in less than one year. As of June 30, 2009, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $31.8 million and certain bank deposits of $15.3 million.

Other Contractual Obligations

As of June 30, 2009, we had other contractual obligations relating to: (1) approximately $49.1 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $10.4 million of capital commitments with respect to buildings and plant and machinery; (3) $2.2 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $58.7 million; and (5) $721.9 million long-term convertible and non-convertible guaranteed senior notes and syndicated loans.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of June 30, 2009:

		Payment Due by Period			
	Total	Within one year	In the second and third year	In the fourth and fifth year	After the fifth year
	$'000	$'000	$'000	$'000	$'000
Long-term debt (6)	721,882	37,500	407,404	276,978	—
Capital contributions	49,050	—	9,050	40,000	—
Capital commitments (7)	10,365	10,365	—	—	—
Purchase commitments	2,235	2,235	—	—	—
Operating leases (8)	58,735	3,599	5,531	4,174	45,431
Total contractual obligations	842,267	53,699	421,985	321,152	45,431

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at June 30, 2009.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 136,990 hectares of plantation trees for $539.4 million as at June 30, 2009.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 66,562 hectares of plantation trees for $330.5 million as at June 30, 2009.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 82,709 hectares of plantation trees for $368.3 million as at June 30, 2009.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at June 30, 2009.

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, the Company has not acquired any hectares of plantation trees as at June 30, 2009.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of June 30, 2009, we had provided guarantees of approximately $121.4 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.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the three month and six month periods ended June 30, 2009 and 2008:

	Three months ended June 30,				Six months ended June 30,			
	2009		2008		**2009**		2008	
	Hectares	**$'million**	Hectares	$'million	**Hectares**	**$'million**	Hectares	$'million
Tree acquisition	**41,114**	**152.5**	14,165	111.0	**117,091**	**398.1**	41,871	188.9
Re-planting and maintenance of plantations		**7.9**		4.2		**13.7**		8.6
Panel manufacturing and others		**2.6**		8.1		**7.8**		18.1
Total		**163.0**		123.3		**419.6**		215.6

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 movement of accounts payable and capitalization of deposit paid for acquisition of plantations from other assets to timber holdings.

For fiscal 2009, capital expenditures are expected to be approximately $800 million for plantation acquisitions (including $100 million allocated for Jiangxi from the recent equity offering), replanting and maintenance, and approximately $30 million for the development of manufacturing facilities integrated with plantation operations. These acquisition levels will be adjusted as necessary given future changes in the economic climate in the PRC.

Aging of Accounts Receivable

Plantation Fibre Operations

We recognize revenue from plantation fibre when the buyer has signed the sales contract and the significant risks and rewards of ownership have been transferred to the buyer. After the buyer has entered into the sales contract, we generally give the buyers of 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.

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At June 30, 2009	**65,282**	**56,568**	**7,863**	—	—	**851**	—
At December 31, 2008	182,307	73,527	74,586	14,653	19,489	52	—

Other Fibre Operations, Manufacturing and Other Operations

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

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At June 30, 2009	**56,035**	**21,769**	**12,997**	**7,543**	**5,775**	**7,410**	**541**
At December 31, 2008	43,446	22,895	8,431	4,400	2,792	2,320	2,608

Currently, there is no indication that the Company's accounts receivables are non-collectible thus, an allowance has not been set up. To mitigate the risk on these receivables, the Company has established relationships with customers who have a very good credit rating and solid reputation.

Off-Balance Sheet Arrangements

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of June 30, 2009. 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.

Transactions with Related Parties

Pursuant to the respective service agreements, Sino-Forest pays the salaries of the Chairman and Chief Executive Officer and the President in the form of consultancy fees to companies controlled by the noted executive officers. The consultancy fees incurred for the three month and six month periods ended June 30, 2009 amounted to $153,000 [three months ended June 30, 2008 – $150,000] and $306,000 [six months ended June 30, 2008 – $302,000], respectively and were recorded at an exchange amount as agreed upon by the related parties.

In addition, as at June 30, 2009, no balance was payable [December 31, 2008 – $4,900,000] for consultancy fees to these related companies.

As described above under "Significant Business Activities", Simon Murray, a director of the Company and an entity controlled by Mr. Murray were among the vendors in the February 6, 2009 Omnicorp transaction.

Non-GAAP Measures

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included at the end of this MD&A are tables calculating or reconciling these non-GAAP measures where applicable.

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are included in this MD&A because these statistics are key performance indicators that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to budget and to make strategic decisions. Management believes that the inclusion of these statistics in the MD&A helps investors and analysts to assess the Company's ability to grow its timber holdings, to forecast future results, to assess our current and future operating results and to make investment decisions. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Quarterly Financial Information

Our business is seasonal. Generally, the third and fourth quarters together account for approximately 60% of annual revenue, while the first and second quarters together account for approximately 40% of annual revenue. This 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 the logging and hauling of timber during the rainy season in the first half of the year.

Management's Discussion and Analysis

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended June 30, 2009:

			Earnings Per Share (3)	
	Revenue	Net Income	Basic	Diluted
(in thousands, except per share amounts)	$	$	$	$
2009				
June 30	**224,419**	**45,049**	**0.23**	**0.23**
March 31	177,234	23,005	0.12	0.12
2008				
December 31*	282,485	95,490	0.52	0.51
September 30*	295,548	75,175	0.41	0.40
June 30	184,981	43,401	0.24	0.24
March 31	135,495	14,527	0.08	0.08
2007				
December 31*	310,850	55,470	0.30	0.30
September 30*	161,475	63,383	0.35	0.35

* The quarterly financial information has not been restated for the discontinued particleboard operations as the effect of the change on net income for the period is insignificant.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting policies requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in note 1 to the consolidated financial statements for the year ended December 31, 2008. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber Holdings

Timber holdings represented 63.5% of the Company's consolidated total assets as at June 30, 2009. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carry 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.

The Company believes 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 the Company's weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated income statement and the reported timber holdings amount in the Company's consolidated balance sheet.

To assist with its impairment assessments, the Company engages an outside consultant to help derive cash flow estimates and to estimate the fair value of its 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, Sino-Forest could potentially experience future impairment charges and such charges could be material.

Capital Assets

The Company evaluates the recoverability of the carrying value of its 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.

The Company believes 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 the Company's consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

Revenue Recognition

Standing Timber

Sino-Forest sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations. Standing timber revenue represents a significant portion of the Company's consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of the Company's contractual arrangements with its customers. To date, substantially all of the Company's standing timber revenue has been recognized when the Company and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, the Company and the buyer will have negotiated 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 the Company has 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

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. 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. This also applied 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.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI 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.

Included in accounts payable and accrued liabilities including discontinued operations as at June 30, 2009 is the balance of the tax provision for the tax related contingency amounting to $102,605,000 [December 31, 2008 – $89,909,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries for the current six months and in the four previous years.

Contingencies for Tax Related Liabilities

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material effect on the Company's tax expense. The Company has 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 the Company operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. 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 three to five years in practice. 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.

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.

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.

Changes in Accounting Policies

On January 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standard and Emerging Issues Committee ("EIC") abstract.

Section 3064 Goodwill and Intangible Assets, which replaced previous guidance. The standard establishes guidelines for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. The standard had no impact on the Company's consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified 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. Adoption of this guidance had no impact on the Company's 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. The Company is 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. The Company is in the process of evaluating the impact of this standard.

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 on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the changeover date.

The Company's IFRS conversion project consists of four phases: diagnostic, design and planning, solution development and implementation. The Company will invest in training and resources throughout the transition period to facilitate a timely conversion.

The diagnostic phase was completed during the latter part of 2008. This work involved a high-level review of the major differences between current Canadian GAAP and IFRS. While a number of differences have been identified, the areas of highest potential impact are as follows: timber holdings, property, plant and equipment; impairment of assets; income taxes and foreign exchange accounting. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

The Company is in the solution development phase and has established issue-specific work teams to focus on generating options and making recommendations in the identified risk areas. During this phase, the Company will establish a staff communications plan, begin to develop staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

The Company will update its IFRS conversion project to reflect new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

Risk and Uncertainties

There are no significant changes to the risk and uncertainties as described in the 2008 annual information form of the Company, which is available on SEDAR at www.sedar.com.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's 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 were assessed as of December 31, 2008. Based on that evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR were ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's 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. During 2009, management will take steps to address this deficiency and will continue to monitor and mitigate 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 the Company's internal controls over financial reporting during the quarter ended June 30, 2009, that would materially affect, or is reasonably likely to materially affect, Sino-Forest's internal controls over financial reporting.

(1) 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.

(2) EBITDA for any period is defined as income from operations for the period after adding back depreciation and amortization, impairment of capital assets as well as 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.

EBITDA is calculated as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2009	2008	**2009**	2008
	$'000	$'000	**$'000**	$'000
Income from continuing operations	**64,800**	57,950	**114,392**	93,716
Plus: depreciation	**1,161**	732	**2,290**	1,404
depletion of timber holdings	**79,432**	48,981	**143,637**	87,035
	145,393	107,663	**260,319**	182,155

(3) Earnings per share is calculated using the weighted average number of common shares outstanding during each period.

(4) Represents net income as adjusted for depletion of timber holdings, interest earned from Mandra, depreciation and amortization, amortization of deferred financing costs, stock-based compensation, impairment of capital assets, changes in fair value of financial instrument and other assets, exchange gains and others.

(5) Represents decreases (increases) in accounts receivable, inventories, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

(6) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.

(7) Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.

(8) These represent mainly leases of plantation land.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

[Expressed in thousands of United States dollars, except for earnings per share information] [Unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Revenue	**224,419**	184,981	**401,653**	320,476
Costs and expenses				
Cost of sales	**142,005**	116,672	**252,403**	205,093
Selling, general and administration	**16,453**	9,627	**32,568**	20,263
Depreciation and amortization	**1,161**	732	**2,290**	1,404
	159,619	127,031	**287,261**	226,760
Income from operations before the undernoted	**64,800**	57,950	**114,392**	93,716
Interest expense	**(17,036)**	(9,753)	**(33,831)**	(20,228)
Interest income	**2,276**	2,384	**4,180**	5,265
Exchange losses	**(270)**	(600)	**(363)**	(3,113)
Gain (loss) on changes in fair value of financial instruments	**2,588**	1,194	**1,607**	(3,341)
Other income	**1,051**	646	**1,272**	1,039
Income before income taxes	**53,409**	51,821	**87,257**	73,338
Provision for income taxes *[note 13]*	**(6,390)**	(5,245)	**(12,316)**	(9,519)
Net income from continuing operations	**47,019**	46,576	**74,941**	63,819
Net loss from discontinued operations *[note 7]*	**(1,970)**	(3,175)	**(6,887)**	(5,891)
Net income for the period	**45,049**	43,401	**68,054**	57,928
Earnings per share *[note 14]*				
Basic	**0.23**	0.24	**0.36**	0.32
Diluted	**0.23**	0.24	**0.36**	0.31
Earnings per share from continuing operations				
Basic	**0.24**	0.26	**0.40**	0.35
Diluted	**0.24**	0.25	**0.39**	0.35
Loss per share from discontinued operations				
Basic	**(0.01)**	(0.02)	**(0.04)**	(0.03)
Diluted	**(0.01)**	(0.02)	**(0.04)**	(0.03)
Retained earnings				
Retained earnings, beginning of period	**792,562**	555,491	**769,557**	540,964
Net income for the period	**45,049**	43,401	**68,054**	57,928
Retained earnings, end of period	**837,611**	598,892	**837,611**	598,892

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

[Expressed in thousands of United States dollars] [Unaudited]

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Net income for the period	**45,049**	43,401	**68,054**	57,928
Other comprehensive income:				
Unrealized gains (losses) on financial assets designated as available-for-sale, net of tax of nil	**5,515**	(99)	**4,305**	(1,048)
Unrealized gains on foreign currency translation of self-sustaining operations	**1,230**	36,737	**494**	99,483
Other comprehensive income	**6,745**	36,638	**4,799**	98,435
Comprehensive income	**51,794**	80,039	**72,853**	156,363

See accompanying notes

CONSOLIDATED BALANCE SHEETS

[Expressed in thousands of United States dollars] [Unaudited]

	As at June 30, 2009 $	As at December 31, 2008 $
ASSETS		
Current		
Cash and cash equivalents	**657,538**	441,171
Short-term deposits *[note 4(b)]*	**45,972**	45,784
Accounts receivable	**121,317**	225,753
Inventories *[note 3]*	**44,574**	43,200
Prepaid expenses and other	**26,137**	21,768
Convertible bonds *[note 6(c)]*	**28,617**	2,659
Assets of discontinued operations *[note 7]*	**27,161**	31,122
Total current assets	**951,316**	811,457
Timber holdings	**1,921,781**	1,653,306
Capital assets, net *[note 5]*	**68,887**	63,704
Other assets *[note 6]*	**84,573**	75,457
	3,026,557	2,603,924
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 4]*	**69,264**	67,188
Accounts payable and accrued liabilities *[note 13]*	**164,673**	179,903
Income taxes payable	**6,740**	6,383
Current portion of long-term debt *[note 9]*	**37,500**	—
Derivative financial instrument *[note 9(a)]*	**2,890**	5,214
Liabilities of discontinued operations *[note 7]*	**41,513**	32,004
Total current liabilities	**322,580**	290,692
Long-term debt *[note 9]*	**684,382**	714,468
Total liabilities	**1,006,962**	1,005,160
Commitments and Contingencies *[notes 19 and 20]*		
Shareholders' equity		
Equity portion of convertible senior notes *[note 9(c)]*	**70,462**	70,462
Share capital *[note 10]*	**884,968**	539,315
Contributed surplus *[note 11]*	**9,924**	7,599
Accumulated other comprehensive income *[note 12]*	**216,630**	211,831
Retained earnings	**837,611**	769,557
Total shareholders' equity	**2,019,595**	1,598,764
	3,026,557	2,603,924

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in thousands of United States dollars] [Unaudited]

	Three months ended June 30, 2009 $	Three months ended June 30, 2008 $	Six months ended June 30, 2009 $	Six months ended June 30, 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**45,049**	43,401	**68,054**	57,928
Net loss from discontinued operations	**1,970**	3,175	**6,887**	5,891
Add (deduct) items not affecting cash				
Depletion of timber holdings included in cost of sales	**79,432**	48,981	**143,637**	87,035
Depreciation and amortization	**1,161**	732	**2,290**	1,404
Accretion of convertible senior notes	**3,045**	—	**5,904**	—
Stock-based compensation	**1,239**	1,043	**2,325**	2,176
(Gain) loss on changes in fair value of financial instruments	**(2,589)**	(1,194)	**(1,608)**	3,341
Unrealized exchange losses	**22**	1,795	**3**	4,292
Interest income from Mandra	**(300)**	(300)	**(600)**	(600)
Other	**(232)**	892	**1,062**	1,421
	128,797	98,525	**227,954**	162,888
Net change in non-cash working capital balances *[note 15]*	**27,951**	3,032	**96,379**	(27,334)
Cash flows from operating activities of continuing operations	**156,748**	101,557	**324,333**	135,554
Cash flows from (used in) operating activities of discontinued operations	**215**	(1,553)	**(2,574)**	(3,458)
CASH FLOWS USED IN INVESTING ACTIVITIES				
Additions to timber holdings	**(191,912)**	(115,366)	**(425,773)**	(199,003)
Increase in other assets	**(351)**	(688)	**(5,608)**	(23,099)
Additions to capital assets	**(2,610)**	(8,098)	**(5,873)**	(18,142)
Increase in non-pledged short-term deposits	**(614)**	(6,406)	**(1,478)**	(10,353)
Business acquisition *[note 8]*	**—**	—	**—**	(1,928)
Acquisition of convertible bonds	**—**	—	**(200)**	—
Proceeds from disposal of capital assets	**111**	—	**111**	1
Cash flows used in investing activities	**(195,376)**	(130,558)	**(438,821)**	(252,524)
Cash flows from (used in) investing activities of discontinued operations	**10,068**	(358)	**9,139**	(358)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	**(6,286)**	4,312	**2,025**	(1,304)
Decrease (increase) in pledged short-term deposits	**1,074**	(781)	**1,302**	(2,719)
Issuance of shares, net of issue costs	**323,947**	289	**323,947**	289
Payment on derivative financial instrument	**—**	—	**(2,891)**	(2,100)
Cash flows from (used in) financing activities	**318,735**	3,820	**324,383**	(5,834)
Cash flows from (used in) financing activities of discontinued operations	**1**	(105)	—	(453)
Effect of exchange rate changes on cash and cash equivalents	**145**	1,088	**(93)**	2,496
Net increase (decrease) in cash and cash equivalents	**290,536**	(26,109)	**216,367**	(124,577)
Cash and cash equivalents, beginning of period	**367,002**	230,222	**441,171**	328,690
Cash and cash equivalents, end of period	**657,538**	204,113	**657,538**	204,113
Supplemental cash flow information				
Cash payment for interest charged to income	**2,695**	3,884	**27,264**	20,342
Interest received	**506**	1,422	**1,187**	4,017

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

1. BASIS OF PRESENTATION

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in note 1 of the notes to the consolidated financial statements for the year ended December 31, 2008 with the exception of certain changes in accounting policies as mentioned in note 2 below. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2008.

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue for the second quarter of the year represents approximately 20% to 25% of the entire year. This 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 the logging and hauling of timber during the rainy season in the first half of the year.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standard and Emerging Issues Committee ("EIC") abstract.

Section 3064 Goodwill and Intangible Assets, which replaced previous guidance. The standard establishes guidelines for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. The standard had no significant impact on the Company's consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified 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. Adoption of this guidance had no significant impact on the Company's 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. The Company is 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. The Company is in the process of evaluating the impact of this standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

3. INVENTORIES

Inventories consist of the following:

	June 30, 2009 $	December 31, 2008 $
Raw materials	**3,329**	3,111
Work in progress	**7,594**	6,481
Finished goods	**5,992**	5,481
Timber logs	**17,871**	20,929
Nursery	**9,788**	7,198
	44,574	43,200

The amount of inventories recognized as an expense and included in cost of sales for the three month and six month periods ended June 30, 2009 was $62,573,000 [three months ended June 30, 2008 – $67,691,000] and $108,766,000 [six months ended June 30, 2008 – $118,058,000], respectively. The amount charged to the statements of income and retained earnings and included in selling, general and administration expenses for the write-down of inventories for valuation issues for the three month and six month periods ended June 30, 2009 was $208,000 [three months ended June 30, 2008 – $491,000] and $1,519,000 [six months ended June 30, 2008 – $677,000], respectively.

4. BANK INDEBTEDNESS

Certain of the Company’s banking facilities are collateralized by:

[a] charges over certain of the Company’s land-use rights, buildings and timber holdings which have an aggregate net book value at June 30, 2009 of $31,813,000 [December 31, 2008 – $20,656,000]; and

[b] certain short-term deposits at June 30, 2009 of $15,307,000 [December 31, 2008 – $16,608,000].

Total interest expense on bank indebtedness for the three month and six month periods ended June 30, 2009 was $930,000 [three months ended June 30, 2008 – $702,000] and $1,738,000 [six months ended June 30, 2008 – $1,605,000], respectively.

5. CAPITAL ASSETS

Capital assets consist of the following:

	June 30, 2009		December 31, 2008	
	Cost $	**Accumulated depreciation, amortization and impairment** $	Cost $	Accumulated depreciation, amortization and impairment $
Machinery and equipment	**26,646**	**10,679**	25,361	9,406
Buildings	**42,118**	**3,579**	37,900	3,106
Land-use rights	**9,709**	**1,193**	7,820	1,056
Office furniture and equipment	**3,486**	**1,736**	3,109	1,441
Vehicles	**6,526**	**2,411**	6,413	1,890
	88,485	**19,598**	80,603	16,899
Less: accumulated depreciation, amortization and impairment	**(19,598)**		(16,899)	
Net book value	**68,887**		63,704	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

Buildings, machinery and equipment of $4,091,000 [December 31, 2008 – $18,101,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior periods.

6. OTHER ASSETS

Other assets consist of the following:

	June 30, 2009 $	December 31, 2008 $
Investment in Mandra Holdings [a]	**2**	2
Subordinated loan and interest receivable [a]	**19,967**	19,366
Prepaid plantation costs and lease rentals [b]	**41,205**	40,380
Investment in Omnicorp and Greenheart [c]	**11,469**	2,872
Deposit for purchase of logs [d]	**8,000**	8,000
Other	**3,930**	4,837
	84,573	75,457

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project"). Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Forestry Holdings Limited ("Mandra Holdings") at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of Mandra's $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $4,967,000 [December 31, 2008 – $4,367,000]. The Company's maximum exposure to loss from Mandra is limited to the Company's investment in Mandra and subordinated loan and related interest receivable.

[b] These represented prepaid land leases of plantation land in PRC and prepaid expenses for planted plantations.

[c] In July 2007, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 ordinary shares of Omnicorp, convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp which mature on November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000) resulting in a gain of $3,369,000 being recorded in other income.

In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders.

In February 2009, the Company acquired 55,000,000 ordinary shares of Omnicorp and approximately $21,700,000 (equivalent to HK$167,631,000) convertible bonds issued by Omnicorp. The purchase price consisted of cash of approximately $4,300,000 (equivalent to HK$33,000,000) for the Omnicorp shares and approximately 2,659,990 common shares of the Company for the Omnicorp convertible bonds.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

The above bonds are convertible at HK$2.00 of face value per Omnicorp ordinary share. The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The derivative asset was adjusted to its fair value of $3,149,000 using the Black Scholes model as at June 30, 2009 resulting in an unrealized gain of $2,175,000 for the six months ended June 30, 2009 [six months ended June 30, 2008 – unrealized loss of $2,265,000] recorded in the statements of income and retained earnings.

The following assumptions were used to estimate the fair value of the conversion options as at:

	June 30, 2009	December 31, 2008
Risk-free interest rate	**0.50%**	0.49%
Expected option life (in years)	**0.36**	0.85
Dividend yield	**0.0%**	0.0%
Volatility	**160.75%**	146.21%

The disbursements paid on receipts of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) and $21,181,000 (equivalent to HK$163,564,000) on the completion dates of November 8, 2007 and February 6, 2009, respectively. These discounts, together with the stated interest on the convertible bonds, are being accreted using the effective interest rate method over the convertible bonds' remaining term. For the three month and six month periods ended June 30, 2009, the Company recorded accretion income of $1,009,000 [three months ended June 30, 2008 – $226,000] and $1,953,000 [six months ended June 30, 2008 – $512,000], respectively, in the statements of income and retained earnings.

[d] The amount represents a refundable deposit of $10.0 million out of which $2.0 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million m^3 of wood fibre by the Company. The deposit will be refunded in equal instalments over five years after commencement of operations under the contract.

7. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission revenue ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations.

In March 2009, the Company committed to a plan to dispose certain machinery and equipment of the Company's particleboard operations due to continued losses over the years. On March 30, 2009, a subsidiary of the Company entered into an agreement, as amended by a supplementary agreement in June 2009, to dispose the capital assets of Gaoyao particleboard operation for proceeds of approximately $29,550,000 (equivalent to RMB202,000,000). The consideration will be paid over an eleven-month period. The transfer of capital assets is subject to certain conditions including consecutive 30 days of trial run of machinery and equipment. Accordingly, the results of operations of the Company's particleboard operations are detailed below and shown as discontinued operations.

As a result, the statements of income and retained earnings and balance sheets have been reclassified from statements previously presented.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

The results of the discontinued operations are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Revenue	**148**	2,144	**321**	2,786
Cost and expenses				
Cost of sales	**281**	3,206	**599**	4,043
Selling, general and administration	**(42)**	354	**234**	1,040
Depreciation and amortization	**—**	339	**215**	668
	239	3,899	**1,048**	5,751
Loss from operations before the undernoted	**(91)**	(1,755)	**(727)**	(2,965)
Interest expenses	**(70)**	(97)	**(160)**	(193)
Exchange losses	**(5)**	(188)	**(4)**	(514)
Impairment of assets held for sale	**(1,183)**	—	**(4,670)**	—
Other income (losses)	**78**	(3)	**78**	—
Loss before income taxes	**(1,271)**	(2,043)	**(5,483)**	(3,672)
Provision for income taxes	**(699)**	(1,132)	**(1,404)**	(2,219)
Net loss from discontinued operations	**(1,970)**	(3,175)	**(6,887)**	(5,891)

Assets and liabilities of discontinued operations consist of the following:

	June 30, 2009	December 31, 2008
	$	$
Assets of discontinued operations		
Accounts receivables	**32**	703
Inventories	**1,749**	2,155
Prepaid expenses and others	**586**	676
Assets held for sale	**24,794**	27,588
	27,161	31,122
Liabilities of discontinued operations		
Bank indebtedness	**5,972**	5,970
Accounts payable and accrued liabilities *[note 13]*	**35,541**	26,034
	41,513	32,004

The statements of cash flows of discontinued operations are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	$
Cash flows from (used in) operating activities	**215**	(1,553)	**(2,574)**	(3,458)
Cash flows from (used in) investing activities	**10,068**	(358)	**9,139**	(358)
Cash flows from (used in) financing activities	**1**	(105)	**—**	(453)
	10,284	(2,016)	**6,565**	(4,269)

Included in accounts payable and accrued liabilities as at June 30, 2009 is the balance of approximately $11,236,000 representing instalments received for the disposal of certain machinery and equipment. The same amount is also included in the cash flows from (used in) investing activities of discontinued operations. The other comprehensive income of the discontinued operations for the three month and six month periods ended June 30, 2009 and 2008 is insignificant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

8. BUSINESS ACQUISITION

In January 2008, the Company completed the acquisition of 100% of the equity interests of a limited company incorporated in the PRC for cash, which is principally engaged in the greenery and nursery operations.

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were as follows:

	$
Cash and bank balances	132
Accounts receivable	989
Other receivables	458
Inventories	751
Capital assets	318
License [a]	636
Accounts payable and accrued liabilities	(1,224)
Purchase price	2,060

[a] The purchase price in excess of the net tangible assets acquired of $636,000 was allocated to the identified intangible asset, being the license. The license enables the Company to tender for greenery projects in the PRC. The fair value of the license was based on the related discounted cash flows. The license is not amortized as it does not have a definite useful life.

9. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2009	December 31, 2008
	$	$
2004 Senior Notes [a]	**300,000**	300,000
Syndicated Loans [b]	**150,000**	150,000
Convertible Senior Notes [c]	**283,294**	277,391
Unamortized deferred financing costs	**(11,412)**	(12,923)
	721,882	714,468
Less: Current portion	**(37,500)**	—
	684,382	714,468

[a] On August 17, 2004, the Company issued $300,000,000 non-convertible guaranteed senior notes (the "2004 Senior Notes"). The 2004 Senior Notes bear interest at a rate of 9.125% per annum and payable semi-annually. The 2004 Senior Notes mature on August 17, 2011. The Senior Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2004 Senior Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- 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
- secured by pledge of the shares of the Subsidiary Guarantors.

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 2004 Senior Notes due on those dates. The term of the contract is five years. Management estimates that a loss of $2,890,000 [December 31, 2008 – $5,214,000], being the fair value of the contract, would be realized if the contract was terminated on June 30, 2009. The change in fair value of $567,000 for the six months ended June 30, 2009 [six months ended June 30, 2008 – $1,086,000] has been recorded in gains (losses) on changes in fair value of financial instruments in the statements of income and retained earnings.

The derivative financial instrument was classified as current liabilities as at June 30, 2009.

On June 24, 2009, the Company offered to eligible holders of the 2004 Senior Notes to exchange, subject to certain conditions, any and all of the outstanding Senior Notes for up to $300,000,000 10.25% new guaranteed senior notes due 2014. The Company also solicited consents from holders of the 2004 Senior Notes to amend certain of the provisions of the indenture governing the Senior Notes. Please refer to "Subsequent Event" in note 22.

Total interest expense on the 2004 Senior Notes for the three month and six month periods ended June 30, 2009 was $7,196,000 [three months ended June 30, 2008 – $7,165,000] and $14,393,000 [six months ended June 30, 2008 – $14,329,000], respectively.

[b] On February 24, 2006, the Company entered into a $150 million syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 0.8% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and ranks at least *pari passu* with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, subject to any priority rights pursuant to applicable law. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. Principal of $37,500,000 will be repayable in 2010 and the remaining balance in 2011. As at June 30, 2009, principal of $37,500,000 [December 31, 2008 – $nil] was reclassified to current portion of long-term debt.

Total interest expense on the syndicated loans for the three month and six month periods ended June 30, 2009 was $1,269,000 [three months ended June 30, 2008 – $1,886,000] and $2,719,000 [six months ended June 30, 2008 – $4,294,000], respectively.

[c] On July 17, 2008, the Company closed an offering of convertible guaranteed senior notes (the "Convertible Notes") for gross proceeds of $300,000,000. The Convertible Notes will mature on August 1, 2013 and bear interest at a rate of 5.0% per annum and payable semi-annually. The Convertible Notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per $1,000 principal amount of Convertible Notes. If a Fundamental Change, as defined in the indenture which governs the Convertible Notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company.

On August 5, 2008, the Company issued an additional $45,000,000 of the Convertible Notes pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to $345,000,000. The Company has allocated $272,621,000 of the face value of the Convertible Notes to the liability component and $72,379,000 to the equity component.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $345,000,000 face value using the estimated effective interest rate of 11.1%. The residual carrying value of $70,462,000, net of issue cost, attributed to the equity component of the Convertible Notes was classified as equity component of convertible notes. The total issue cost of $9,135,000 has been prorated against the liability and equity components. The Convertible Notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the Convertible Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- 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 Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the Convertible Notes).

Total interest expense of the Convertible Notes for the three month and six month periods ended June 30, 2009 was $7,692,000 [three months ended June 30, 2008 – $nil] and $14,981,000 [six months ended June 30, 2008 – $nil], respectively.

[d] Under the terms of the above debt agreements in [a] and [b], the Company has met the financial and non-financial covenants affecting the Company and the restricted subsidiaries (as defined in the debt agreements), including limitation on dividend and other payment restrictions; short-term borrowings and letters of credit or similar instruments not to exceed $100,000,000.

10. SHARE CAPITAL

Share capital consists of the following:

	Six months ended June 30, 2009		Twelve months ended December 31, 2008	
	Number of Common Shares	**Common Share Capital $**	Number of Common Shares	Common Share Capital $
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of period	**183,119,072**	**539,315**	182,592,961	537,141
Issue of shares	**37,159,990**	**345,653**	—	—
Exercise of options	—	—	526,111	1,591
Transfer from contributed surplus	—	—	—	583
Balance, end of period	**220,279,062**	**884,968**	183,119,072	539,315

In February 2009, the Company completed the issuance of 2,659,990 common shares to acquire approximately $21,700,000 (equivalent to approximately HK$167,631,000) 4% secured convertible bonds of Omnicorp.

In January and March 2009, options to acquire up to 654,618 common shares were granted to executives and employees at exercise prices ranging from Cdn.$8.01 to Cdn.$10.12. The options granted will vest over one to three years and expire in five years. The total fair value of the stock options granted was estimated to be

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

$2,219,000 on the respective dates of grant using the Black Scholes option-pricing model with the following assumptions:

	January 5, 2009	March 10, 2009	March 31, 2009
Number of options (in number)	75,000	75,000	504,618
Exercise price (in Cdn.$)	$10.12	$8.20	$8.01
Date of expiry	January 5, 2014	March 10, 2014	March 31, 2014
Dividend Yield	0.0%	0.0%	0.0%
Volatility	60.2%	60.8%	58.7%
Risk-free interest rate	1.61%	1.85%	1.69%
Option's expected life (in years)	5.0	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	$4.41	$3.35	$3.24

In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares (including over-allotment of 4,500,000 common shares) at Cdn.$11.0 per share.

As at June 30, 2009, outstanding options to purchase 1,007,041 common shares remain available to be granted.

Deferred Stock Unit Plan

On March 10, 2009, the Company approved a non-executive directors' Deferred Stock Unit Plan ("DSU Plan"), which became effective on March 31, 2009. Under the DSU Plan, non-executive directors of the Company shall 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 in the form of DSUs. On the last business day of each quarter of the Company's fiscal year, such number of DSUs is equal to: (a) 25% of the aggregate of: (i) the annual awarded amount as determined by the Committee (which shall initially be equal to the amount of annual retainer fees earned by the respective non-executive director); and (ii) the amount of annual retainer fees, if any, that such non-executive director has elected to receive in the form of DSUs; divided by (b) the Fair Market Value (as defined in the DSU Plan as the closing price of the common shares on the Toronto Stock Exchange), and shall be credited to the participants deferred stock unit 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 the Company on the open market on such director's behalf through an independent broker, when the holder ceases to be a director of the Company.

The DSUs are recognized as a compensation expense over the vesting period. Vested DSUs are re-measured at each reporting period until settlement, based on the Fair Market Value as described above. For the twelve-month period commencing on June 1, 2009, the Company awarded non-executive directors an aggregate of $175,000 (excluding the annual retainer fee, if any, which non-executive directors elected to receive in the form of DSUs) payable in DSUs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

11. CONTRIBUTED SURPLUS

The contributed surplus represents stock-based compensation and options granted over the vesting period which was charged to the statements of income and retained earnings.

	Six months ended June 30, 2009	Twelve months ended December 31, 2008
	$	$
Balance, beginning of period	**7,599**	3,906
Stock-based compensation	**2,325**	4,276
Transfer to share capital *[note 10]*	**—**	(583)
Balance, end of period	**9,924**	7,599

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2009	2008
Six months ended June 30,	**$**	$
Balance, beginning of period	**211,831**	105,287
Other comprehensive income	**4,799**	98,435
Balance, end of period	**216,630**	203,722

Accumulated other comprehensive income comprises the following amounts:

	June 30, 2009	December 31, 2008
	$	$
Unrealized gains on translation of financial statements of self-sustaining foreign operations	**214,557**	214,063
Unrealized gains (losses) on financial assets designated as available-for-sale, net of tax of nil	**2,073**	(2,232)
Balance, end of period	**216,630**	211,831

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. For the six months ended June 30, 2009, the Company incurred unrealized foreign currency translation gains of $494,000 [2008 – $99,483,000], primarily from the strengthening of Renminbi against U.S. dollars.

13. PROVISION FOR TAX RELATED LIABILITIES

The Company's operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. 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. This also applied 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.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI 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.

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Included in accounts payable and accrued liabilities including discontinued operations as at June 30, 2009 is the balance of the tax provision for the tax related contingency amounting to $102,605,000 [December 31, 2008 – $89,909,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries for the current six months and in the four previous years.

14. EARNINGS PER SHARE

Earnings per share from continuing operations are calculated as follows:

Three months ended June 30,	**Earnings $'000**	**2009 Weighted average no. of shares '000**	**Earnings per share $**	Earnings $'000	2008 Weighted average no. of shares '000	Earnings per share $
Net income from continuing operations	**47,019**	**—**		46,576	—	
Weighted average number of shares outstanding	**—**	**194,499**		—	182,638	
Basic earnings per share from continuing operations	**47,019**	**194,499**	**0.24**	46,576	182,638	0.26
Effect of dilutive securities:						
- stock options	**—**	**1,248**		—	1,788	
- convertible senior notes	**7,692**	**17,008**		—	—	
	54,711	**212,755**		46,576	184,426	
Deduct anti-dilutive impact:						
- convertible senior notes	**(7,692)**	**(17,008)**		—	—	
Diluted earnings per share from continuing operations	**47,019**	**195,747**	**0.24**	46,576	184,426	0.25

Six months ended June 30,	**Earnings $'000**	**2009 Weighted average no. of shares '000**	**Earnings per share $**	Earnings $'000	2008 Weighted average no. of shares '000	Earnings per share $
Net income from continuing operations	**74,941**	**—**		63,819	—	
Weighted average number of shares outstanding	**—**	**189,634**		—	182,615	
Basic earnings per share from continuing operations	**74,941**	**189,634**	**0.40**	63,819	182,615	0.35
Effect of dilutive securities:						
- stock options	**—**	**1,148**		—	1,804	
- convertible senior notes	**14,981**	**17,008**		—	—	
	89,922	**207,790**		63,819	184,419	
Deduct anti-dilutive impact:						
- convertible senior notes	**(14,981)**	**(17,008)**		—	—	
Diluted earnings per share from continuing operations	**74,941**	**190,782**	**0.39**	63,819	184,419	0.35

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

15. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances comprises the following:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
	$	$	**$**	**$**
Cash provided by (used for):				
Accounts receivable	**8,933**	(19,858)	**103,066**	(42,568)
Inventories	**1,378**	5,176	**(2,387)**	2,227
Prepaid expenses and other	**1,279**	(3,554)	**(4,350)**	(5,956)
Accounts payable and accrued liabilities [a]	**16,249**	20,913	**(306)**	18,151
Income taxes payable	**112**	355	**356**	812
	27,951	3,032	**96,379**	(27,334)

[a] As at June 30, 2009, the Company had an aggregate amount of $13,080,000 [December 31, 2008 – $27,948,000] payable in respect of timber holdings during the period which was included in accounts payable and accrued liabilities. In addition, certain additions of capital assets and plantation investments of approximately $2,840,000 were transferred from other assets during the period ended June 30, 2009.

16. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	June 30, 2009	December 31, 2008
	$	$
Held for trading [a]	**703,510**	486,955
Loans and receivables [b]	**166,784**	248,232
Available for sale assets [c]	**11,471**	2,874
Other financial liabilities [d]	**887,455**	897,175
Derivative (foreign currency swap) [e]	**2,890**	5,214
Embedded derivative [f]	**3,149**	249

[a] Cash and cash equivalents and short-term deposits, measured at fair value.

[b] Accounts receivable in continuing and discontinued operations, subordinated loans and convertible bonds are measured at amortized cost.

[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.

[d] Bank indebtedness, accounts payable and accrued liabilities in continuing and discontinued operations, excluding provision for tax related liabilities, and long-term debts are measured at amortized cost.

[e] Foreign currency swap contract is measured at fair value.

[f] Conversion option embedded in convertible bonds is measured at fair value.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of syndicated loans approximate their carrying values. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value, quoted market prices and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discount rates which reflect varying degrees of risk.

The fair value of the 2004 Senior Notes and Convertible Notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts of the 2004 Senior Notes as at June 30, 2009 were $297,000,000 and $300,000,000, respectively [December 31, 2008 – $195,000,000 and $300,000,000, respectively]. The fair value and carrying amounts of the Convertible Notes as at June 30, 2009 were $289,800,000 and $283,294,000, respectively. The fair value of the Convertible Notes approximated their carrying values as at December 31, 2008.

Foreign currency swap contract and convertible bonds

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the Senior Notes, the Company has entered into a currency swap agreement to meet interest payments at $27.4 million per annum. The Company does not otherwise engage in other hedging transactions with respect to its foreign exchange risk or interest rate risk.

The Company has convertible bonds issued by Omnicorp which will mature on November 9, 2009. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The change in fair value of these financial instruments for the six months ended June 30, 2009 was an unrealized gain of $2,175,000 [2008 – unrealized loss of $2,265,000] which has been recorded in the statements of income and retained earnings.

Risks arising from financial instruments and risk management

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates and the prices of wood-based products and standing timber, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. For the six months ended June 30, 2009 and 2008, 78.0% and 82.4% of the sales were received in Renminbi respectively and 22.0% and 17.6% of the sales were received in U.S. dollars and Euro respectively. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. It is expected in the future that substantially all of the sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on its 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 the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has 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 the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. 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 else being equal, have an effect on net income after tax and other comprehensive income for the six months ended June 30, 2009 of approximately $4.9 million and $0.9 million, respectively.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. 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. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company 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 its results of operations, financial condition and cash flows.

As of June 30, 2009, the Company had Renminbi denominated bank accounts of RMB686.2 million (equivalent to $100.4 million) [December 31, 2008 – RMB531.5 million, equivalent to $77.8 million], U.S. dollar denominated bank accounts of $602.6 million [December 31, 2008 – $403.1 million], Canadian dollar denominated bank accounts of Cdn.$12,000 (equivalent to $10,000) [December 31, 2008 – Cdn.$5.4 million, equivalent to $4.4 million], Hong Kong dollar denominated bank accounts of HK$2.9 million (equivalent to $0.4 million) [December 31, 2008 – HK$0.8 million, equivalent to $0.1 million] and Euro denominated bank accounts of €45,000 (equivalent to $63,000) [December 31, 2008 – €1.1 million, equivalent to $1.6 million]. The Company also had U.S. dollar denominated accounts receivable of $31.5 million [December 31, 2008 – $15.2 million] and Renminbi denominated accounts receivable of RMB613.5 million (equivalent to $89.8 million) [December 31, 2008 – RMB1,439.2 million, equivalent to $210.6 million].

The Company mainly incurred U.S. dollar denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its 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

The Company is exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at June 30, 2009 included $51,777,000 due from three customers [December 31, 2008 – $79,058,000 due from three customers] representing 42.7% [2008 – 35.0%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company. As at June 30, 2009, $14,577,000 [December 31, 2008 – $27,444,000] or 12.0% [December 31, 2008 – 12.2%] of accounts receivable, were aged more than 90 days. The Company has no significant allowance for doubtful accounts for the six months ended June 30, 2009.

The Company is 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. The Company has deposited the cash equivalent in banks that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's 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, 2009, the Company was holding cash and cash equivalents of $657.5 million. The Company has determined that continued cash flow from operations in fiscal 2009 together with the cash and cash equivalents from previous financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

The following is an analysis of the contractual maturities of the Company's financial liabilities as at June 30, 2009:

	Payment Due by Period				
	Within one year $	In the second and third year $	In the fourth and fifth year $	After the fifth year $	Total $
Bank indebtedness [1]	**75,236**	—	—	—	**75,236**
Accounts payable and accrued liabilities [1][2]	**90,337**	—	—	—	**90,337**
Long-term debt [3]	**37,500**	**407,404**	**276,978**	—	**721,882**
	203,073	**407,404**	**276,978**	—	**887,455**

[1] Including continuing and discontinued operations.
[2] Excluding the tax provision for tax related contingency.
[3] Including current portion of long-term debt.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness and syndicated notes. 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, 2009, $182.1 million or 22.8% of the Company's total debt is subject to variable interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $0.9 million. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk. The Company minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the 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 the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales or purchases of standing timber and wood-based products.

17. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital and to safeguard the Company's ability to continue to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

In the management of capital, the Company includes bank indebtedness of $75,236,000 (including discontinued operations of $5,972,000), long-term debt of $721,882,000 (including short-term portion) and shareholders' equity of $2,019,595,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities, senior notes and syndicated loans and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As of June 30, 2009, the Company has retained earnings of approximately $838 million in the PRC which may be restricted.

18. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segments. The segments were organized to reflect the Company's role as a key wood fibre supplier and provider of value-added wood products through its manufacturing operations. Summary details of the industry segments are as follows:

[a] the plantation fibre segment engages in the sale of standing timber and harvested logs;

[b] the other fibre segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operation's products and other.

Corporate assets, corporate income and costs are included in the Company's corporate segment to differentiate its risks and returns from other business segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

By Industry Segment

	Three months ended June 30, 2009				
	Plantation Fibre $	**Other Fibre** $	**Manufacturing** $	**Corporate** $	**Total** $
Revenue					
Sale of standing timber and harvested logs	**158,898**	—	—	—	**158,898**
Sale of imported wood products	—	**55,719**	—	—	**55,719**
Sale of wood logs	—	**1,052**	—	—	**1,052**
Sale of manufacturing operations' products and other	—	—	**8,750**	—	**8,750**
	158,898	**56,771**	**8,750**	—	**224,419**
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	**75,706**	**2,067**	**(4,183)**	**(8,790)**	**64,800**
Net loss from discontinued operations	—	**699**	**1,271**	—	**1,970**
Interest income	**63**	**155**	**221**	**1,837**	**2,276**
Interest expense	**238**	**379**	**261**	**16,158**	**17,036**
Depreciation and amortization	**97**	**76**	**941**	**47**	**1,161**
Provision for income taxes	**5,975**	**(147)**	**22**	**540**	**6,390**
Identifiable assets	**2,068,018**	**252,678**	**297,645**	**408,216**	**3,026,557**
Depletion of timber holdings included in cost of sales	**79,432**	—	—	—	**79,432**
Additions to timber holdings and capital assets	**160,514**	**133**	**2,387**	**25**	**163,059**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

	Three months ended June 30, 2008				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	125,591	—	—	—	125,591
Sale of imported wood products	—	42,879	—	—	42,879
Sale of wood logs	—	1,129	—	—	1,129
Sale of manufacturing operation's products and other	—	—	15,382	—	15,382
	125,591	44,008	15,382	—	184,981
Income (loss) from continuing operations before interest, other income, exchange (losses) gains and changes in fair value of financial instruments	64,441	1,690	(4,051)	(4,130)	57,950
Net loss from discontinued operations	—	1,132	2,043	—	3,175
Interest income	301	93	563	1,427	2,384
Interest expense	160	359	180	9,054	9,753
Depreciation and amortization	62	10	613	47	732
Provision for income taxes	4,714	331	181	19	5,245
Identifiable assets	1,568,271	83,453	231,187	151,599	2,034,510
Depletion of timber holdings included in cost of sales	48,111	—	870	—	48,981
Additions to timber holdings and capital assets	115,395	59	7,895	118	123,467

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

	Six months ended June 30, 2009				
	Plantation Fibre $	**Other Fibre $**	**Manufacturing $**	**Corporate $**	**Total $**
Revenue					
Sale of standing timber and harvested logs	**286,866**	**—**	**—**	**—**	**286,866**
Sale of imported wood products	**—**	**93,400**	**—**	**—**	**93,400**
Sale of wood logs	**—**	**1,129**	**—**	**—**	**1,129**
Sale of manufacturing operations' products and other	**—**	**—**	**20,258**	**—**	**20,258**
	286,866	**94,529**	**20,258**	**—**	**401,653**
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	**137,895**	**2,963**	**(9,116)**	**(17,350)**	**114,392**
Net loss from discontinued operations	**—**	**1,404**	**5,483**	**—**	**6,887**
Interest income	**100**	**437**	**494**	**3,149**	**4,180**
Interest expense	**432**	**752**	**550**	**32,097**	**33,831**
Depreciation and amortization	**198**	**132**	**1,866**	**94**	**2,290**
Provision for income taxes	**11,258**	**399**	**119**	**540**	**12,316**
Identifiable assets	**2,068,018**	**252,678**	**297,645**	**408,216**	**3,026,557**
Depletion of timber holdings included in cost of sales	**143,637**	—	—	—	**143,637**
Additions to timber holdings and capital assets	**412,026**	**29**	**7,517**	**46**	**419,618**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

	Six months ended June 30, 2008				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	228,261	—	—	—	228,261
Sale of imported wood products	—	66,943	—	—	66,943
Sale of wood logs	—	1,252	—	—	1,252
Sale of manufacturing operation's products and other	—	—	24,020	—	24,020
	228,261	68,195	24,020	—	320,476
Income (loss) from continuing operations before interest, other income, exchange (losses) gains and changes in fair value of financial instruments	109,574	2,060	(8,031)	(9,887)	93,716
Net loss from discontinued operations	—	2,219	3,672	—	5,891
Interest income	467	159	1,068	3,571	5,265
Interest expense	311	846	443	18,628	20,228
Depreciation and amortization	125	21	1,168	90	1,404
Provision for income taxes	8,564	448	433	74	9,519
Identifiable assets	1,568,271	83,453	231,187	151,599	2,034,510
Depletion of timber holdings included in cost of sales	85,269	—	1,766	—	87,035
Additions to timber holdings and capital assets	197,759	64	17,656	143	215,622

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the three month and six month periods ended June 30, 2009, sales to customers in the PRC amounted to approximately $222,738,000 [three months ended June 30, 2008 – $185,802,000] and $398,927,000 [six months ended June 30, 2008 – $321,549,000], respectively.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

During the three month and six month periods ended June 30, 2009, sales to customers in other countries amounted to approximately $1,829,000 [three months ended June 30, 2008 – $1,323,000] and $3,047,000 [six months ended June 30, 2008 – $1,713,000], respectively.

As at June 30, 2009, all of the Company's timber holdings and approximately $92,980,000 [December 31, 2008 – $90,525,000] of the Company's capital assets and assets held for sale in discontinued operations were located in the PRC.

19. CAPITAL CONTRIBUTIONS AND COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

As at June 30, 2009, the Company has capital commitments in respect of capital contributions to our WFOEs of $49,050,000 [December 31, 2008 – $75,000,000].

[b] Capital commitments

As at June 30, 2009, the Company has capital commitments with respect to buildings and plant and machinery of $10,365,000 [December 31, 2008 – $15,020,000].

[c] Purchase commitments

As at June 30, 2009, the Company has purchase commitments mainly regarding logs of $2,235,000 [December 31, 2008 – $6,400,000].

[d] Operating leases

Commitments under operating leases for land and buildings are payable as follows:

	$
Within 1 year	3,599
In the second year	2,792
In the third year	2,739
In the fourth year	2,246
In the fifth year	1,928
Thereafter	45,431
	58,735

[e] Wood fibre

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at June 30, 2009.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 136,990 hectares of plantation trees for $539,367,000 as at June 30, 2009.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 66,562 hectares of plantation trees for $330,511,000 as at June 30, 2009.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 82,709 hectares of plantation trees for $368,295,000 as at June 30, 2009.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at June 30, 2009.

Under the master agreement entered in June 2009 to acquire a minimum of 150,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has not acquired any hectares of plantation trees as at June 30, 2009.

20. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material impact on the Company's tax expense. The Company has 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 the Company operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. 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 three to five years in practice. 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.

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.

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

21. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the three month and six month periods ended June 30, 2009 amounted to $153,000 [three months ended June 30, 2008 – $150,000] and $306,000 [six months ended June 30, 2008 – $302,000], respectively and were recorded at an exchange amount as agreed by the related parties.

[b] In addition, as at June 30, 2009, no balance was payable [December 31, 2008 – $4,900,000] for consultancy fees to these related companies. The amount is included in accounts payable and accrued liabilities in the financial statements.

[c] On February 6, 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21,700,000 (equivalent to approximately HK$167,631,000) 4% secured convertible bonds of Omnicorp from various vendors. Total consideration was approximately

$25,775,000 (equivalent to approximately HK$200,631,000). Among the vendors were a director of the Company 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.

22. SUBSEQUENT EVENT

On July 27, 2009, the Company closed its previously announced offer to exchange any and all of its outstanding 2004 Senior Notes for up to $300,000,000 10.25% new guaranteed senior notes due 2014 (the "Exchange Notes"). An aggregate principal amount of $212,330,000 of the 2004 Senior Notes was tendered. The Company issued $212,330,000 in aggregate principal amount of Exchange Notes in exchange for the amount tendered. The remaining principal amount of approximately $87.7 million of the 2004 Senior Notes will be repaid upon maturity date at 2011.

On the same date, the Company also closed and received the requisite consents from holders of the 2004 Senior Notes, the outstanding 2004 Senior Notes are now subject to the terms and conditions of the amended indenture governing the 2004 Senior Notes.

23. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the consolidated financial statements for the six month period ended June 30, 2009.