



SINO-FOREST CORPORATION

Annual Information Form
in respect of the year ended
December 31, 2004

March 31, 2005

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CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Annual Information Form using a number of conventions, which a reader should consider when reading the information contained herein. When we use the terms “we”, “us”, “our” and words of similar import or use the term “Corporation” or “Sino-Forest”, we are referring to Sino-Forest Corporation itself, or to Sino-Forest Corporation and its consolidated subsidiaries, as the context requires.

All references in this Annual Information Form to “U.S. dollars” and “US\$” are to United States dollars; all references to “Canadian dollars” and “Cdn\$” are to Canadian dollars; all references to “H.K. dollars” and “HK\$” are to Hong Kong dollars; all references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China, or the PRC; and all references to “€” or “Euro” are to Euros. Solely for the convenience of the reader, this Annual Information Form contains translations of certain Canadian dollar, H.K. dollar and Renminbi amounts into U.S. dollars. Unless otherwise indicated, all dollar amounts in this Annual Information Form are expressed in U.S. dollars.

All such Canadian dollar translations have been made at the rate of Cdn\$1.2034 to US\$1.00, the noon buying rate in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. All such H.K. dollar translations have been made at the rate of HK\$7.80 to US\$1.00, the linked exchange rate between such currencies under policies of the Hong Kong government in effect as of December 31, 2004. All such Renminbi translations have been made at the rate of RMB8.2765 to US\$1.00, the noon buying rate for Renminbi in The City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. No representation is made that the Canadian dollar, H.K. dollar or Renminbi amounts stated herein could have been, or could be, converted into U.S. dollars at such rates or at any other rate.

Statistical references to “PRC” and “China” do not include the Hong Kong Special Administrative Region, or Hong Kong, or the Macau Special Administrative Region, or Macau.

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

A bone dry metric ton is a measure of weight used in the forest products industry to measure bulk products such as wood chips. One bone dry metric ton would weigh one metric ton if all the moisture content were removed. A bone dry metric ton can be converted to cubic meters of logs depending on the wood density of the species concerned. For eucalyptus trees, one bone dry metric ton is equal to approximately two cubic meters of round logs.

A hectare is a metric unit of area equal to 10,000 m² or approximately 2.471 acres.

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

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

Totals presented in this Annual Information Form may not total correctly due to rounding of numbers.

THE CORPORATION

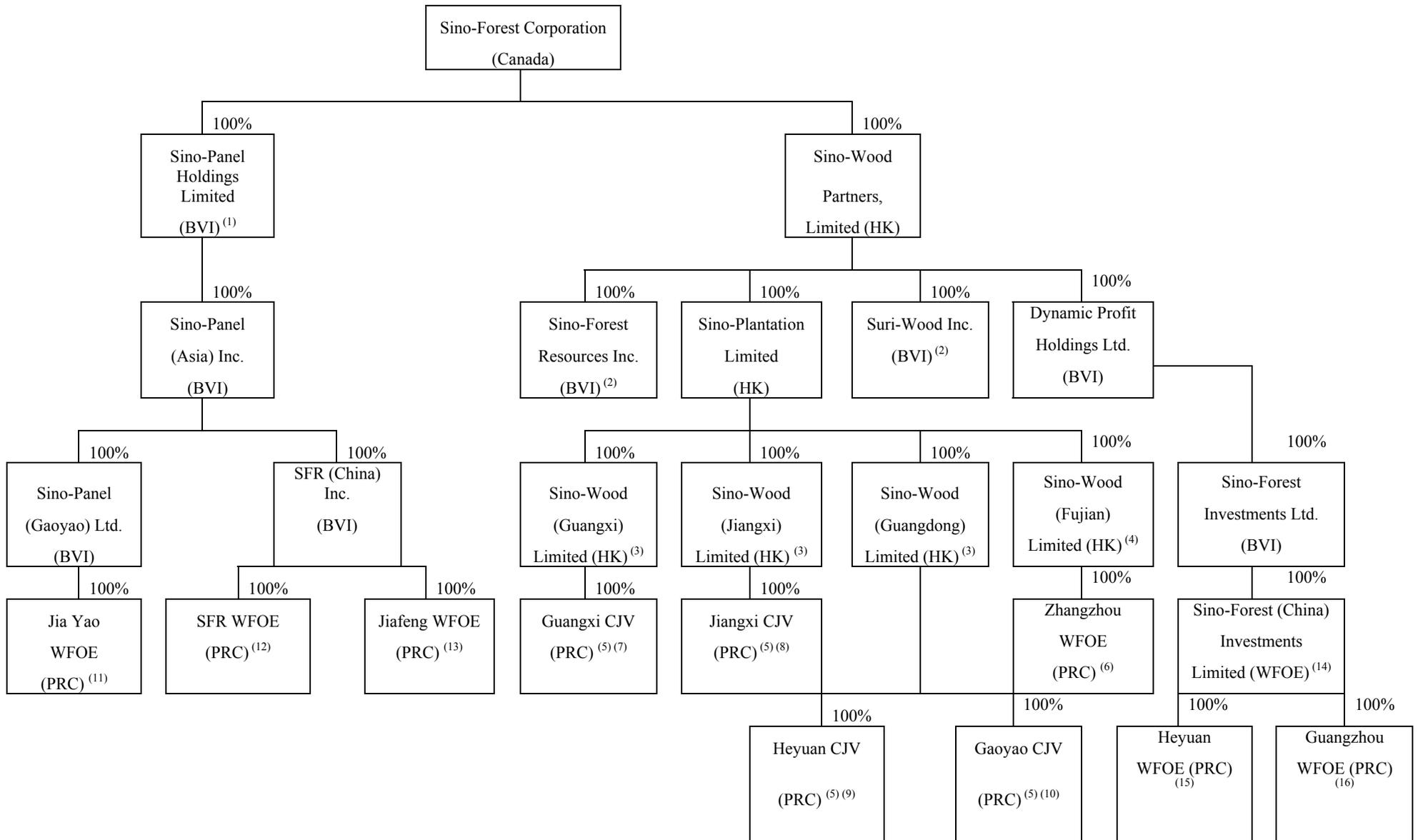
We were formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to our class A subordinate-voting shares and our class B multiple-voting shares. On June 25, 2002, we filed articles of continuance to continue under the *Canada Business Corporations Act*. On June 22, 2004, we filed articles of amendment whereby our class A subordinate-voting shares were reclassified as common shares (“**Common Shares**”) and our class B multiple-voting shares were eliminated.

We have offices located in Toronto, Hong Kong and the PRC. Our executive offices located at 3129 - 40, 31/F Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Our registered office and principal business office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, L5B 3C3.

CORPORATE STRUCTURE

The following chart, which does not include certain immaterial subsidiaries, shows our current corporate structure.

SINO-FOREST CORPORATION
Corporate Structure



Notes:

- (1) In November 1997, the predecessor company to Sino-Panel Holdings Limited granted options (which were subsequently granted by Sino-Panel Holdings Limited) to certain members of our management for nominal consideration. On May 14, 2004, we repurchased a portion of such options which constitute the right to acquire 8.13% of Sino-Panel Holdings Limited, from current members of management and a company under the control of management. The remaining options to acquire 1.87% of Sino-Panel Holdings Limited are held by a British Virgin Islands company equally owned by a former member of management that is no longer an officer and director and a current member of our management. The option to acquire 1.87% of Sino-Panel Holdings Limited will remain outstanding. However, the current member of our management that is the joint owner and co-director of the British Virgin Islands company has undertaken that he will vote against the exercise of the option held by that company to acquire 1.87% of Sino-Panel Holdings Limited and will use other commercially reasonable efforts to ensure that such option is not exercised.
- (2) The wholly-owned subsidiaries of Sino-Wood Partners, Limited, and currently engage in standing timber and wood chips sales and trading activities through authorized intermediaries and the import of wood-based products.
- (3) Indirectly wholly-owned subsidiaries of Sino-Wood Partners, Limited.
- (4) Indirectly wholly-owned subsidiary of Sino-Wood Partners, Limited and currently owns 100% interest in Zhangzhou WFOE
- (5) CJVs which operate forestry plantations in Guangdong, Guangxi and Jiangxi Provinces. Under the CJV contracts entered into between us and our PRC CJV Partners, the PRC CJV Partners are required to contribute plantation land use rights in respect of plantation land to the CJVs and we contribute cash and raw materials required for the development of the forestry plantations. Although the volume of timber logged from the plantation land is shared between us and the PRC CJV Partners on a 70:30 basis, we are solely responsible for contributing all of the registered capital of the CJVs and are required to bear all of the management fees of the CJVs. Accordingly, we are considered to have 100% equity interests in these CJVs. See “Forestry Plantation Contractual Arrangements.”
- (6) Zhangzhou Jiamin Forestry Development Co. Ltd., a WFOE which operates forestry plantations in Zhangzhou, Fujian Province.
- (7) Guangxi Guijia Forestry Company Limited.
- (8) Jiangxi Jiachang Forestry Development Co. Ltd.
- (9) Heyuan Jiahe Forestry Development Ltd.
- (10) Gaoyao Jiayao Forestry Development Ltd.
- (11) Guangdong Jia Yao Wood Products Development Co., Ltd., a WFOE. We intend for Jia Yao WFOE to refocus its operations on the processing and sale of logs, wood chips and wood-based products from raw timber, the operation of immature purchased tree plantations and, once the trees mature, the sale of standing timber from purchased tree plantations. Jia Yao WFOE will be transferred to Sino-Forest (China) Investments Limited in the future, and its manufacturing assets will be injected into any entity with the Sino-Panel group of companies.
- (12) SFR Suzhou Co., Ltd.
- (13) Jiafeng Wood (Suzhou) Co., Ltd.
- (14) Sino-Forest (China) Investments Limited, a WFOE which was established on July 28, 2004 according to the Provisions on the Establishment of Companies with an Investment Nature by Foreign Investors in the PRC. We intend for Sino-Forest (China) Investments Limited to be the holding company for our PRC subsidiary companies and coordinate our operations in the PRC.
- (15) Sino-Forest (Heyuan) Company Limited, a WFOE which was established on September 16, 2004. It engages in operating forest nursery and planting, forestry plantations and related activities such as planting, logging; processing and sale of logs, standing timber, wood chips and wood-based products, research and development, technology transfer and related services, and the forestry plantation management.
- (16) Sino-Forest (Guangzhou) Company Limited, a WFOE which was established on October 25, 2004. It engages in forest nursery and planting, operating forestry plantations, trees in city greening projects and related activities such as planting, research and development, logging, processing and sale of logs, wood chips and wood-based products., research and development, technology transfer and related services, and forestry plantation management.

BUSINESS

We are the largest foreign owned commercial forestry plantation operator in the PRC in terms of plantation area. As of December 31, 2004, we have approximately 241,810 hectares of forestry plantations under cultivation with trees located in southern and eastern China. We have been operating forestry plantations in the PRC since 1995. We are focused on the development and supply of wood fibers and logs to meet the increasing demand from manufacturers in the wood panel, furniture, construction, interior decoration and pulp and paper markets in the PRC for wood fibers.

Our plantations consist primarily of eucalyptus, poplar and pine forests. We have two types of forestry plantations: our own planted tree plantations that we operate through CJVs and a WFOE under PRC law; and forestry plantations of third parties from which we purchase young trees that have not reached maturity. We have been advised by our PRC counsel that we have all relevant rights to use the land and own the trees in our planted tree plantations, and own the trees in our purchased tree plantations. In addition, we have confirmation from the relevant forestry bureaus that they will allocate to us on an annual basis the logging quotas to assure that we are able to harvest the mature trees in the forestry plantations we currently operate. As of December 31, 2004, approximately 12.7%, 4.1%, 70.6% and 12.6% of our plantations consisted of eucalyptus, poplar, pine and Chinese fir, respectively. As we harvest our trees, we intend to primarily replant with fast-growing, short-rotation eucalyptus plantations.

As of December 31, 2004, our purchased tree plantations and planted tree plantations consisted of approximately 210,068 hectares and 31,742 hectares, respectively. We have rights under our agreements with our joint venture partners and other parties to increase our plantations to a maximum of approximately 616,000 hectares of planted tree plantations. Under our agreements for our purchased tree plantations, we have an option to require the transfer of the plantation land use rights through long-term leases to approximately 210,068 hectares for a maximum period of up to 50 years, subject to negotiation of a price and certain other conditions. We have also recently received an undertaking by one of our PRC CJV Partners pursuant to which we may purchase mature pine trees on up to an additional 200,000 hectares of mature forestry plantations in Heyuan, Guangdong Province until February 12, 2006, as well as to lease the underlying plantation land for a maximum period of up to 50 years, subject to negotiation of a definitive agreement and the terms and conditions specified in the undertaking. In the event we purchase these mature pine tree plantations, we intend, following harvesting of these trees, to replant the plantation lands with fast-growing, short-rotation eucalyptus trees. See “—Plantations—Purchased Tree Plantations.”

Our use of advanced forestry plantation management practices has enabled us to achieve an average recoverable yield of 90 cubic meters of wood per hectare per six-year cycle for eucalyptus trees, compared to the PRC national average of approximately 60 cubic meters of eucalyptus wood per hectare. We expect that improved quality of planting materials and advanced plantation management techniques will improve our eucalyptus average recoverable yields to as much as 120 cubic meters per hectare per six-year cycle over the next two rotations.

The PRC currently faces a large domestic supply shortfall of timber resources as a result of stringent bans on logging of natural forests and the rapid growth of the wood panel, furniture, construction, interior decoration and pulp and paper markets in the PRC in recent years. According to Jaakko Pöyry Consulting, China is one of the world's largest markets for furniture, wood panel products and paper and paperboard. We believe that wood fibers sourced from domestic commercial forestry plantations such as ours will become an increasingly important source of supply of timber resources in the PRC to meet the growing demand for wood products.

In 2002, when the first of our forestry plantations reached maturity, we made our first sales of standing timber from our forestry plantations. In 2002, 2003 and 2004, we sold approximately 8,100,

20,630, and 37,369 hectares of standing timber from our forestry plantations. In 2003, we began our second rotation of trees following the initial harvesting of our forestry plantations. Prior to 2002, when our forestry plantations had not yet reached maturity, we generated substantially all of our revenue from trading activities of logs and other wood-based products. However, as our forestry plantations mature, we anticipate that we will increase our sales of logs and standing timber from our own plantations and the percentage of our revenue from these activities will increase.

We currently have a manufacturing plant under construction for capacity expansion and lamination installation in Gaoyao, Guangdong Province, which complements our forestry plantations operations. Our Gaoyao facility commenced commercial production of bare particleboard in May 2001. We expect this capacity expansion and lamination installation at the Gaoyao manufacturing plant to be completed by the end of 2005.

In 2002, 2003 and 2004, we had revenue of \$200.7 million, \$265.7 million and \$330.9 million, respectively, and net income of \$20.6 million, \$30.2 million and \$52.8 million, respectively.

Competitive Strengths

We believe that we have the following strengths:

We are currently the largest foreign owned commercial forestry plantation operator in the PRC in terms of plantation area with our own predictable, sustainable and large-scale supply of forestry resources

We are currently the largest foreign owned commercial plantation operator in the PRC in terms of plantation area with our own predictable, sustainable and large-scale supply of forestry resources. Since the date of the incorporation of Sino-Forest, we have invested in developing our forestry plantations, and our trees are now reaching maturity. We expect to maintain and expand our existing forestry plantation resources, and bring a predictable and sustainable supply of wood fiber to the market. In this regard, we have rights under our agreements with our joint venture partners and other parties to obtain a maximum of approximately 616,000 hectares of forestry plantations. We also have an option under our agreements for our purchased tree plantations to require the transfer of the plantation land use rights through long-term leases of the approximately 210,068 hectares of our purchased tree plantations (or other suitable plantation land use rights to an area equivalent to that of the purchased tree plantations) for a maximum period of up to 50 years, subject to negotiation of a price for the transfer of the plantation land use rights and satisfaction of other conditions. Further, we have received an undertaking granted by one of our PRC joint venture partners, pursuant to which we may purchase up to 200,000 hectares of mature forestry plantations until February 12, 2006, as well as to lease such plantations for a maximum period of up to 50 years, subject to negotiation of a definitive agreement and the terms and conditions specified in the undertaking. We also expect to acquire additional purchased tree plantations in the future. These factors constitute a competitive advantage compared to smaller forestry plantations that have difficulties in efficiently managing their forestry plantations.

Our plantations are strategically located in southern and eastern China

We have developed our forestry plantations in southern and eastern China in the provinces of Guangdong, Guangxi, Jiangxi and Fujian. These regions offer favorable climate and soil conditions for eucalyptus, poplar and pine plantations, have easy access to transportation routes and are close to major population centers and the major markets in the PRC for wood panel, furniture, construction, interior decoration and pulp and paper. In addition, new medium density fiberboard (“MDF”) and particleboard plants and pulp and paper mills are currently under construction in southern and eastern China in Hainan Island, Guangdong, Jiangxi, Zhejiang and Guangxi Provinces. We expect that these mills will source

timber from locations in southern and eastern China so as to shorten delivery time and save transportation costs.

We have a strong track record in obtaining and developing commercial forestry plantations

We have a strong track record in obtaining and developing commercial forestry plantations. Since 1995, we have successfully executed our business model in acquiring and developing forestry plantations. Once we obtain favorable forestry plantation locations, we operate the forestry plantations using advanced, environmentally prudent plantation management practices focused on the development of sustainable commercial plantations. We believe our ten-year track record of developing fast-growing commercial forestry plantations in the PRC using advanced plantation management techniques is a competitive advantage in the PRC, where the commercial forestry plantation industry is comparatively undeveloped and where there are currently limited large-scale commercial forestry plantations using advanced plantation management practices.

We have developed extensive forestry and management expertise with local knowledge in the PRC

We have developed extensive forestry and management expertise with local knowledge in the PRC. Our management team has extensive experience in the forestry industry. We have recruited personnel with a great deal of experience in plantation management and research and development that have put in place advanced plantation management practices in our forestry plantation operations. The management staff of the cooperative joint ventures, many of whom formerly worked with the local forestry bureaus, have a depth of understanding of the local forestry marketplace. We also utilize experts in the forestry plantation industry as our consultants, advisers and employees, who provide expert advice on management, ecological and plantation matters.

Systematic application of planting and silviculture techniques

Our plantation program is designed to produce short-rotation high-yielding trees, which have advantages over natural forests, primarily due to the systematic application of advanced planting and silviculture techniques. These advantages include: efficient growing rotations, more uniform timber, lower access and harvesting costs, better environmental protection and improved resistance to disease, frost and fire. Our planting expertise is aimed at enabling the plantation trees to grow with improved quality, reduced cost and increased yield, and in an environmentally responsible manner. More uniform plantations and our use of developed tree species with special features (e.g., fewer branches), enables us to increase our harvesting efficiency, reduce waste, increase yield and provide higher quality and more profitable timber.

Strong research and development capability

Our forestry plantation research and development efforts are focused on increasing the yield of our plantations and improving the wood quality of the trees grown, particularly the standing wood volume per unit area. We conduct research and development on superior planting material breeding and propagation, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing and ecological and environmental technology. We have focused on improving our research and development capability and we obtain research and development support from local academic institutions. We carry out research and development projects by ourselves and/or jointly with a number of research or academic institutions in the PRC.

Expertise in sustainable plantation development

The PRC government promotes sustainable forestry plantation development in the PRC. Consistent with this policy, we have developed and continue to develop, sustainable forestry plantations in the PRC. We employ advanced forest management practices and adopt prudent environmental management of our forestry plantations. We believe that we have gained recognition for our use of sustainable plantation development in the PRC and this should give rise to additional business opportunities.

Established relationships in the PRC

We believe that over the last 10 years we have established good relationships with local forestry bureaus, other forestry plantation owners, plantation service providers and wood dealers in the PRC. We believe that our relationships with local forestry bureaus and forestry plantations owners have supported the development of our forestry plantation business in the past, and will benefit us in expanding our forestry resources in the future. We also maintain good relationships with plantation service providers and employ members of local village communities surrounding our forestry plantations to provide labor to our plantations.

We believe that we have an in-depth understanding of the dynamics of the PRC forestry market. This enhances our ability to deal with market changes, such as changes in prices or customer requirements, and provides us with a competitive advantage over current and potential competitors.

Business Opportunities

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

Strong and growing consumption of wood fiber from downstream producers

As an upstream provider of wood fibers for downstream producers, we are well-positioned to benefit from increased demand for, and the forecasted shortages of supply of, wood fibers in the PRC.

The demand for wood fibers in China is increasing. According to Jaakko Pöyry Consulting, in 2002, domestic timber consumption in the PRC was approximately 350 million cubic meters. To meet the shortfall in domestic production, the PRC imported over 100 million cubic meters of wood fiber in 2002 in various forms. The shortfall in domestic production is forecast by Jaakko Pöyry Consulting to increase, due to restrictions on logging of natural forests, both in the PRC and elsewhere, and continued growth in demand for wood fibers in the PRC by downstream consumers of forestry products.

The demand for logs and wood chips is driven primarily by the furniture manufacturing, construction, interior decoration and pulp and paper sectors, which are the downstream consumers of these products. Each of these sectors has experienced strong growth historically and is expected to continue to grow at rates that exceed world average growth for the next several years. Jaakko Pöyry Consulting estimates that domestic furniture production will grow approximately 11% per year between 2002 and 2010 and that consumption of paper and paperboard will exceed 60 million tons by 2010.

According to Jaakko Pöyry Consulting, there are also new mills being constructed for MDF, particleboard and pulp and paper in the PRC that should also stimulate demand for wood fibers. The leading areas in the PRC for wood panel, furniture, construction and interior decoration manufacturing that will be large consumers of our wood fibers are located in southern and eastern China as are our forestry plantations, which we believe should give us an advantage in transportation costs and delivery time. In addition, historically paper and paperboard in the PRC has included wood and non-wood agricultural resources, such as grass fibers. As wood fibers from wood chips provide for better quality paper and paperboard, in terms of strength, pureness and whiteness, we believe that the proportion of

wood fibers used to produce paper and paperboard in the PRC should increase in the future due to higher standards of living as a result of economic growth.

Deepening wood deficit situation in the PRC

Wood shortages are a persistent phenomenon in the PRC. Historically, global wood supply was almost exclusively satisfied by the logging of natural forests. However, over the past few years, severe flooding, desertification, the loss of natural habitats and change in global weather conditions have led countries that have supplied natural forest wood, including the PRC and the United States, to impose logging quotas and, in some cases, logging bans. These quotas have significantly decreased global natural forest wood supply. In 2001, the PRC State Council announced the National Forest Protection Program. The National Forest Protection Program limits the total forests that may be harvested, including natural and plantation forests, during the five year period from 2001 to 2005 to 223 million cubic meters. We believe that the supply of forest wood will remain restricted in the future.

The shortfall between the domestic wood consumption and supply in the PRC was historically met by imports, which comprised 24.3 million cubic meters of logs in 2002. In light of the expected decrease in natural forest wood supply from within and outside of the PRC and the expected increase in demand for wood, we expect that sustainable forestry plantations should play an increasingly important role in satisfying domestic demand in the future.

Recent changes in the forestry industry favor sustainable plantations

The wood processing industry has recently begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter plantation wood into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. Forestry plantations in the PRC have historically consisted of softwood plantations, such as pine. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of our planted tree plantations. We believe that these developments will benefit us by increasing demand for logs, standing timber and wood chips from our forestry plantations as well as increasing demand for wood-based products from our manufacturing plants, once these commence full commercial production in early 2005.

Should we acquire 200,000 hectares of mature pine tree plantations pursuant to the undertaking by one of our PRC CJV Partners, we would substantially increase the area of our forestry plantations under cultivation with trees.

We have recently received an undertaking by one of our PRC CJV Partners pursuant to which we may purchase mature pine trees on up to an additional 200,000 hectares of mature forestry plantations in Heyuan, Guangdong Province until February 12, 2006, as well as to lease the underlying plantation land for a maximum period of up to 50 years, subject to negotiation of a definitive agreement and the terms and conditions specified in the undertaking. The purchased tree plantations under the undertaking are all pine trees with an average age of over 12 years and an average diameter of over 14 centimeters. Should we be able to purchase all 200,000 hectares of mature forestry plantations under the undertaking, which is subject to agreement of a final price based upon the price range of between RMB150 and RMB200 per cubic meter set out in the undertaking, within the 24-month time-period specified in the undertaking, we would increase our forestry plantations under cultivation with trees by 200,000 hectares. In addition, the undertaking would allow us to lease the approximately 200,000 hectares of plantation land for up to 50 years, subject to a price range equivalent to between approximately RMB180 and RMB270 per hectare per year, the final price of which is subject to further negotiation between the parties. Should we do so, we intend to sell standing timber from these plantations over a three-year period, commencing in the last

quarter of 2004. Following harvesting of these trees, we intend to replant the plantation lands with fast-growing eucalyptus trees. Acquiring these mature trees under the undertaking would give us an accelerated return on our investment through sale of the mature timber as well as provide us additional plantation lands available for replanting under long-term lease arrangements.

In the fourth quarter of 2004, we purchased an initial 30,000 hectares of mature pine trees pursuant to the above undertaking for total cost of \$32.6 million. A further 20,000 hectares that we have completed final documentation to purchase a further 20,000 hectares and such purchase is expected to be concluded in the first quarter of 2005 as we need more time to complete our assessment of the plantations to be acquired. Of the 30,000 hectares that were purchased, we sold 13,569 hectares of standing timber in the fourth quarter of 2004, generating total revenue of \$21.5 million. Our cost on this sale was \$14.8 million.

Strategy

Our strategy is to build on our competitive strengths and our business opportunities in the PRC in order to become a leading commercial forestry plantations operator and preferred supplier of wood fiber, providing wood fiber to downstream consumers in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements of our strategy:

Focusing on investing in additional forestry plantations in the areas of our current operations in southern and eastern China

We intend to become a leading and preferred upstream supplier of wood fiber to downstream users in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries. In order to do so, we will continue to invest in additional sustainable, short-rotation forestry plantations in our existing geographic locations. We intend to significantly increase our area under plantation management by investing in additional purchased tree plantations, and, possibly, obtaining additional planted tree plantations. We expect that we will replant with fast growing short-rotation tree species, primarily eucalyptus, to develop fast-growing eucalyptus plantations.

In expanding the area of our forestry plantations, we will focus on our purchased tree plantation model, whereby we purchase young trees on existing forestry plantations. We believe investing in additional purchased tree plantations is a faster and more profitable model for expanding our sales of wood fiber to downstream consumers. Following harvesting of the purchased trees, we intend to exercise a right to require the transfer of the plantation land use rights by long-term leases. By implementing our advanced plantation management practices to the land leased, we should be able to increase the fiber yield of these plantations.

Improving the yields of our forestry plantations

We seek to manage our forestry plantations in a manner that optimizes the biological growth of our trees and enhances prudent environmental management. We will seek to develop improvements in forestry technology using genetics, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields. In order to aid in these efforts, we intend to invest further in our research and development resources, and collaborate with PRC and overseas academic institutions. We aim to achieve higher than historical yields as a result. We currently achieve an average recoverable yield of 90 cubic meters per hectare per six-year cycle for eucalyptus trees on our planted tree plantations, which is higher than the PRC national average of approximately 60 cubic meters per hectare per six-year cycle. We believe that the quality of planting materials together with improved techniques should improve the average recoverable yields to as much as 120 cubic meters per hectare per six-year cycle over the next two rotations. Our aim is to achieve average recoverable yields comparable to those achieved by internationally recognized forestry plantation companies.

Practicing responsible environmental forestry

We believe that environmentally sound management practices will ensure the sustainable development of forest resources and provide greater predictability in plantation management. Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We intend to follow these management practices for additional forestry plantations to be acquired in the future. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our forestry plantations.

Strengthening management processes and information systems

We plan to invest in additional personnel, management and technology in order to improve our management processes and information systems. As the area of our forestry plantations continues to grow, we will have to develop additional systems and management personnel to achieve greater planning and operational control of our plantations. This will allow us to conduct more frequent sampling checks of our timber resources, and would, in turn, allow us to analyze planting statistics, including growth conditions and the quality of our forestry plantations, more quickly. It will also allow us to maintain more stringent controls over our forestry plantation management processes. As of January 31, 2004, 9,700 hectares of plantations in Guangxi Province have been certified under International Organization for Standardization (“ISO”) 14001 criteria for our environmental practices. We have also received from SmartWood, a program of the Rainforest Alliance, an international non-profit environmental group, the Forest Stewardship Council (“FSC”) certification for 5,300 hectares of forestry plantations in Guangdong Province. We plan to extend the FSC and ISO certifications to all of our planted tree plantations.

Maintaining our wood chips and wood-based products trading activities and manufacturing plants as complementary activities

We intend to maintain our wood chips and wood-based products trading activities. We also intend to complete our investment in our manufacturing plants. We expect that we will be required to invest approximately \$22 million, to complete our capacity expansion construction and lamination installation of our manufacturing plant in Gaoyao. We expect that the wood chips and wood-based products trading activities and the manufacturing plant will complement and benefit our commercial forestry plantations by stimulating additional demand for wood fiber in our core geographic locations in the PRC.

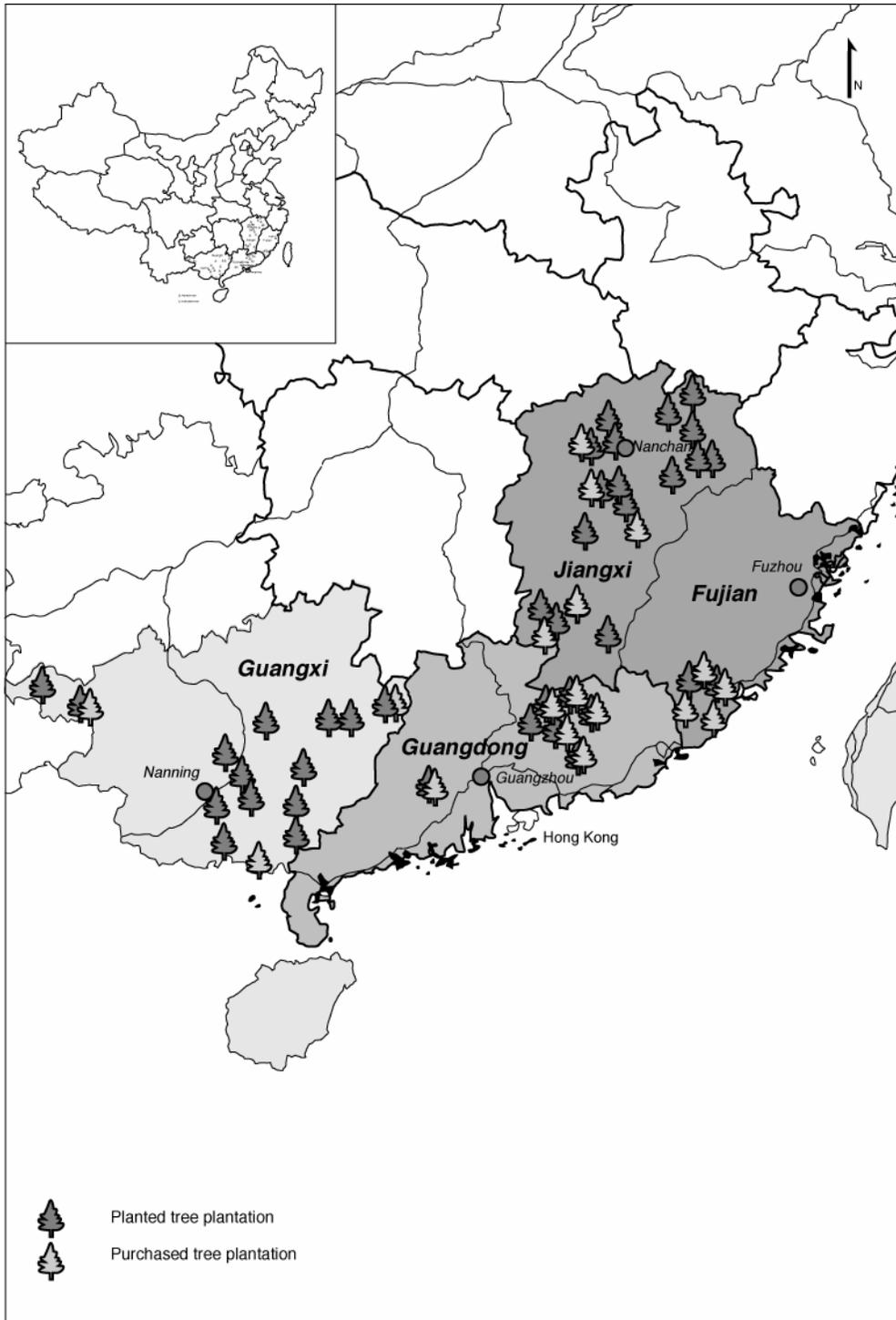
Widening and diversifying our investor base and enhancing our corporate image and profile in Asia

In light of our focus on operating forestry plantations in the PRC, over time, we intend to further widen our investor base to enhance our competitive position and profile in Asia where our operations are located.

Plantations

Overview

All of our forestry plantations are located in southern and eastern China in Guangdong, Guangxi, Jiangxi and Fujian Provinces. The following map highlights the location of our forestry plantations in China.



Our forestry plantations consist primarily of eucalyptus, poplar and pine forests. We have two types of forestry plantations:

- planted tree plantations: our own forestry plantations on land that we planted with trees and that we operate through CJVs and a WFOE under PRC law; and

- purchased tree plantations: existing tree plantations where we purchase young trees from third parties.

As of December 31, 2004, we had a total plantation area of approximately 241,810 hectares of forestry plantations under cultivation with trees. The following table sets forth the location and total hectares of our forestry plantations with trees as of December 31, 2004.

Plantations Under Cultivation

Location	Total Hectares
Guangdong Province	115,319
Jiangxi Province	83,414
Guangxi Province	40,394
Fujian Province	2,683
Total	241,810

We have been advised by our PRC counsel that we have the legal right to use the plantation land and own the trees in relation to the planted tree plantations, and the legal right to own the trees on the purchased tree plantations.

As of December 31, 2004, our purchased tree plantations consisted of approximately 210,068 hectares and our planted tree plantations consisted of approximately 31,742 hectares. The planted tree plantations consist primarily of eucalyptus and poplar trees in Guangdong, Guangxi, Jiangxi and Fujian Provinces. Our planted tree plantations consist almost entirely of the first rotation of the trees, as we have only developed our forestry plantations since 1995. In 2003, we began our second rotation of trees following the initial harvesting of our forestry plantations. The purchased tree plantations consist of a diversified species mix, primarily of pine, eucalyptus and poplar, but also include Chinese fir and Acacia, in Guangdong, Guangxi, Jiangxi and Fujian Provinces. As we intend to focus our forestry plantations on fast-growing eucalyptus trees, we expect that in the future the species mix of our forestry plantations will change and that eucalyptus trees will comprise a larger proportion of the species mix. The majority of our forestry plantations are located on hilly areas of varying slope.

The following table sets forth our forestry plantations by tree species and maturity as of December 31, 2004.

Tree Species and Maturity

	Eucalyptus		Poplar		Pine		Other Species		Total Hectares
	Pre-Mature (Below 5 Years)	Mature (5 Years or Above)	Pre-Mature (Below 7 Years)	Mature (7 Years or Above)	Pre-Mature (Below 12 Years)	Mature (12 Years or Above)	Pre-Mature (Below 7 Years)	Mature (7 Years or Above)	
(hectares)									
Planted tree plantations	20,728	2,535	4,976	1,013	—	—	2,490	—	31,742
Purchased tree plantations	5,062	2,375	—	4,043	144,314	26,420	11,942	15,912	210,068
Total	25,790	4,910	4,976	5,056	144,314	26,420	14,432	15,912	241,810

We grow our eucalyptus plantations in short-rotation cycles of five to six years, poplar plantations in short-rotation cycles of seven years and pine plantations in cycles of 12 years. Eucalyptus and poplar trees are relatively fast-growing tree species.

Eucalyptus is a high-density short-fibered hardwood tree, poplar is a low-density hardwood tree with fibers slightly longer than eucalyptus and pine is a longer-fibered softwood tree. The eucalyptus species grown by us grows back from the stump after harvesting (referred to as “coppicing”). Eucalyptus and poplar trees are among the fastest-growing trees in the world, while the growth rate of pine trees is slightly lower. The climate and soil conditions in southern China allow us to grow eucalyptus, poplar and pine plantations in five- year, seven-year and twelve-year harvest rotations.

The lower part of the eucalyptus tree (i.e., with a diameter greater than 14 centimeters) is typically sold as logs and used by wood panel and furniture manufacturers to produce a variety of downstream solid wood products, including furniture, tabletops, veneer, flooring and other products. The upper part of the trees harvested (i.e., with a diameter smaller than 14 centimeters) is typically processed into wood chips and used for manufacturing reconstituted wood panels for use in furniture manufacturing and construction and at pulp mills for producing paper and paperboard.

Logs from pine trees are used to produce a variety of downstream solid wood-based products, including furniture, tabletops, veneer, flooring and other products. Pine is also processed into wood chips and used for manufacturing wood panels. However, pine is not suitable for pulp and paperboard mills because of the low density of its wood fibers.

Logs from poplar trees are used to produce solid wood-based products and reconstituted wood panel products for use in furniture manufacturing and construction. Logs from poplar trees, which are processed into wood chips, are also used by mechanical pulp and paperboard mills, which use a different processing method than traditional pulp and paperboard mills. Poplar trees are considered desirable trees because they grow well in flooded and extremely wet areas.

Planted Tree Plantations

We operate our planted tree plantations through four CJVs and one WFOE under PRC law.

Cooperative Joint Ventures

In 1995, we entered into four Sino-foreign cooperative joint venture contracts with four PRC partners, each of which is an associated enterprise of a local PRC forestry bureau in the relevant province. The four PRC CJV Partners are each licensed to engage in plantations, wood-based products manufacturing and/or providing plantation management services. We have Sino-foreign cooperative joint venture arrangements for forestry plantations in Guangxi and Jiangxi Provinces, and in Gaoyao and Heyuan in Guangdong Province.

As of December 31, 2004, our planted tree plantations operated through our joint venture arrangements and the WFOE in Fujian comprised approximately 31,742 hectares, which have been planted with eucalyptus and poplar trees. In 2002, we harvested and sold trees on these plantations for the first time, consisting of approximately 8,100 hectares of trees. Under the CJV contracts, our PRC CJV Partners are required to contribute plantation land use rights for a maximum of approximately 583,000 hectares of plantation land to us within 15 years from the relevant date of the establishment of the CJVs, for development as commercial forestry plantations. For further information on these joint venture arrangements, see “Forestry Plantation Contractual Arrangements—Joint Venture Agreements.”

We have developed guidelines for the selection of plantation land contributed by our PRC CJV Partners for cultivation. Our general policy is to select land that is suitable for fast growing forestry plantations. We select and accept plantation land parcels that are located in close proximity and near customers to reduce the distance and the cost of transporting harvested logs to customers. We also select land with productive soil, of moderate slope, that has adequate water and sunshine and that is otherwise suitable for the species of tree to be grown.

Wholly Foreign Owned Enterprise

In 2001, we established a wholly foreign owned enterprise, Zhangzhou City Jia Min Forestry Development Limited (“**Zhangzhou WFOE**”), to operate forestry plantations in Zhangzhou City in Fujian Province. The Zhangzhou WFOE was approved by the local PRC forestry bureau to operate up to 33,000 hectares of forestry plantations. As of December 31, 2004, we operated approximately 376 hectares of eucalyptus planted tree plantations in Fujian Province pursuant to contractual arrangements with Zhangzhou Lumin. Under our arrangements with Zhangzhou Lumin, we have the right to lease and obtain plantation land use rights to approximately 20,000 hectares within 10 years from the date of the contract. See “Forestry Plantation Contractual Agreements—Joint Venture Agreements.”

The following table sets forth the geographic location and total hectares planted on our planted tree plantations as of December 31, 2004.

Planted Tree Plantations

Location	Area (hectares)
Guangdong Province Gaoyao City	5,854
Guangdong Province Heyuan City	7,481
Guangxi Province	9,174
Jiangxi Province	8,857
Fujian Province	376
Total	31,742

Purchased Tree Plantations

As of December 31, 2004, we had approximately 210,068 hectares of forestry plantations where we have rights to harvest the trees on the plantations but do not hold any interest in the underlying plantation land. The purchased tree plantations are located in Guangdong, Guangxi, Jiangxi and Fujian Provinces. The advantages of purchasing trees include the ability to achieve an expansion of plantation reserves within a shorter time scale than by planting, while at the same time better positioning us to ensure a predictable harvesting profile. Under the purchase contracts, we purchased the trees on the land (but not the plantation land use rights). Before entering into the purchase contracts, we and the Provincial Tree Surveying Institute will normally conduct surveys on the actual plantation area, area of standing trees and the then existing volume of timber holdings. The relevant forestry bureaus have confirmed our allocation of the annual logging quotas for our forestry plantations to be harvested in the future.

The following table sets forth the geographic location and total hectares of the purchased tree plantations as at December 31, 2004.

Purchased Tree Plantations

Location	Area (hectares)
Guangdong Province Gaoyao City	10,607
Guangdong Province Heyuan City	91,377
Guangxi Province	31,220
Jiangxi Province	74,557
Fujian Province	2,307
Total	210,068

We purchase purchased tree plantations from the authorized agents of the original owners of the trees, which can be either collectively-owned or privately-owned tree plantations. The purchase price takes into account a variety of factors, including the size and location of the tree plantation on which the trees are located, tree species, the yield, age and quality of the tree plantation, conditions for replanting, log prices and regional market demand.

We normally do not have to conduct extensive plantation management work with respect to the first cycle of trees growing on our purchased tree plantations, although we do take measures to ensure that the trees are protected from pests and disease, and apply fertilizer regularly, where appropriate, depending

upon the age of the trees. After the trees on the purchased tree plantations reach maturity, we will either harvest and sell the trees or sell the trees as standing timber, in which case the trees are expected to be harvested by the purchasers. We will return the land to the local forestry bureaus after harvesting, unless we exercise an option under the supplemental purchase agreements entered into with the sellers to require the transfer of the purchased tree plantation land use rights (or other suitable plantation land use rights to an area equivalent to that of the purchased tree plantations) through long-term leases for a maximum period of up to 50 years, subject to negotiation of a market price, receipt of relevant governmental approvals and satisfaction of registration procedures and after performing analysis of the suitability of the purchased tree plantation lands for forestry plantations. For a further description of the purchase agreements, see “Forestry Plantation Contractual Arrangements—Plantation Purchase Agreements.”

Should we exercise this right, we would operate the purchased tree plantations as our own planted tree plantations, and would engage in either regenerating the stump after harvesting or clearing the land, replanting and implementing plantation management of the forestry plantations.

The following table sets forth the purchased tree plantations purchased by us from 1997 to 2004.

Historical Purchased Tree Plantation Purchases

	1997	1998	1999	2000	2001	2002	2003	2004	Total
Heyuan Project	—	—	—	—	—	—	—	30,000	30,000
Gaoyao (Guangdong Province)	13,000	2,000	—	5,000	—	—	—	---	20,000
Heyuan (Guangdong Province)	1,000	6,000	3,000	—	—	14,000	38,000	24,100	86,100
Jiangxi Province	—	7,000	7,000	14,000	10,000	—	11,000	32,700	81,600
Guangxi Province	—	5,000	6,000	—	—	5,000	3,000	23,900	42,900
Fujian Province	—	—	—	—	2,000	—	—	—	2,000
Total	14,000	20,000	16,000	19,000	12,000	19,000	52,000	110,700	262,700

On February 12, 2004, one of our PRC CJV Partners gave us an undertaking, pursuant to which we may purchase mature pine trees on up to 200,000 hectares of mature forestry plantations in Gaoyao, Guangdong Province until February 12, 2006, subject to negotiation of a definitive agreement and the terms and conditions specified in the undertaking. The purchased tree plantations under the undertaking are all pine trees with an average age of over 12 years and an average diameter of over 14 centimeters. The undertaking sets out a price range of between RMB150 to RMB200 per cubic meter that we would pay for the plantations. The final purchase price in the definitive agreement will be determined based on negotiation according to market conditions. In addition, the undertaking would allow us to lease the approximately 200,000 hectares of plantation land for up to 50 years, subject to a price range equivalent to between approximately RMB180 and RMB270 per hectare per year, the final price of which is subject to further negotiation between the parties.

In the undertaking, the PRC CJV Partner agrees to assist us in planning and evaluating the mature forestry plantations and procuring plantation rights certificates. The PRC CJV Partner has also agreed to assist us with all requisite governmental procedures required by PRC laws and regulations. In the

undertaking, we agree to be responsible for the payment of all fees incurred in planning, evaluating and leasing the plantation lands.

Our PRC CJV Partner has informed us that these pine tree plantations are owned by agricultural collective organizations, made up of farmers. As a result, we may have to negotiate directly with these agricultural collective organizations. Upon good faith negotiations by the parties that lead to agreement on the final terms and conditions, we expect that we will enter into definitive agreements with the PRC CJV Partner or other relevant parties on behalf of these agricultural collective organizations and with their consent, or with them directly. The terms we finally agree with the agricultural collective organizations may differ from the indicative terms in the undertaking. These definitive agreements are also subject to the approval of relevant government authorities. See “Risk Factors – Risks Related our Business – Our decision and ability to develop and operate future forestry plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of forestry plantations with respect to which we have certain contractual rights.”

We are currently in the process of performing a survey of approximately 50,000 hectares of pine trees offered for our consideration pursuant to the undertaking. In performing this survey, we will assess whether the land has productive soil, is of moderate slope, has adequate water and sunshine and is otherwise suitable for eucalyptus trees, with which we intend to replant the land following the harvesting of the pine trees. We will also conduct a detailed forestry inventory to determine the actual standing volume of the pine trees. We have engaged Jaakko Poyry Consulting to design the methodology used in conducting the survey, as well as to perform a quality control analysis of our results, to develop manuals for nursery activities, inventory management and quality control, and to assist in the training of new personnel hired to manage these new plantations.

In the fourth quarter of 2004, we purchased an initial 30,000 hectares of mature pine trees pursuant to the above undertaking for total cost of \$32.6 million. We have completed final documentation to purchase a further 20,000 hectares and such purchase is expected to be concluded in the first quarter of 2005 as we need more time to complete our assessment of the plantations to be acquired. Of the 30,000 hectares that were purchased, we sold 13,569 hectares of standing timber in the fourth quarter of 2004 generating total revenue of \$21.5 million. Our cost on this sale was \$14.8 million.

Leading up to or following harvesting of the pine trees, we intend, pursuant to our rights in the undertaking, to commence negotiations leading to the lease of the underlying plantations lands to these pine trees. The lease of plantation lands in Guangdong Province currently requires no approvals by the forestry bureau at the provincial level, but does require certain approvals by the local people’s governments and the forestry bureau at the county level. We may lease the plantation lands acquired pursuant to the undertaking through a branch of Jia Yao WFOE or through Heyuan WFOE Guangdong Province, where the pine trees are located.

Two of our British Virgin Islands subsidiaries, Sino-Forest Resources, Inc. and Suri-Wood Inc., have been responsible for the authorized sales in the PRC of standing timber from our purchased tree plantations and the logs, wood chips and wood-based products processed from timber sourced from third party suppliers. They have conducted these sales activities through authorized intermediaries in the PRC. The amount we receive from these activities is on a net basis after withholding of applicable taxes by the authorized intermediaries. Because the authorized intermediaries are responsible for filing the tax returns with, and withholding or paying relevant taxes to, the PRC government in respect of these activities, the two British Virgin Islands subsidiaries generally have not had the necessary documentation to evidence the payment of PRC taxes to the relevant branch of the State Administration for Foreign Exchange.

Previously, we did not have substantial requirements of foreign currency, as we reinvested the Renminbi proceeds of our authorized sales and trading activities into the acquisition of additional forestry plantations, pursuant to our plan to expand the scale of our operations. We are currently in the process of changing our operational structure in order to enhance our ability to obtain and remit foreign exchange. We established Sino-Forest (China) Investment Limited on July 28, 2004. We intend for Sino-Forest (China) Investment Limited to be the holding company for our PRC subsidiary companies and coordinate our operations in the PRC. Sino-Forest (China) Investment Limited will establish new WFOEs, acquire the ownership of our other existing CJVs and WFOEs, increase the registered capital of its subsidiaries in the PRC, and provide various services to its PRC subsidiaries as permitted by its business license. Currently, Sino-Forest (China) Investment Limited has established Heyuan WFOE and Guangzhou WFOE.

Under its business license and relevant governmental approval documents, Sino-Forest (China) Investment Limited is permitted to act as Jia Yao WFOE's agent for the purchase of purchased tree plantations on behalf of Jia Yao WFOE, including the purchase of purchased tree plantations currently held by our non-PRC subsidiaries, as well as raw timber, and to provide certain procurement agency services. Jia Yao WFOE will be permitted to process and sell logs, wood chips and wood-based products from raw timber sourced from purchased tree plantations and third parties. In addition, Jia Yao WFOE will be able to operate immature purchased tree plantations and sell standing timber from these plantations once the trees mature. Jia Yao WFOE would either pay for the purchased tree plantations and raw timber itself or Sino-Forest (China) Investment Limited will pay on Jia Yao WFOE's behalf. With Sino-Forest (China) Investment Limited acting as its agent, we expect that Jia Yao WFOE will acquire the purchased tree plantations currently held by our British Virgin Islands subsidiaries, the pine tree plantations available under our undertaking with one of our PRC CJV Partners, if we are able to enter into a definitive agreement, and other purchased tree plantations and raw timber from third party suppliers.

We expect that the agency arrangements between Sino-Forest (China) Investment Limited and Jia Yao WFOE will provide that Sino-Forest (China) Investment Limited may pay for the purchased tree plantations and raw timber on Jia Yao WFOE's behalf, if they so request, but Jia Yao WFOE would be required to reimburse Sino-Forest (China) Investment Limited within six months after such payment is made. Sino-Forest (China) Investment Limited may also receive fees from Jia Yao WFOE for its provision of procurement agency and other services. Sino-Forest (China) Investment Limited should not be prohibited by PRC law from paying the cost of the purchased tree plantation and raw timber on behalf of Jia Yao WFOE. However, should the PRC regulatory authorities take the view that Sino-Forest (China) Investment Limited is providing "financial support" by paying the cost of the purchased tree plantations and raw timber on behalf of Jia Yao WFOE, we would have to discontinue this practice and find alternative methods for Jia Yao WFOE to purchase the purchased tree plantations and raw timber, such as by providing capital contributions.

In order to facilitate the processing and sale of logs, wood chips and wood-based products from raw timber in Guangxi, Jiangxi and Fujian Provinces, where we also have forestry plantation operations, Jia Yao WFOE may establish branches in these locations as well, and may engage third parties to process wood chips on its behalf in these locations prior to sale to customers when its processing capacity cannot meet processing or market demands. The establishment of these branches will require the approval of the original approval authority of Jia Yao WFOE and registration for such branches with the relevant local administration for industry and commerce. It generally takes at least two months to establish such a branch.

We expect to transfer our ownership of Jia Yao WFOE from Sino-Panel (Gaoyao) Limited to Sino-Forest (China) Investment Limited in the future. The transfer of the ownership of Jia Yao WFOE will require approval from the original approval authority of Jia Yao WFOE, the Gaoyao City Foreign Trade and Economic Bureau. We will also be required to register the transfer with the original administration bureau for industry and commerce. We expect that the transfer of the ownership of Jia

Yao WFOE will take at least two months to complete. We also intend to transfer our ownership of other existing CJVs and WFOEs to Sino-Forest (China) Investment Limited in due course, and establish new WFOEs in the future, subject to receipt of regulatory approvals. The transfers will require the approval of the relevant local foreign investment authorities and the registration with the local administration bureau for industry and commerce.

Once these arrangements are completed, we expect that Sino-Forest (China) Investment Limited will receive dividends on an annual basis from these CJVs and WFOEs, including Jia Yao WFOE. These dividends will not taxable income for Sino-Forest (China) Investment Limited. Once these CJVs and WFOEs become subsidiaries of Sino-Forest (China) Investment Limited, Sino-Forest (China) Investment Limited should also be able to enter into agency arrangements with these companies.

After Sino-Forest (China) Investment Limited satisfies its obligations to pay PRC income tax, it should be able to distribute its after tax profits as a dividend to its parent company outside of the PRC without limitation. Prior to the time that they become subsidiaries of Sino-Forest (China) Investment Limited, each of our other PRC subsidiaries, including Jia Yao WFOE, should be able to distribute its after tax profits to its non-PRC incorporated parent companies. These payments of dividends are currently exempt from PRC withholding tax, and do not require approval from the State Administration for Foreign Exchange. Sino-Forest (China) Investment Limited or, prior to the time that they become subsidiaries of Sino-Forest (China) Investment Limited, each of our other PRC subsidiaries, including Jia Yao WFOE, will, however, have to present documents demonstrating a board of directors resolution authorizing the dividend payment, its payment of required taxes and the deduction of certain reserves. Sino-Forest (China) Investment Limited or, prior to the time that they become subsidiaries of Sino-Forest (China) Investment Limited, each of our other PRC subsidiaries, including Jia Yao WFOE, would then present the relevant branch of the State Administration for Foreign Exchange's consent to the dividend payment to a designated foreign exchange bank in the PRC in order to obtain and remit foreign currency outside of the PRC.

Plantation Management

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

We have developed a Sustainable Intensive Plantation Management System to work together with our management practices and environmental policies. This system and our other management practices are designed to produce fast growing, high quality sustainable forestry resources, optimize yields, improve resistance to disease and fire, enhance environmental conservation and improve aesthetics. In addition, these practices result in more uniform forestry plantations, which increases harvesting efficiency and reduces waste through sawing and peeling.

With respect to the first cycle of our planted tree plantations, we engage in planting. We may also engage in planting if we exercise our option to obtain the plantation land use rights for our purchased tree plantations, as our strategy is to replant forestry plantations of other species with eucalyptus trees. We commenced raising trees from clones in 2000. As a result, approximately half of our forestry plantations currently consist of trees raised from traditional seedlings. However, all of our trees planted since 2000 have been produced from clones.

We produce cloned cuttings for our planted forestry plantations by using tender branchlets taken from mother plants raised in our nursery, which were developed in our tissue culture laboratory. By means of this type of vegetative propagation, the descendant of a clone receives the entire genetic code of

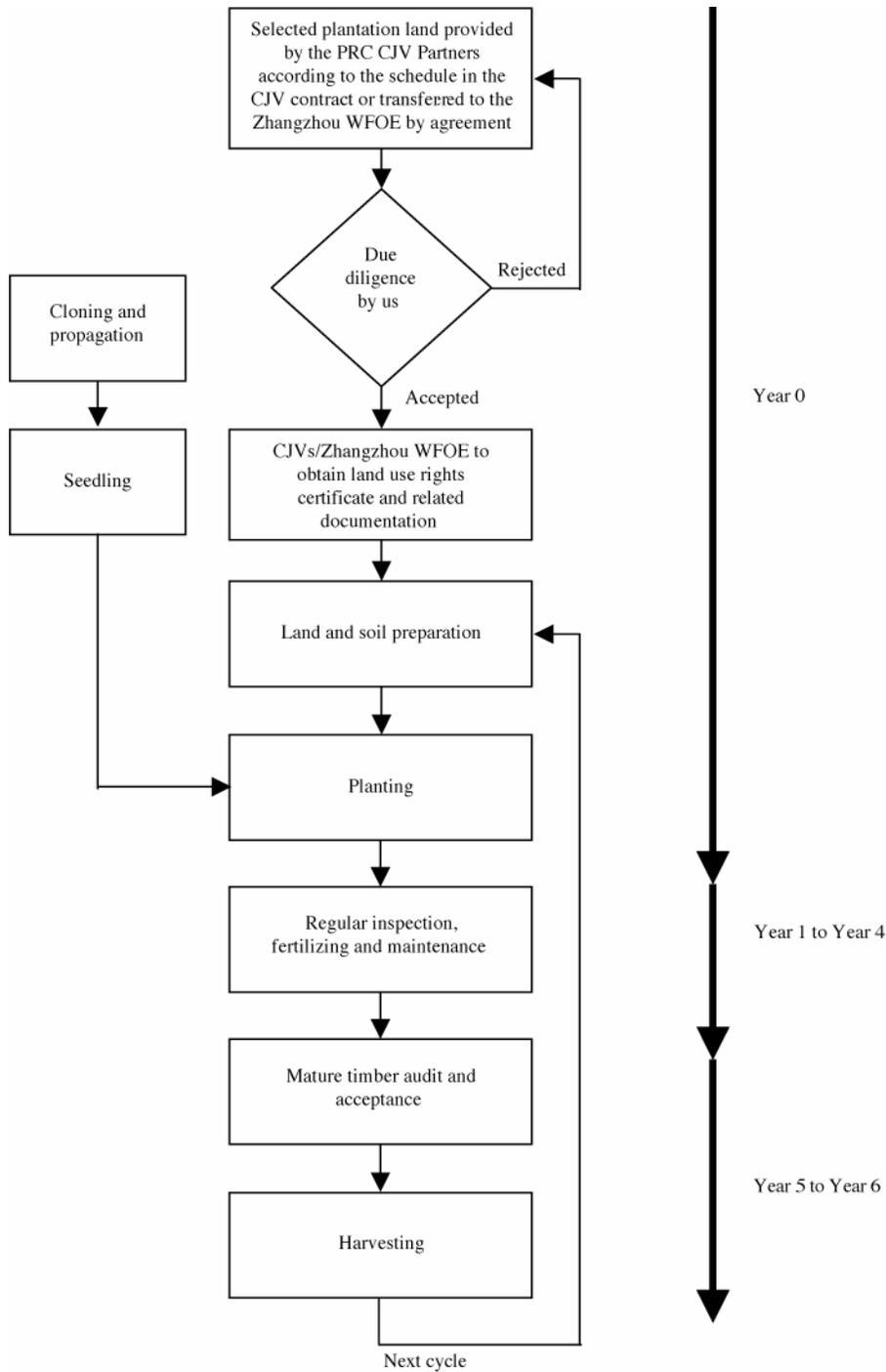
the original tree. As a result, using cloned rooted cuttings can maximize favourable genetic attributes in forestry plantations as each of the trees has homogenous genetic characteristics. To reduce potential loss associated with cloned forestry plantations, due to the lack of genetic diversity, we currently deploy 10 different clones in our forestry plantations.

We grow seedlings in the nursery for approximately three to four months before planting them in the forestry plantations. After site preparation, including clearing of existing plantation land or farmland, we generally plant the young seedlings, spaced three by four meters apart, in rows. The degree of site preparation will depend upon the slope of the hill on which the young seedlings are planted. For slopes between 5% and 20%, which is the slope on which the majority of our trees are grown, we generally provide a contour strip, or terrace, and plant the trees along the contour of the terrace. We apply basic fertilizers and then plant the young trees in a planting hole and apply fertilizer.

To optimize the yields of our plantations, we implement plantation management techniques, including the following:

- detailed site assessments and choice and preparation of the plantation site where the trees are to be grown, including clearing and terracing;
- planting at optimal times of the year with proper spacing;
- taking measures to ensure that trees are properly tended, applied with fertilizer and protected from damage caused by pests and disease;
- monitoring the forestry plantations, performing forestry plantation analysis and adjusting the care of the forestry plantations according to the results of this analysis; and
- conducting research and development activities that complement and support the above activities.

The diagram below sets forth the plantation management process applied to our planted tree plantations of eucalyptus trees:



Subsequent Rotations

After harvesting, we engage in regeneration of our planted tree plantations, either through coppice of the tree stump, or through replanting of seedlings. Although eucalyptus trees are capable of coppicing from stumps many times, our policy generally is to regenerate trees from coppices only once or twice. After a coppice stand is established (thinned to a proper density), its tending and management are similar to plantations planted with seedlings or cuttings. See “—Plantations—Plantation Management.”

With respect to trees harvested on purchased tree plantations, although we have no obligation to engage in replanting, we have an option to require the transfer of the plantation land use rights (or other suitable plantation land use rights to an area equivalent to that of the purchased tree plantations) from the seller of the trees through long-term leases for a maximum period of up to 50 years, subject to negotiation of a market price and satisfaction of other conditions, should we wish to obtain these plantation land use rights. See “Forestry Plantation Contractual Arrangements—Plantation Purchase Agreements.” Should we exercise this right, we would engage in replanting and plantation management of these forestry plantations.

Harvest Yields

We harvested the first trees on our forestry plantations in 2002. In the future, the average annual harvest rate will reflect the current age distribution of the planted tree plantations and the purchased tree plantations, expected growth rates, the volume of additional hectares of planted tree plantations planted with trees and the volume of additional purchased tree plantations. Harvests may also be constrained by environmental protection measures. We have confirmation from the relevant forestry bureaus that they will allocate to us on an annual basis the logging quotas to assure that we are able to harvest the mature trees in the forestry plantations we currently operate. We engage third parties to harvest the trees with respect to our planted tree plantations. With respect to purchased tree plantations, the purchasers are typically responsible for harvesting.

Our overall management objective is to manage our planted tree plantations on a sustainable basis, which means that the volume of timber harvested over time will not in general exceed the volume of incremental growth over the same period. We believe this will maintain and enhance the long-term health of our planted tree plantations, and should ensure sustainable harvests. The yield from planted tree plantations depends on a variety of factors, including:

- the quality of planting materials, especially those with desired genetic characteristics;
- the soil and climate conditions;
- the topography of the land;
- the planting density and spacing between trees; and
- the quality of the management of the plantation, including in site preparation, application of fertilizers and pesticides and protection against damage.

The following table sets forth the rotation cycles, growth rates and yields of the tree species grown on our planted tree plantations.

Species	Eucalyptus	Poplar	Pine
Plantation cycle	5 years	7 years	12 years
Standing timber yield per hectare per cycle (in cubic meters)	90	128	132
Wood chip yield per hectare per cycle (in bone dry metric tons)	40	42	70

The rotation cycles described above are only for our planted tree plantations. These would only have a rotation cycle if we acquire plantation land use rights to the underlying land of the purchased tree plantations.

Plantation Service Providers

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

Sales and Trading of Logs, Wood Chips and Wood-Based Products

We engage in authorized sales and trading of logs, wood chips and wood-based products in the PRC market. Revenue from sale and trading activities contributed substantially all of our revenue prior to 2002, when we made our first sales of standing timber from our forestry plantations. Wood-based products include logs, veneer, sawn timber and lumber.

With regard to sales and trading of logs, wood chips and wood-based products sourced in the PRC, we engage in our sales and trading activities through authorized intermediaries who have the requisite PRC business licenses to engage in trading activities. With regard to sales and trading of logs, wood chips and wood-based products sourced from outside the PRC, where business licenses are not necessary, we engage in our sales and trading activities directly.

PRC-Sourced Logs, Wood Chips and Wood-Based Products Trading Transactions

We conduct our sales and trading of logs, wood chips and wood-based products from timber supplies sourced in the PRC through domestic wood dealers who act as our authorized intermediaries to purchase timber supplies and sell processed wood chips to customers. We currently engage two third party wood dealers as our authorized intermediaries. The suppliers are generally State-owned or collectively-owned wood farms in the PRC and the customers are typically pulp and paper mills, as well as reconstituted wood panel mills.

Our relationships with our authorized intermediaries are governed by master agreements (“**Master Agreements**”), as supplemented by certain operational procedures relating to the wood chips sales transactions (the “**Operational Procedures**”). Under the Master Agreements, as supplemented by the Operational Procedures, we appoint the authorized intermediaries to manage our wood chips trading transactions on our behalf. The authorized intermediaries agree to enter into contracts to purchase timber from suppliers, process the timber into wood chips and deliver wood chips to customers pursuant to sales contracts entered into between the authorized intermediaries and customers. We agree to reimburse the costs of the authorized intermediaries, including the cost of the purchase of raw timber, and to pay both a processing fee and a management fee, all of which are deducted from the sales proceeds of the wood chips. All of the contracts are entered into by the authorized intermediaries, and we have no direct contractual relationships with suppliers of logs or customers of wood chips in the PRC. We typically specify annual and monthly quotas of the authorized volume of wood chips trading transactions, which are subject to adjustment by us and the authorized intermediaries.

The Operational Procedures delineate our and the authorized intermediaries’ rights and obligations with respect to the purchase of raw timber, the processing of raw timber into wood chips and the sale of wood chips. Under the Operational Procedures, the authorized intermediaries assume the risks and obligations relating to the raw timber from the time the raw timber is purchased until it is delivered to

the respective authorized intermediary's premises. We assume all risks and obligations relating to the raw timber once it arrives at the premises of the authorized intermediary until it is processed into wood chips, except for any loss arising as a result of the authorized intermediary's default. Once the raw timber is processed into wood chips, the authorized intermediary is responsible for selling wood chips to customers and it assumes all rights and obligations relating to the wood chips under its sales contracts with customers. The Operational Procedures provide that the authorized intermediaries are responsible for selling wood chips to customers within time limits agreed between the relevant authorized intermediary and us, and that they assume all risks and obligations for failing to meet these delivery requirements.

In a typical transaction, the authorized intermediary enters into a contract with a supplier for the delivery of raw timber. Once the raw timber arrives at the processing site of the authorized intermediary, the authorized intermediary, on our behalf, first inspects the delivery of timber to ensure that the appropriate amount of timber is delivered. The authorized intermediary then processes the raw timber into wood chips and sells and delivers the wood chips to customers, pursuant to contracts entered into between the authorized intermediary and the customers.

Pursuant to the Master Agreements, we issue invoices to the authorized intermediaries for the wood chip sales transactions on a quarterly basis, and the authorized intermediaries pay us the sales proceeds after deducting the costs of the timber, a processing fee and a management fee.

Because of the provisions in the Operational Procedures that specify when we and the authorized intermediary assume the risks and obligations relating to the raw timber or wood chips, as the case may be, we treat these transactions for accounting purposes as providing that we take title to the raw timber when it is delivered to the authorized intermediary. Title then passes to the authorized intermediary once the timber is processed into wood chips. Accordingly, we treat the authorized intermediaries for accounting purposes as being both our suppliers and customers in these transactions.

For the three years ended December 31, 2004, sales transactions with these authorized intermediaries constituted approximately 57.9%, 51.2% and 44.4%, respectively, of our revenue. For the same periods, purchases from these authorized intermediaries constituted approximately 58.9%, 48.3% and 51.1%, respectively, of our total cost of sales.

We currently engage in our sales of logs, wood chips and wood-based products sourced from third parties in the PRC through authorized intermediaries in the PRC. The amount we receive from these activities is on a net basis after withholding of applicable taxes by the authorized intermediaries. The authorized intermediaries are responsible for filing tax returns with the PRC government, and withholding and paying our relevant taxes in relation to these activities, although we make appropriate provisions for income taxes in our accounts. We intend for one of our existing WFOEs, Jia Yao WFOE, to replace the British Virgin Islands subsidiaries in processing and selling logs, wood chips and wood-based products in the PRC in order to enhance our ability to obtain and remit foreign currency from our operating subsidiaries. Previously, we did not have substantial requirements of foreign currency, as we reinvested the Renminbi proceeds of our authorized sales and trading activities into the acquisition of additional forestry plantations, pursuant to our plan to expand the scale of our operations. Although Jia Yao WFOE would not be able to engage in pure trading activities, because it has a wood processing permit it can engage in the processing and sale of logs, wood chips and wood-based products from raw timber. We intend to enter into new agreements with our authorized intermediaries, which would provide for Jia Yao WFOE to:

- directly enter into a contract with a supplier for the purchase and delivery of raw timber;
- engage the authorized intermediary, as its agent, to process the raw timber into logs, wood chips and wood-based products, in return for which Jia Yao WFOE would pay a processing fee to the authorized intermediary; and

- once the logs, wood chips and wood-based products are processed, sell these products to customers itself, or engage the authorized intermediary as its agent to sell the products on its behalf to customers.

Alternatively, Jia Yao WFOE may by-pass the authorized intermediaries altogether and process logs, wood chips and wood-based products and sell the products directly to customers. As a result, we will no longer have to rely on the authorized intermediaries to: (1) withhold or pay relevant taxes to the PRC government in respect of the sales and authorized trading activities; and (2) make the requisite applications and submissions to designated foreign exchange banks for remitting the proceeds of these activities in foreign currencies outside the PRC.

However, we expect that a significant portion of our sales of wood chips sourced from third party suppliers in the PRC will continue to be performed by the authorized intermediaries on behalf of the British Virgin Islands subsidiaries. While we anticipate that we will gradually phase out their involvement in these activities, we will continue to have certain difficulties in obtaining and remitting foreign exchange with respect to the earnings derived from the significant portion of our sales and trading activities which will continue to be conducted through authorized intermediaries after the offering.

We currently engage in our trading activities in the PRC with our authorized intermediaries through non-PRC subsidiary companies. We are currently in the process of establishing a wholly foreign owned subsidiary company in Guangzhou, PRC (the “**New WFOE**”), which would replace these non-PRC subsidiaries in conducting our trading activities. The New WFOE would have the business scope to conduct the following operations: wholesale of wood and wood-based products, import and export and related business activities. We intend, subject to the approved business scope of the New WFOE and the receipt by the New WFOE of a wood-processing license from the relevant forestry bureau and other authorities, to continue to conduct our trading activities through the authorized intermediaries. In addition to engaging in our trading transactions with the authorized intermediaries, the New WFOE may also engage in our other forestry plantation management activities.

According to the Administrative Measures Regarding Foreign Investment in the Commercial Sector promulgated by the PRC Ministry of Commerce on April 16, 2004 and effective from June 1, 2004, foreign companies are permitted to engage in trading activities in China by establishing foreign invested enterprises in China. Applications for establishing such enterprises to engage in trading activities are formally accepted from December 11, 2004. In February 2005, we submitted our application for the approval of the establishment of the New WFOE to the PRC Ministry of Commerce.

If and when we receive approval, we would not have to rely on the authorized intermediaries to: (1) withhold or pay relevant taxes to the PRC government in respect of the trading activities; and (2) make the requisite applications and submissions to designated foreign exchange banks for remitting the proceeds of these activities in foreign currencies outside the PRC. Currently, we rely on the authorized intermediaries for filing tax returns with the PRC government, and withholding and paying our relevant taxes, although we make appropriate provisions for income taxes in our accounts.

Moreover, if and when the New WFOE is established, we intend to enter into amendments to the Master Agreements and the Operational Procedures to change the contract party from our non-PRC subsidiary companies to the New WFOE, subject to its receipt of a wood processing license from the relevant PRC authorities. We do not anticipate, however, changing any of the other provisions of these agreements. We also do not anticipate that establishment of the New WFOE would alter our accounting for the trading activities, except that the New WFOE would be the responsible party for paying all relevant PRC taxes. As a result, we would discontinue our practice of making tax provisions for income taxes in the PRC.

We also engage in trading activities in the overseas market. In these transactions, we directly source wood chips from wood trading companies in the PRC and sell the wood chips to companies

overseas. In the three years ended December 31, 2004, overseas wood chips trading activities constituted a small portion of our revenue.

In addition to purchase and sale trading activities conducted through authorized intermediaries, we introduce timber suppliers and wood chip customers directly to wood dealers. We receive a commission for these services.

Trading Activities of Overseas Timber

We also engage in trading activities of wood-based products sourced from outside the PRC. These consist primarily of large diameter logs from Malaysia, Suriname, Papua New Guinea and Solomon Islands. In these transactions, we purchase wood-based products that correspond to the requirements of wood dealers and sell directly to these dealers. Our customers in these transactions are primarily wood dealers in the PRC, but also include wood dealers in the United States, the United Kingdom, Germany, Belgium and India. The overseas suppliers generally ship the wood-based products to ports in the PRC designated by the wood dealers.

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

Sales of Standing Timber

In 2002, all timber sales from our forestry plantations were in the form of sales of standing timber. We sell the trees on our purchased tree plantations through intermediaries who are wood dealers and sell the trees on our planted tree plantations directly through our CJVs.

Since 2002, we have sold approximately 7,130 hectares of standing timber from our planted tree plantations and approximately 58,969 hectares of standing timber from our purchased tree plantations. Sales of standing timber are denominated in Renminbi and are settled at specified intervals. Our sales contracts for standing timber entered into as of December 31, 2004 have contained an average price of RMB 22,505 per hectare and an average estimated standing timber yield of approximately 83 cubic meters per hectare. We recognize revenue at the time we enter into the sales contract. The buyer of the standing timber is responsible for logging the trees and transporting the trees out of the forest. We generally grant buyers a credit period of up to nine months from the date of the sales contract. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sale contract, and payment of 40% of the purchase price within five months of the sales contract, and the remaining 40% within nine months of the sales contract. We apply for logging and transportation permits from the relevant PRC authorities once the trees are ready for harvesting. Buyers are generally required to harvest the standing timber within 18 months from the date of contract.

In the future, we may also harvest the timber on our forestry plantations ourselves and sell the timber in the form of logs, wood chips or wood-based products. Jia Yao WFOE may also sell standing timber on the purchased tree plantations once the trees are mature.

Selling Prices

We determine the selling prices for sales of standing timber, wood chips and wood-based products with reference to the following factors:

- perceived market trends;
- market price levels;
- the sales volume and required delivery schedules; and
- the customers' credit history and credit terms.

The prices of logs and wood chips are generally determined by international prices. Prices for logs and wood chips also vary based on the country to which they are sold.

The commission rates for commission income earned from introducing business opportunities to wood dealers, as set out in the respective agreements with the wood dealers, are determined with reference to the target sales volume and the trading margins that the wood dealers expect to achieve as a result of our referral.

Manufacturing Plants

Overview

Since 2000, we have been in the process of developing manufacturing plants to complement our commercial forestry plantations operations. The facilities initially were planned to be located in two locations, in Gaoyao, Guangdong Province and in Suzhou, Jiangsu Province. The Gaoyao operations will have a total land area of 170,000 m² and a total building area of 30,000 m². The Suzhou operations will have a total land area of 65,000 m² and a total building area of 12,000 m².

The development and implementation plans for these manufacturing facilities were delayed and interrupted for several years due to the inadequate funding for these projects. Following the completion of the bond offering in 2004, management reassessed the merits of these initial development manufacturing plan and decided that modification to the initial development plan is necessary giving the present development in our plantation business and the acquisition of mature pine trees opportunity in Heyuan city. Under the revised plan, production lines to produce finger-jointed board and blockboard in the Suzhou facility will not be implemented.

The small OSB mill in Suzhou will be relocated to North East China where the supply of raw materials for the operation of this OSB mill can be secured much more cost-effectively. The relocation is expected to be completed by early 2006. The local government of the new area where the OSB mill is to be located has agreed to provide us the land for the OSB mill with low rental. With the relocation of the OSB mill, our Suzhou manufacturing facility assets will comprise of a sawmill which is operational and profitable, and two pieces of land which have gone up in value significantly. Management is currently evaluating the best use of these two pieces of land including selling them to a developer.

With respect to the Gaoyao facility, the new plan is also to discontinue the implementation of the development of the finger-jointed board, kitchen cabinet, composite door production lines. Our existing operating particleboard mill is to be expanded by adding additional production lines increasing its maximum capacity from 100,000 m³ to approximately 275,000 m³. Production capacity for melamine lamination is also to be expanded from 1,000,000 m² to 6,400,000 m². The expansion plan is expected to be completed by the end of this year.

With this new plan, Sino-Forest will have a much simpler manufacturing operation business with just one main manufacturing facility located in the Pearl River Delta Region which has the highest economic growth rate in China. The particleboard mill has been operational for several years with an experienced management team already in place. The expansion and lamination installation will position the Gaoyao particleboard mill as one of the biggest particleboard mill in China producing an acceptable rate of return to our investment.

As of January 31, 2005, two production lines are operational. These production lines produce particleboard and melamine faced chipboard.

As of December 31, 2004, we had incurred approximately \$71 million in constructing our manufacturing facilities. These assets were independently valued by Jaakko Poyry at the year end at \$70 million – \$80 million. Jaakko Poyry's valuation does not reflect the increase in value of the land in these facilities. For the year ended December 31, 2004 we have written off approximately \$3.6 million of costs

and expenses that were previously capitalized. These costs and expenses were written off as a result of modifying our initial development plans.

Target Customers

Our manufacturing plant in Gaoyao will focus on the markets in Guangdong Province where our manufacturing plant and forestry plantations are located in order to reduce transportation costs. The target customers of the wood-based products will be distributors and large end-users of wood-based products, such as foreign owned enterprises with manufacturing plants in China.

Expected Sources of Supply

Currently, our manufacturing plant in Gaoyao sources their logs from third party suppliers. In the future, we expect that logs will be sourced either from our own forestry plantations or through our log trading activities. In order to ensure a steady supply of timber for our Gaoyao manufacturing plant, Sino-Panel (Asia) Inc. has acquired forestry plantations in the vicinity of the Gaoyao site. As of December 31, 2004, Jia Yao WFOE, an indirect wholly-owned subsidiary of Sino-Panel (Asia) Inc., had approximately 7,400 hectares of purchased tree plantations in Guangdong Province, including approximately 6,600 hectares of plantation land use rights to such purchased tree plantations under 50-year leases. We expect that trees from these plantations will mature beginning in 2006, and at that time harvested logs from these plantations will be available to supply our Gaoyao manufacturing plant. Once these trees are mature, we expect that, at least for the first few years of our manufacturing plant, the logs harvested from these plantations will be sufficient to supply all of the requirements of our Gaoyao manufacturing plant.

Gaoyao Operations

The Gaoyao operations located at Gaoyao, Guangdong Province currently include a particleboard production line and a melamine faced chipboard production line. The plant is located on 17-hectare site within the Economic Development Zone in Gaoyao City, Guangdong Province.

Once the plant is completed, the Gaoyao site will include three particleboard production lines and two melamine faced chipboard production lines. The products to be produced at the Gaoyao site are expected to be particleboard, melamine faced chipboard.

Under the revised plan for the Gaoyao manufacturing plant, we will discontinue the implementation of the development of the finger-jointed board, kitchen cabinet, composite door production lines. The existing operating particleboard mill is to be expanded by adding additional production line increasing its maximum capacity from 100,000 m³ to approximately 275,000 m³. Production capacity for melamine lamination is also to be expanded from 1,000,000 m² to 6,400,000 m². The expansion plan is expected to be completed by the end of this year. The expansion capacity and lamination installation will position the Gaoyao particleboard mill as one of the biggest particleboard mill in China.

Suzhou Operations

The Suzhou operations located at Suzhou, Jiangsu Province currently include a sawmill and kiln drying equipment.

The sawmill commenced commercial operations in 2002. The sawmill has a total site area of 6,464 m² and has a production capacity of 68,000 cubic meters of sawn timber per year. Most of the sawn timber produced at the sawmill is currently sold to flooring manufacturers, who use it to produce timber flooring in the building industry.

Sales and Marketing

Substantially all of our sales are made in the PRC. We make limited export sales, primarily to Japan and Taiwan. In 2002, 2003 and 2004, our domestic sales of wood-based products, wood chips and standing timber accounted for most of our revenue. We also earn commission income from referral of business opportunities to wood dealers in the PRC, which in 2002, 2003 and 2004, accounted for 6%, 5% and 4% of total sales, respectively. The remainder of our revenue consisted of export sales of wood-based products, which accounted for a small portion of our revenue for these periods.

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

We engage in trading of logs and wood-based products both in the PRC and overseas, generally under short-term contracts. With respect to the authorized trading activities in the PRC, the delivery period of wood chips is usually one to two months from the date of the sales contracts entered into between the authorized intermediaries and the customers. We issue invoices to our authorized intermediaries in the PRC on a quarterly basis. Sales are usually denominated in Renminbi. Payments are usually settled within 60 days of delivery.

With respect to trading activities involving exporting wood-based products overseas, the delivery period of wood-based products is usually one to two months from the date of the contracts. The sales are denominated in U.S. dollars and are made pursuant to letter of credit arrangements. Payments are usually settled within 45 to 90 days of delivery. Where we purchase imported logs for sale in the PRC, we issue letters of credit for the purchase of the logs. The purchases and sales are denominated in U.S. dollars. Payments are usually settled within 45 to 90 days of delivery.

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

Commission fees are generally paid within 60 to 180 days.

Our wood-based product manufacturing plants currently consist primarily of sales of particleboard to distributors, which engage in further processing before sale to end-user customers. These sales are generally under short-term contracts and are denominated in Renminbi. Payments are usually settled in cash before delivery. Going forward, we intend to use all of our particleboard internally in our manufacturing plants.

Suppliers

The supply of wood logs and wood-based products for our trading activities is sourced primarily from local suppliers of logs and wood-based products in the PRC. We also source logs and wood-based products for our trading activities overseas, primarily from Malaysia and Papua New Guinea. In 2002, 2003 and 2004, our five largest suppliers accounted for approximately 82%, 72% and 75% of our total costs of sales, respectively. The largest supplier accounted for approximately 31%, 25% and 26% of our total costs of sales, respectively, during such periods. The credit terms granted by our suppliers of logs and wood based products generally range from one to three months on open account and by letters of credit.

We have established long-term relationships, with business dealings for up to nine years, with most of our largest suppliers. We have not experienced any significant difficulties in identifying supplies of timber for our operations.

The source of supply for our standing timber sales is our forestry plantations. In the future, we expect to increase our reliance on our eucalyptus, poplar and pine trees from our forestry plantations for our trading activities of logs and wood-based products.

Transportation

Historically, we have not transported logs and wood-based products to customers ourselves. With respect to authorized trading of wood chips in the PRC, the transportation of the wood chips is the responsibility of either the ultimate customer of the wood chips or our authorized intermediary. With respect sales of timber from our planted tree plantations and purchased tree plantations, as of December 31, 2004, we have only engaged in sales of standing timber from these plantations. In these sales transactions, the customer is responsible for harvesting and transporting the logs out of the forested areas.

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

Customers

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

In 2002, 2003 and 2004, our five largest customers (including authorized intermediaries) accounted for approximately 86%, 71% and 75% of our revenue, respectively. In the same periods, our largest customer (including authorized intermediaries) accounted for approximately 30%, 29% and 23% of our revenue, respectively.

We have established long-term relationships, with business dealings for up to nine years, with most of our largest customers.

Competition

The market for logs and wood-based products in the PRC is highly fragmented, with a large number of small operators of forestry plantations. There are also large operators of forestry plantations in the PRC, including Asia Pulp and Paper, with operations in Hainan, Guangdong and Guangxi Provinces, Gaofeng Tree and Paper Group, with operations in Guangxi Province and Guangdong Petro-Trade, an exporter of wood chips. In addition, local forestry bureaus, including the Leizhou Forestry Bureau, Hainan Forestry Bureau and Guangxi Forestry Bureau, also manage natural and plantation forests in the PRC, although their primary emphasis is administering and overseeing the protection, use and renewal of forestry resources in their areas, rather than operating commercial forestry plantations.

We also compete with producers of wood chips in Australia, Malaysia, Thailand and North and South America selling hardwood chips in the PRC and elsewhere in East Asia.

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

product quality, level of technology in the manufacturing process, product innovation, product mix, price and logistics.

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

Environmental Matters

Our forestry plantation operations are subject to PRC laws and regulations relating to the protection of the environment. Both the local forestry bureaus and the local environmental protection bureaus where our planted tree plantations are located have confirmed that the operation of our four CJV plantations are in substantial compliance with applicable environmental laws and regulations in the PRC, and there are currently no significant environmental proceedings involving us.

We maintain an Environmental Management System. This system is designed to ensure environmentally responsible resource management. It sets forth policies on the social, ecological and environmental aspects of our forestry plantation operations and detailed operating procedures on environmental compliance. Our Environmental Management System focuses on the integration of forestry plantation management with the conservation of soil and water resources, the protection of biodiversity and natural habitats, the improvement of environmental conditions, such as air, water quality and biodiversity, and environmental performance assessments. These assessments are generally conducted annually. The most recent assessment, conducted in 2003, reported that plantation management practices on our planted tree plantations are meeting the environmental protection objectives set out in PRC laws and regulations and our environmental policies.

We have designed our environmental policies to comply with relevant PRC regulations and provide guidelines governing plantation establishment, management, harvesting and sustainability. Our Environmental Management System has been developed with the aim of ensuring compliance with these regulations and policies. We adhere to the philosophy that environmentally sound management practices contribute to our profitability and the prosperity of our employees and the communities in which we operate by providing greater predictability and sustainability in the management of natural resource assets.

We have obtained ISO 9001 (in 2002) and ISO 14001 (in 2002) certifications for the quality and Environmental Management System of the forestry plantation operations of our CJV in Guangxi Province. We have also received from SmartWood, a program of the Rainforest Alliance, an international non-profit environmental group, the FSC certification for 5,300 hectares of forestry plantations in Guangdong Province. We expect to upgrade our Environmental Management System to gain accreditation of ISO14001:2004 by the end of 2005. We plan to extend the FSC and ISO certifications to all of our planted tree plantations.

Research and Development

Research and development is an important function of our forestry plantation operations. The goal of the research and development efforts is to improve forestry plantation yields and the quality of the trees grown on our forestry plantations. We have developed a Sustainable Intensive Plantation Management System in order to optimize investment efficiency. The system comprises standardized plantation management operation procedures, genetic improvements, cultivation techniques and inspection and monitoring.

Our main research facilities at Gaoyao and Heyuan in Guangdong Province perform research and development on a wide range of activities, including:

- genetic breeding research, including research on the breeding, selection and propagation of planting materials that perform better, including improved yield, quality and resistance to pests and diseases. In performing research on the genetic improvement of trees, we use genome technology, gene bank and cloning techniques, as well as new tissue culture propagation systems;
- nutrient management and fertilizer application for different soil types and developing methods to optimize fertilizer application;
- improved silviculture practices, such as developing short-rotation plantations and forestry plantations of mixed species;
- tree protection and conservation;
- development of sustainable management of commercial plantation ecosystems;
- wood properties and processing (such as change of water content and properties and of short-rotation eucalyptus plantation wood); and
- ecological and environmental technology, including the monitoring and evaluation of ecological and environmental conditions in short-rotation eucalyptus plantations.

In performing our research and development activities, from time to time we also collaborate with, and receive assistance from, research and academic institutions in the PRC. We collaborate with the Research Institute of Tropical Forestry, the Chinese Academy of Forestry, Forestry Academy of Jiangxi Province, Qinzhou Forestry Research Institute, Zhangjiang Forest Science and Technology Center, Forestry Academy of Guangxi Province, Science & Technology Department of the National Forestry Administrations, China Eucalyptus Center, the Forest Administration of Guangdong Province, Forestry Academy of Guangdong Province, Jiachang Forestry Development Limited and Chinese Academy of Forestry and the Guangxi University.

Our research and development division is composed of a team of nine individuals. The research and development division is headed by a principal research officer with over 20 years of experience in forest genetics and plantation management practices.

Insurance

We maintain insurance policies against risks of loss for only a portion of our total forestry plantations. We have insurance under the Growing Timber Insurance for approximately 45,000 hectares of our forestry plantations in various locations, representing approximately 19% of our total forestry plantations, against losses from fire, lightning, aircraft, explosion, floods, windstorm, subterranean fire and malicious damage. While we do not insure all of our plantations against losses from these natural and other disasters, we believe our insurance coverage is consistent with the practice of other PRC forestry plantation operators. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our forestry plantations are located in four different provinces in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our forestry plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

As of December 31, 2004, we have not experienced any significant loss or damage to our forestry plantations. In 2002, 2003 and 2004, we paid an aggregate of \$463,000, \$482,000 and \$554,000, respectively, in insurance policy premiums.

Safety Measures

We take a variety of measures to protect our workers and forestry plantations from fire and other natural disasters.

We have internal guidelines to reduce the impact of natural disasters, such as fires, pests and disease outbreaks, flooding and typhoons. The guidelines include prohibiting lighting matches or producing any flame in the plantation areas, quarantining seedlings, encouraging employees to keep in close contact with the disease prevention department for latest information on diseases, carrying out pest and disease control management in accordance with the PRC government's regulations and guidelines and avoiding planting trees in heavy rainfall or typhoon seasons. We have fire patrol units that conduct patrols on the plantation lands on a regular basis and more frequently during dry seasons.

We also believe that there are a variety of natural measures around the forestry plantations that reduce the risk of fire. For example, southern China has a high level of precipitation and our forestry plantations are scattered in smaller groves and designed to spread out over large areas often separated by natural breaks such as fishing ponds, rivers, open areas, farmlands and villages. In addition, our primary tree species are eucalyptus, which is naturally resilient against disease, and poplar, which is resistant to damage from flooding.

Intellectual Property

As of December 31, 2004, we have registered the "Sino-Forest" trademark together with a related logo separately in the PRC, United Kingdom and Japan, in the name of Sino-Wood Partners, Limited and under classes 1, 16, 19, 31 and 35 respectively for a duration of 10 years.

Employees

At of December 31, 2004, we had 492 full-time employees. The following table sets forth the number and location of our employees according to category as of December 31, 2004.

	Canada	Hong Kong	PRC	Total
Executives and Senior Management	—	4	14	18
Plantation Operation	—	1	73	74
Personnel and Administration and IT	1	6	43	50
Finance and Accounting	—	4	32	36
Corporate and Organization Development	—	9	1	10
Sales and Marketing (import trading)	—	6	27	33
Research & Development and Environmental	—	5	4	9
Manufacturing	—	4	258	262
Total	1	39	452	492

We believe that our relationships with our employees are generally good. We have not experienced any significant problems with the recruitment or retention of employees, nor suffered from any material disruption of our business operations as a result of any labor dispute, strike or employee dispute.

Employee Benefits

We provide employee benefits, including provident fund schemes and medical insurance schemes to our employees. We also provide corporate travel care insurance for our senior management.

Our staff in the PRC are members of a central pension scheme operated by the relevant local municipal government. The subsidiaries in the PRC are required to contribute approximately 12% to 23%

of their covered payroll to the central pension scheme to fund the retirement benefits. Adequate provision for the contribution has been made in the accounts in accordance with the rules of the central pension scheme. In addition to the pension insurance, we maintain other social insurance for our staff in the PRC as implemented in the relevant regions where our CJVs and WFOEs are located, including medical insurance, unemployment insurance and working injury insurance.

Pension and other Arrangements

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong enacted in 2000, all employees (except for certain persons) are required to join the MPF arrangements. MPF is an employment-based retirement protection system. The mandatory contributions are calculated on the basis of 5% of an employee's relevant income, with the employer matching the employee's contribution. Mandatory contributions are subject to the minimum and maximum levels of income. Employees earning less than HK\$5,000 a month do not need to contribute but their employers have to contribute 5% of the employee's income. For employees earning more than HK\$20,000 a month, mandatory contributions are capped at HK\$1,000.

GOVERNMENT REGULATION

Plantation Industry

Development of the Plantation Industry

The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated The Notice on the Decision to Speed Up the Development of Plantation Industry (Zhong Fa [2003] No. 9) dated June 25, 2003. This notice records the decisions of the PRC Central Government concerning the following main areas:

- to develop the non-state owned plantation industry and to encourage the participation of foreign investors in the plantation industry either solely or jointly with others;
- to strengthen plantation infrastructure in order to ensure the continued development of the economy of China;
- to expedite and reform the development of the plantation industry;
- to emphasize the importance of the plantation industry in the development and preservation of the ecological environment;
- to increase forest resources and the supply of forest products;
- to promote the infrastructure development of the ecological environment;
- to further improve the system of plantation rights in respect of the plantation land and plantation trees;
- to assist in the processing of transfers, leases, mortgages, pledges and making investments in joint ventures for plantations; and
- to strengthen financial support to the development of the plantation industry by continuing to provide long-term and low interest rate credit facilities and by encouraging plantation operators to raise funds from the public.

Forest Classifications

Under the PRC Forestry Law implemented on January 1, 1985 and amended on April 29, 1998 (the “**PRC Forestry Law**”), the PRC recognizes five classifications of forests in the forestry/plantation industry. They are:

- protection forests—forests used for ecological protection, including for the conservation of water resources, retention of water and soil, as wind cover and for protection of farms, fields and roads;
- commercial forests—forests used for the production and harvesting of wood logs;
- economic forests—trees used for the production of fruit, oils, beverages, medicines and other industrial materials;
- firewood forests—forests used for the production of firewood and other fuels; and
- special purpose forests—forests used for national defense, environmental protection and scientific research.

Right to Own or Use Plantation Land and Right to Own or Use Plantation Trees

The PRC Forestry Law and the Implementation Regulations of the PRC Forestry Law implemented on January 29, 2000 (“**Implementation Regulations**”) stipulate that the PRC has implemented a registration and licensing system for ownership of the plantation/forestry land, forestry/plantation land use rights, ownership of the plantation/forestry trees; and the right to use the plantation/forestry trees. Under the PRC Forestry Law, the PRC recognizes four types of rights in the forestry/plantation industry:

Type	Description
Plantation Land Ownership	Right to own the plantation land for use as commercial forestry plantations
Plantation Land Use Rights	Right to use the forestry plantation land for use as commercial forestry plantations
Plantation Tree Ownership Rights	Right to own the trees on a commercial forestry plantation
Plantation Tree Use Rights	Right to use of the produce (i.e. fruit) of the trees

Under the PRC Forestry Law, it is not necessary or required for the four categories of rights identified above to be held by one entity. All forestry/plantation land in the PRC is either owned by the State or collectively-owned by collective organizations. Ownership of forestry/plantation land is not transferable in the PRC. Plantation land use rights and ownership of plantation trees in respect of “commercial” plantations are transferable, provided the transfer is conducted in accordance with PRC law.

The Implementation Regulations stipulate that all entities and individuals using forests, wood and forest land owned by the State or collective organizations must apply for registration with the forestry department of the local PRC government at the county level or above. The local PRC government at the county level or above has the power to issue certificates to confirm the use of rights of forests, wood and forest land and the users’ ownership of wood. Any change in the ownership or use rights of forests, wood and forest land must be registered. The PRC State Forestry Bureau promulgated and implemented the

Forest Tree and Forest Land Ownership and Use Right Registration Administrative Measures on December 31, 2000 (“**Administrative Measures**”) which further stipulate detailed rules for registration of ownership and use rights. According to the Administrative Measures, the forestry bureaus at the county level or above are responsible for registering land use rights.

According to the PRC Forestry Law, the Implementation Regulations and the Administrative Measures, except for key forest zones and those crossing the boundaries of a related administrative region, forestry bureaus of the local PRC government at the county level or above can confirm the use rights in relation to the local forest land and the ownership of forest trees. Forestry bureaus at the county level or above are responsible for registering the use rights of forest land and the ownership of forest trees.

Under PRC laws, forestry land is either collectively owned or owned by the State. Under the PRC Forestry Law, the PRC implements the system of issuing plantation rights certificates to the persons having the right to use the plantation land (in the case of the planted forestry plantations) or to the owners of the plantation trees (in the case of the purchased tree plantations).

The forestry bureaus at the county level and above are the only PRC authorities delegated by the PRC government responsible for the forestry industry in the PRC. Prior to the issuance of the plantation rights certificates, the forestry bureaus are responsible for conducting the investigation and review, registration and filings in relation to such issuance.

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and its system of issuing certificates to the persons having plantation land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the PRC State Forestry Bureau announced the “Notice on the Implementation of Nationwide Uniform Plantation Right Certificates” (Lin Zi Fa [2000] No. 159) on April 19, 2000 (the “**Notice**”). Under the Notice, a new uniform form of plantation rights certificate is to be used commencing from the date of the Notice. The same type of new form plantation rights certificate will be issued to the persons having the right to use the plantation land, to persons who own the plantation land and plantation trees, and to persons having the right to use plantation trees.

The PRC government is gradually in the process of issuing new form certificates on a national scale. The issuance of new certificates started in 2000. During the PRC State Forestry Bureau’s meeting held in July 2002, the PRC State Forestry Bureau confirmed its target for the PRC State Forestry Bureau to complete the issuance of new form plantation rights certificates within one to five years. Currently, there are a number of trial locations nationwide being issued new certificates.

However, the registration and issuance of the new form plantation rights certificates for the ownership of wood and forest land use rights required by the relevant PRC laws and regulations and the rules of the PRC State Forestry Bureau have not been fully implemented in a timely manner in certain places of the PRC.

Permits and Quotas

Logging applicants must apply to the forestry bureau of the local PRC government at the county level or above for a logging permit. Logging of forests must be conducted in accordance with the logging permit. Logging permits will not be issued to the applicant under the following circumstances:

- if the applicant has not replanted the forest trees logged in the previous year;
- if there were any large scale forest fires, significant unlawful logging or large scale destruction caused by forest pests in the previous year and the applicant has not adopted appropriate preventive measures or improved measures to prevent such occurrence; or

- if the application is for logging in a conservation forest zone or in special use forest zone which is not sustainable.

Under the PRC Forestry Law, the PRC strictly implements a quota system for the logging of forest trees. The forestry bureaus at the provincial level set annual logging quotas. The annual quota is reviewed by the local PRC government at the same level and is submitted to the PRC State Council for approval. According to the Implementation Regulations, the annual quota for certain key forest zones will be set by the PRC State Forestry Bureau, approved by the PRC State Council, and the quota will be reviewed every five years. There is priority treatment for quota allocations by local government bodies.

The Implementation Regulations stipulate that for timber forests which a foreign investor has invested in and operates, the forest trees should only be logged within the annual logging quota set by the PRC State Council, upon obtaining approval from the forestry bureaus at the provincial level or above if the volume of forest that needs to be logged is of a significant scale.

Timber Transportation Permits

According to the PRC Forestry Law, any entity which needs to transport the forest trees (unless those forest trees can only be removed by the State) out of the forest zones must apply for a timber transportation permit issued by the forestry bureau at the county level or above. According to the PRC Forestry Law and the Implementation Regulations, after the entity obtains the timber logging permit, the forestry bureaus shall issue a timber transportation permit to the entity for transporting the timber out of the forest zone.

Timber Operations and Processing Permits

Timber operations and processing in the forest areas must be approved by the forestry bureau at the county level or above.

Permits and Approvals Necessary for the Operation of our Plantation Business

As outlined above, we are required to obtain the following permits and approvals for the operation of our forestry plantation business:

- plantation land use rights certificates for our planted tree plantations;
- plantation ownership certificates for our purchased tree plantations (these two types of certificates are grouped under plantation rights certificates under the new form certificate system);
- timber logging permits; and
- timber transportation permits.

With regard to the CJVs and the Zhangzhou WFOE, we do not need to obtain a timber trading and processing permit because we currently do not directly engage in timber trading and processing activities for the CJVs and Zhangzhou WFOE. According to the Administrative Measures Regarding Foreign Investment in the Commercial Sector promulgated by the PRC Ministry of Commerce on April 16, 2004 and effective from June 1, 2004, foreign companies are permitted to engage in trading activities in China by establishing foreign invested enterprises in China. We will establish the New WFOE in accordance with the newly promulgated measures. We intend for the new WFOE to engage in timber trading and processing activities. The New WFOE will need to obtain all required permits.

In the opinion of our PRC counsel, we have obtained all the necessary approvals for the current operation of the CJVs and the Zhangzhou WFOE.

Plantation Land Use Rights Certificates for the CJVs and the Zhangzhou WFOE

In the opinion of our PRC counsel, based on the plantation rights certificates and the written confirmations from the local forestry bureaus, the CJVs and the Zhangzhou WFOE have the legal right to use approximately 80,000 and 265 hectares, respectively, of plantation land for their forestry plantation and forestry plantation management business, as specified in the business scope of the CJVs and the Zhangzhou WFOE, in the areas set out in the written confirmations issued by the forestry bureaus and within the time periods as set out in the respective plantation rights certificates and the written confirmations.

The PRC Forestry Law and the Implementation Regulations implement the system of land ownership and land use rights registration and issuance of certificates. The Implementation Regulations stipulate that all entities should apply to the forestry department of the local PRC government at the county level or above for land use rights registration and the local PRC government at the county level or above must be responsible for issuing the plantation land use rights certificates. Applicants of the plantation land use rights must submit land use rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry department. In the opinion of our PRC counsel, the forestry departments have the right to issue written confirmations with respect to the land use rights of the CJVs and the Zhangzhou WFOE.

Plantation Ownership Certificate for our Purchased Tree Plantations

In the opinion of our PRC counsel, based on the supplemental purchase contracts and the plantation ownership certifications issued by the relevant forestry departments, we have the legal right to own our purchased tree plantations.

Timber Logging Permits and Logging Quotas

The Implementation Regulations stipulate that in foreign invested plantation projects, the forest trees should only be logged within the annual logging quota set by the PRC State Council, upon obtaining approval from the forestry departments at the provincial level or above. The Implementation Regulations are not clear as to who should be responsible for issuing timber logging permits to foreign invested plantation projects. Each of the CJVs and Zhangzhou WFOE has obtained approval from the forestry departments at the provincial level guaranteeing its logging quota target. Except for the CJV in Guangxi, the other CJVs have not commenced logging plantation trees. In the opinion of our PRC counsel, upon obtaining the approval from the forestry departments at the provincial level for the logging quota targets and the relevant written confirmations from the forestry departments at the county level, there should not be any legal constraints for the CJVs to obtain timber logging permits provided that the CJVs also provide information including area, volume and location of the plantation trees and replanting measures.

There are no logging limitations applicable to the CJVs or the Zhangzhou WFOE under the approved business scale of these ventures.

The logging quota targets of our purchased tree plantations have been confirmed by the relevant forestry departments where the purchased tree plantations are located.

Timber Transportation Permit

In the opinion of our PRC counsel, upon the obtaining of the timber logging permit and the provision of certain supporting documents such as the quarantine certification, there should not be any legal constraints for the CJVs to obtain timber transportation permits.

Wood Panel Industry

Engaging in the Timber Business

The Implementation Regulations stipulate that any entity engaged in the timber business (including processing timber) in forestry areas must obtain approval from the forestry department of the local PRC government at or above the county level. Certain provinces impose further requirements for granting permission to engage in the timber business, which means that any entity engaged in the timber operations and processing business within the relevant provinces must also apply for a timber business permit from the forestry department of the appropriate jurisdiction.

Regulations that Apply Nationwide

The Implementation Regulations provide that corporations that engage in the timber business (including processing of timber) in forestry areas must obtain approval from the forestry department at the county level or above. Any violation of this regulation will result in the confiscation of the timber and any illegal gains, and payment of a fine up to two times the amount of the illegal gain.

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council implemented on May 16, 1994 provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant forestry departments, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and comply with the business objectives as stated on the license.

The Administration of Standardization of Forestry Regulations, implemented on September 1, 2003, provide that the technical requirements of forestry products, quality of timber saplings, safety, hygiene standards, testing, inspection methods, packaging, storing and transportation must be standardized.

Regulations that Apply on the Local Provincial Level

Guangdong Province. According to the Guangdong Province Temporary Administration of Timber Business Management, any entity engaged in business relating to the processing of or business in timber and its products, must comply with the following requirements:

- the entity must submit any related documents, evidence and applications proving its qualifications to engage in the business; and
- the relevant forestry department at the county level or above shall have assessed the entity's business objectives, methods, source of raw materials, and type and scope of business to ensure compliance with applicable standards.

Jiangsu Province. According to the Implementing Measures of Jiangsu Province for the PRC Forestry Law, promulgated on June 24, 2003, no entity is allowed to engage in the timber or timber processing business without first obtaining approval from the Forestry Supervision Department; and further, no unit or person engaged in the timber or timber processing business is allowed to purchase timber that does not possess a logging permit or is not from an authorized legal jurisdiction.

Should SFR (Suzhou) Co. Ltd. or Jiafeng Wood (Suzhou) Co. Ltd., our indirect subsidiaries, develop or engage in the timber or timber processing business in the forestry area in Jiangsu Province, it would have to apply for a Timber Business (Processing) Permit separately.

FORESTRY PLANTATION CONTRACTUAL ARRANGEMENTS

Joint Venture Agreements

In 1995, we established four CJVs with our four PRC CJV Partners, each associated with a local PRC forestry bureau in the relevant province, to develop plantations in Guangxi, Jiangxi and Guangdong Provinces in the PRC. The purpose of the CJVs is to develop and produce fast-growing trees in the PRC in short rotation logging cycles. Each of the PRC CJV Partners is licensed to engage in plantations, wood-based manufacturing and/or providing services in connection with the plantations.

Corporate Information on the CJVs

The following table sets out the name, date of establishment, total investment, registered capital, term of operation, identity of the PRC CJV Partner and our subsidiary company which entered into the joint venture of each of the CJVs.

	Guangxi CJV	Jiangxi CJV	Gaoyao CJV	Heyuan CJV
Name of CJV	Guangxi Guijia Forestry Company Limited	Jiangxi Jiachang Forestry Development Co., Limited	Gaoyao City Jiayao Forestry Development Limited	Heyuan City Jiahe Forestry Development Limited
Date of establishment	August 7, 1995	August 4, 1995	July 12, 1995	June 23, 1995
Investment	\$12,500,000	\$12,500,000	\$4,800,000	\$1,400,000
Registered capital	\$6,750,000, fully paid up	\$5,000,000, fully paid up	\$3,100,000, fully paid up	\$1,400,000, fully paid up
Term	50 years (to August 7, 2045)	50 years (to August 3, 2045)	50 years (to July 11, 2045)	50 years (to June 22, 2045)
Name of PRC CJV Partner	Guangxi Forestry Development Center	Jiangxi Forestry Economics and Technology Development Company	Gaoyao City Forestry Trading Development Company	Heyuan City Forestry Services Limited
Our subsidiary	Sino-Wood (Guangxi) Limited	Sino-Wood (Jiangxi) Limited	Sino-Wood (Guangdong) Limited	Sino-Wood (Guangdong) Limited

The Parties

Each of the PRC CJV Partners is an associated enterprise of the local forestry bureau in the area where the CJV is located and is a legal person under PRC law. We have established three separate subsidiary companies, each incorporated in Hong Kong to enter into the relevant CJV contracts. Each of the CJV contracts is for a term of 50 years.

Purpose

Under the CJV contracts, the CJVs are to engage in operating forestry plantations and related activities, including planting, forestry plantation management, fertilization, research and development and logging.

Contributions

Under the CJV contracts, the PRC CJV Partners are each required to provide suitable forestry land and to obtain all required PRC regulatory approvals, licenses and permits for operating as forestry plantation companies in the PRC. Under each of the CJV contracts, the contributions of forestry plantation land must be made within 15 years of the commencement of the CJV. As of December 31, 2004, the PRC CJV Partners have contributed plantation land use rights for approximately 80,000 hectares of plantation land in the PRC, of which approximately 41,000 hectares have been planted with eucalyptus and poplar trees. The plantation lands contributed were not assigned any value.

The following table sets forth, as of December 31, 2004, the potential maximum total hectares of plantable forestry plantation lands that may be contributed by each of the PRC CJV Partners under the CJV contracts, the hectares of plantation land contributed and the hectares with trees planted.

Name of CJV	Potential Maximum Plantable Hectares Required to be Contributed	Hectares of Plantation Land Actually Contributed	Hectares With Trees
Guangxi	250,000	39,000	17,000
Jiangxi	250,000	20,000	9,000
Gaoyao	33,000	13,000	7,000
Heyuan	50,000	8,000	8,000
Total	583,000	80,000	41,000

The CJV PRC Partner is required to contribute plantation land use rights to the CJV and we are required to contribute cash for the plantation program.

The responsibilities of the PRC CJV Partners include the following:

- providing suitable plantation lands to the CJV on a timely basis and in the quantity as stipulated in the CJV contracts, handling procedures for obtaining the plantation land use rights for the CJV and handling all disputes in connection with land;
- dealing with the relevant authorities in China for the establishment and licensing of the CJV;
- obtaining the harvesting license, timber transportation permit and other certificates required by laws and regulations for the CJV;
- establishing a plantation operation service company to provide plantation operation services for the CJV;
- procuring for the CJV the necessary infrastructure such as water, electricity and transportation; and

- assisting in the recruitment of local operation and management personnel, technical personnel and other personnel as required.

Under the CJV contracts, we are required to:

- provide international operations and perform advanced plantation management practices, production technology, quality standards and a system of quality inspection;
- assign personnel to the plantation base to carry out standard inspections on operations and provide management, and training to the technical employees of the CJV;
- provide all of the capital and funding for plantation operation of the CJV; and
- provide international market information and technical information to the CJV.

We are also responsible for paying all of the forestry plantation management fees and forestry plantation operation servicing fees, including the costs for forestry planning, soil preparation, planting of seedlings, fertilization, pesticide application, plantation management and the fees paid to the third party service providers for day-to-day operation of the forestry plantations (“**Plantation Management Fees**”), 70% of other fees, which include fees relating to logging, transportation and processing (“**Other Fees**”), 70% of PRC taxes and charges (“**Taxes and Charges**”), all of the contributions to the applicable PRC statutory funds (“**Fund Contributions**”) and 70% of the other operating expenses of the CJV, including employee salaries and accounting fees (“**Operating Expenses**”). Our PRC CJV Partners are responsible for 30% of Other Fees, 30% of Taxes and Charges and 30% of Operating Expenses.

Distributions

The trees for the CJV plantations are grown by the CJVs and are owned by the CJVs.

The proceeds generated from the timber production of the plantation land to which the CJV has plantation rights will be shared between the parties in the proportion of 70% to us and 30% to the relevant PRC CJV Partner.

Cash flow from the CJVs will be applied first to pay Plantation Management Fees, Other Fees, Taxes and Charges, Fund Contributions and Operating Expenses. As a result, our entitlement to the cash flow of the CJVs is 70% of the income from the CJVs minus all of the Plantation Management Fees, 70% of Other Fees, 70% of Taxes and Charges, all of the Fund Contributions and 70% of the Operating Expenses. The entitlement of our PRC CJV Partners is 30% of the income from the CJVs minus 30% of Other Fees, 30% of Taxes and Charges and 30% of Operating Expenses.

Management and Board Representation

The board of directors of each of the CJVs consists of seven persons, five of whom are appointed by us and the remaining two by the PRC CJV Partners. We appoint the Chairman while the PRC CJV Partners appoint the Deputy Chairman. The operation and management of the CJVs consists of a general manager, appointed by us and a deputy general manager appointed by the PRC CJV Partners. The general manager and the deputy general manager shall be approved by the board of directors.

Term and Termination

The term of each CJV is 50 years, subject to extension upon a proposal by the unanimous consent of the board of directors of the CJV and approval of the original examining authorities.

Upon termination and liquidation, (i) all plantation land use rights contributed by the PRC CJV Partners will be reverted to the PRC CJV Partners, (ii) the trees grown on the plantations shall be shared between us and the PRC CJV Partners on a 70:30 basis, (iii) all other remaining assets (including

intellectual property rights) shall belong to us and (iv) we will take the liabilities of the CJVs, but our liabilities will be limited to the assets of the CJVs.

Tax Treatment

The CJVs pay various taxes as provided by PRC laws and relevant regulations. Taxes are paid in the name of the CJV. Chinese and foreign staff and workers of the CJV pay individual income tax according to “The Individual Income Tax Law of the People’s Republic of China.” The CJVs enjoy all preferential treatment concerning taxation in accordance with the Income Tax Laws.

Zhangzhou WFOE

The Zhangzhou WFOE has entered into agreements with Zhangzhou Lumin pursuant to which Zhangzhou Lumin will lease plantation land to the Zhangzhou WFOE for the development and planting of commercial short rotation trees in the Fujian Province of the PRC. The Zhangzhou WFOE was approved by the local PRC forestry bureau to operate up to 33,000 hectares of forestry plantations.

Obligations

We are responsible for contributing capital and funding to the Zhangzhou WFOE, operating and managing the plantation and harvesting and selling trees.

Zhangzhou Lumin is required to lease plantation land or transfer plantation land use rights with valid plantation land use rights certificates to the Zhangzhou WFOE, to obtain the plantation land use rights for the Zhangzhou WFOE and to obtain a harvesting permit and timber transportation permit for the Zhangzhou WFOE. Zhangzhou Lumin is required to lease an aggregate of approximately 20,000 hectares of plantation land for a 50-year term on which the Zhangzhou WFOE may develop and plant trees within 10 years’ time.

Contributions

As of December 31, 2004, we operated approximately 376 hectares of eucalyptus plantations in Fujian Province pursuant to contractual arrangements with Zhangzhou Lumin.

Distribution of Profit

The Zhangzhou WFOE must pay consideration to Zhangzhou Lumin, on a plantation cycle basis, equal to 30% of the timber output in that plantation cycle, provided that the consideration shall not be less than a minimum payment calculated based on an assumed output of four cubic meters per hectare per year (arrived at by benchmarking against the prevailing market rent at the time of the agreement). Zhangzhou Lumin’s entitlement to 30% of the timber output is the yearly consideration payable by the Zhangzhou WFOE. The Zhangzhou WFOE has a preemptive right to purchase 30% of the timber output from Zhangzhou Lumin.

Plantation Purchase Agreements

We entered into the first of our plantation purchase agreements (the “**Purchase Agreements**”) in 1997. Thereafter, we have entered into numerous Purchase Agreements as supplemented by the supplemental agreements (the “**Supplemental Agreements**”) each year. Under the Purchase Agreements, we agreed to purchase, and the seller agreed to sell, rights to the trees on the relevant forestry plantation land. The sellers under the Purchase Agreements were authorized agents of the original land-owners. Each of these agreements contains substantially the same provisions.

The Purchase Agreements provide us a right to own the trees on the relevant forestry plantation land. However, they do not include any plantation land use rights to the plantation land. As a result, under

the Purchase Agreements, we are required to return the plantation lands to the seller once the trees are harvested, unless we exercise the option described below.

The Supplemental Agreements provide authorization from certain original legal owners of the plantation lands for the sellers to enter into the agreements and that the original legal owners agreed to the terms and conditions of the relevant Purchase Agreements. Under the Supplemental Agreements, the seller warrants that, once the registration system is in place for registration of plantation use rights, it will arrange for the proper registration to be done in our favour. The seller also warrants that it will obtain all other permits in relation to the logging of the trees and transporting the logs out of the forest.

Under the Supplemental Agreements, we have an option to require the transfer of the plantation land use rights (or other suitable plantation land use rights to an area equivalent to that of the purchased tree plantations) through long-term leases to the forestry plantations for a maximum period of 50 years, subject to negotiation of a price for the transfer of the plantation land use rights, receipt of relevant governmental approvals and satisfaction of registration requirements.

Master Agreements

Our relationships with our authorized intermediaries are governed by Master Agreements as supplemented by the Operational Procedures. Under the Master Agreements, as supplemented by the Operational Procedures, we appoint the authorized intermediaries to manage our wood chips sales transactions on our behalf. The authorized intermediaries agree to enter into contracts to purchase timber from suppliers, process the timber into wood chips and deliver wood chips to customers pursuant to sales contracts entered into between the authorized intermediaries and customers. We agree to reimburse the costs of the authorized intermediaries, including the cost of the purchase of raw timber, and to pay both a processing fee and a management fee, all of which are deducted from the sales proceeds of the wood chips. All of the contracts are entered into by the authorized intermediaries, and we have no direct contractual relationships with suppliers of logs or customers of wood chips in the PRC. We typically specify annual and monthly quotas of the authorized volume of wood chips sales transactions, which are subject to adjustment by us and the authorized intermediaries.

The Operational Procedures delineate our and the authorized intermediaries' rights and obligations with respect to the purchase of raw timber, the processing of raw timber into wood chips and the sale of wood chips. Under the Operational Procedures, the authorized intermediaries assume the risks and obligations relating to the raw timber from the time the raw timber is purchased until it is delivered to the authorized intermediary's premises. We assume all risks and obligations relating to the raw timber once it arrives at the premises of the authorized intermediary until it is processed into wood chips, except for any loss arising as a result of the authorized intermediary's default. Once the raw timber is processed into wood chips, the authorized intermediary is responsible for selling wood chips to its customers and it assumes all rights and obligations relating to the wood chips under its sales contracts with customers. The Operational Procedures provide that the authorized intermediaries are responsible for selling wood chips to customers within time limits specified by us, and that they assume all risks and obligations for failing to meet these delivery requirements.

RISK FACTORS

Risks Related to our Business

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

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and wood chips 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 markets for wood products are sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior design 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;
- governmental regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (e.g., dry summers, wet winters) and other factors.

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

In the future, we expect to receive a greater percentage of our revenue from sales of standing timber sourced from our own forestry plantations, either planted tree plantations or purchased tree plantations. As of December 2004, we had approximately 32,000 hectares of planted tree plantations and have the right to obtain a maximum of approximately 616,000 hectares with plantation land use rights from our PRC CJV Partners and other parties. As of December 31, 2004, we also had approximately 210,068 hectares of purchased tree plantations and we expect to acquire additional purchased tree plantations in the future. Under our agreements for our purchased tree plantations, we have an option to require the transfer of the plantation land use rights through a long-term lease for a maximum period of up to 50 years, subject to negotiation of a price for the transfer of the plantation land use rights and receipt of relevant governmental approvals, and satisfaction of registration requirements. Further, we have received an undertaking from one of our PRC CJV Partners pursuant to which we may purchase mature pine trees on up to 200,000 hectares of mature purchased tree plantations until February 12, 2006 and subsequently lease the plantation land on which the trees are located, subject to negotiation of a definitive agreement and the terms and conditions specified in the undertaking. Our PRC CJV Partner has informed us that these pine tree plantations are owned by agricultural collective organizations, make up of farmers. As a

result, we may have to negotiate directly with these agricultural collective organizations. The terms we finally agree with the agricultural collective organizations may differ from the indicative terms in the undertaking. These definitive agreements are also subject to the approval of relevant governmental authorities. See “Business—Plantations—Purchased Tree Plantations.”

In order for us to operate our purchased tree plantations as sustainable, rotational forestry plantations, we will have to exercise our option to obtain the relevant plantation land use rights through long-term leases and enter into plantation land use rights transfer agreements with the local landowners or the holders of the land use rights to the plantations. We cannot give any assurance that we will exercise any of these options or enter into plantation land use transfer agreements. To date we have not exercised our option or entered into any relevant agreement with respect to our purchased tree plantations. Our decision and ability to exercise our option or enter into agreements with respect to our purchased tree plantations will depend on, among other factors, our ability to negotiate a final price, whether the area is desirable for forestry plantations and the availability of future financing. We cannot give any assurance that the purchased tree plantations will be attractive areas for further rotations of forestry plantations.

We also cannot give any assurance that we will be able to enter into any plantation land use rights transfer agreements with the local landowners or land use rights holders on commercially acceptable terms. The price could be affected by a variety of market and other factors, including the level of development in the area, the desirability of the area for uses other than forestry plantations and general economic conditions.

In addition, we cannot give any assurance that we will obtain any or all of the maximum of approximately 616,000 hectares that we have a right to obtain from our PRC CJV Partners and other parties with respect to our planted tree plantations. Our decision and ability to do so will depend on, among other factors, whether a particular area is desirable for forestry plantations, the availability of purchased tree plantations for expansion of our operations, our view of the relative financial and other benefits of operating purchased tree plantations compared to operating planted tree plantations and the availability of future financing.

Further, we cannot give any assurance that we will be able to enter into a definitive agreement to purchase any or all of the 200,000 hectares available under the undertaking from one of our PRC CJV Partners or subsequently lease any of the plantation land on which the trees are located, on terms acceptable to us, or at all. Our decision and ability to do so will depend on, among other factors, our ability to negotiate a final price within the price range specified in the undertaking, whether the area is desirable for forestry plantations and the availability of future financing.

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.

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

The success of our business depends upon the productivity of our forestry plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our eucalyptus trees is approximately 90 cubic meters per hectare per five-year cycle. See “Business—Plantations—Harvest Yields.” However, our current average standing timber yield is based upon a short operating history of one rotation and we may not be able to maintain this yield for future rotations. In addition, forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease and pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional forestry plantations that we may obtain in the future.

In addition, we may not be able to meet our expectations that the yield of our eucalyptus forestry plantations will improve over time. Our ability to improve or maintain our yields will depend on the

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

Our ability to expand our forestry plantation resources and our manufacturing plants will require substantial future capital expenditures and we may be unable to obtain adequate financing to fund our capital and other requirements

In 1995, we began building up our forestry plantation resources by planting the planted tree plantations. In 1997, we began acquiring purchased tree plantations, which require intensive capital investment. Typically, the cycle of such plantation trees for harvesting can range from approximately five to 12 years, depending upon the tree species. In 2002, 2003 and 2004, we incurred approximately \$37 million, \$89 million and \$159 million, respectively, for expanding our planted tree plantations and purchased tree plantations. We finance our forestry plantation expansion activities primarily from internal cash flows, and debt and equity financing. We may have to obtain financing in order to acquire additional hectares of forestry plantations. We can give no assurance our cash flows will be sufficient to finance our operations or our future forestry plantation expansion. In addition, we can provide no assurance that debt or equity financing will be available in the future on attractive terms or at all. If we are not able to obtain financing, our business, financial condition and results of operations may be materially and adversely affected.

Under the revised plan for the Gaoyao manufacturing plant, we will discontinue the implementation of the development of the finger-jointed board, kitchen cabinet and composite door production lines. The existing operating particleboard mill is to be expanded by adding additional production lines increasing its capacity from 100,000 m³ to approximately 275,000 m³. Production capacity for melamine lamination is also to be expanded from 1,000,000 m² to 6,400,000 m². The expansion plan is expected to be completed by the end of this year. As of December 31, 2004, we had incurred approximately \$71 million in constructing our manufacturing facilities in the PRC. For the year ended December 31, 2004, we have written off approximately \$3.6 million of costs and expenses that were previously capitalized. These costs and expenses were written off as a result of modifying our initial development plans. As of January 31, 2005, two production lines are operational. Our need to make capital expenditures for our manufacturing facilities may have a material adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2004, we had 230 employees in Hong Kong and the PRC to manage our forestry plantations. We currently engage third parties to perform the day-to-day operations of our forestry plantations. However, as we expand the area of our forestry plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our forestry plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary for us to strengthen our internal controls and corporate governance as we continue to build the business. Should we fail to take the measures described in this paragraph, we may not be able to implement our expansion strategy or to manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected.

The forest products industry is highly competitive

The forest products industry is highly competitive in terms of price and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. Lumber and log markets in the PRC are subject to competition from worldwide suppliers. In our forestry plantations and standing timber, wood chips and wood-based products trading activities, we are subject to competition from other large domestic and foreign owned forestry plantations in the PRC, as well as wood dealers and local forestry bureaus, all of which provide logs, wood chips and wood-based products for sale in the PRC. We also compete with a number of overseas forestry companies selling wood chips in the PRC and elsewhere in East Asia.

Our two manufacturing plants face competition from other large domestic and foreign owned wood panel manufacturers in the PRC, as well as manufacturers in other countries importing into China. In this regard, other manufacturers of wood panels are currently constructing new mills in the PRC that will substantially increase the production capacity of wood panels in the PRC. We may not be able to compete effectively against these and other potential competitors. If we are not able to compete effectively in our different business lines, or if competition significantly increases, our business, financial condition and results of operations could be materially and adversely affected.

Our forestry plantations and wood-based products trading activities are subject to extensive PRC laws and regulations

We are subject to regulation under a variety of PRC national and local laws and regulations, including, among others, the PRC Forestry Law and its Implementation Regulations, the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures and the Administrative Measures on Foreign Investment Forestation of Guangdong Province. Violations of a variety of PRC laws and 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. We engage in the following activities that are subject to regulation:

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

Operational Licenses and Permits

Currently, PRC laws and regulations require forestry plantation companies to obtain licenses and permits to operate forestry plantations, harvest logs on the forestry plantations and transport the logs out of the forest areas. The forestry plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forestry bureaus for the logging permits and transportation permits for plantations that are to be harvested. We currently have the relevant business licenses for our subsidiary companies in the PRC to engage in forestry activities and have received the requisite logging permits and transportation permits for our completed logging and transportation activities. In this regard, the PRC government allocates logging quotas and transportation quotas annually for plantations that are to be harvested, rather than granting permits at the time the forest is established. We have confirmation from the relevant forestry bureaus that they will allocate to us on an annual basis the logging quotas to assure that we are able to harvest the mature trees in the forestry plantations we currently operate. However, there is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation

activities, or that the PRC government will not enact laws and regulations that would add requirements for forestry plantation companies to conduct these activities in the PRC.

In addition, PRC laws and regulations require foreign companies to obtain licenses to engage in any business activities in the PRC. As a result of these requirements, we currently engage in our trading activities through PRC authorized intermediaries that have the requisite business licenses. There is no assurance that the PRC government will not take action to restrict our ability to engage in trading activities through our authorized intermediaries. In order to reduce our reliance on the authorized intermediaries, we intend to use a WFOE in the PRC to enter into contracts directly with suppliers of raw timber, and then process the raw timber, or engage others to process raw timber on its behalf, and sell logs, wood chips and wood-based products to customers, although it would not be able to engage in pure trading activities.

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

Environmental Regulations

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

Plantation Land Use Rights

Our PRC CJV Partners are required under the CJV contracts to obtain plantation land use rights certificates for the forestry plantations to be contributed to the CJVs. Our PRC CJV Partners generally obtain the plantation land use rights from third parties, who are generally rural collective organizations,

and then contribute plantation land use rights to the CJVs. Under the Rural Land Contracting Law in the PRC, which took effect on March 1, 2003, our PRC CJV Partners must fulfill all relevant legal formalities for the transfer of plantation lands and the rights to operate and manage the plantations. These include obtaining consents from all members of the farming households who have contracted to transfer the plantation lands, from all members of the collective organizations where such farms are located to waive their preemptive rights and from the contracting parties who have rights to operate and manage the plantations. Because of the additional requirements of the Rural Land Contracting Law, our PRC CJV Partners may not be able to obtain sufficient plantation land use rights from the rural collective organizations or the farming households, which would adversely affect their ability to make their required contributions to the CJVs. As a result, our PRC CJV Partners may not be able to provide us with the plantation land use rights to all the forestry plantations that we have the right to obtain.

Implementation of New Form Plantation Rights Certificate

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership rights and of issuing certificates to the persons having land use rights, to owners owning the plantation trees and to owners of the plantation land. In April 2000, the State Forestry Bureau issued a notice, which provided that a new form of plantation rights certificate was to be used from the date of the notice. The PRC government is in the process of gradually issuing the new form of certificates, which were first issued in 2000, on a nationwide scale. The State Forestry Bureau indicated in a meeting held in July 2002 that they intend to complete the issue of new form certificates within one to five years.

We have obtained from the relevant local forestry bureaus at the county level or above written confirmations issued to our CJVs and WFOE that they have the legal right to use the land for which we have not received certificates. We have obtained confirmation from the offices of the Heyuan, Gaoyao and Zhangzhou people's governments that the confirmation letters issued by the Heyuan, Gaoyao and Zhangzhou forestry bureaus are true and accurate. We are applying for the relevant people's governments' confirmation on the other confirmation letters issued by local forestry bureaus in Guangxi and Jiangxi Provinces. In addition, for the purchased tree plantations, we have obtained confirmations from the relevant forestry bureaus that we have the legal right to own the purchased tree plantations for which we have not received certificates. Our PRC legal counsel is of the opinion that, as evidenced by the confirmations issued by the forestry bureaus and the local city governments, we have the legal right to use the plantation land in relation to the planted tree plantations and the right to own the trees on the purchased tree plantations and that there should be no legal impediment for us to obtain the plantation rights certificates. Currently, we have obtained part of the new plantation rights certificates mainly from the Jiangxi Province. However, we can give no assurance when the official plantation rights certificates will be issued to all our purchased tree plantations and planted tree plantations by the people's government. Until official new-form plantation rights certificates are issued, there can be no assurance that our rights to our forestry plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if our right to any of our forestry plantation lands is subject to dispute or challenge, our business, financial condition and results of operations could be materially adversely affected.

Agricultural Taxes and other Related Forestry Fees

The PRC government levies taxes and other related forestry fees at the time trees are harvested or sold. These taxes and fees add to the cost of harvesting for PRC produced wood and are above the levels imposed in other major forestry plantation countries. These taxes and fees are imposed by the provincial governments and vary from province to province. The taxes and fees include agricultural taxes and reforestation and maintenance fees. Agricultural taxes generally amount to approximately 8% of the

selling prices or government standardized prices, depending upon the entity and the province in which it operates. In certain provinces where our forestry plantations are located, the agricultural taxes are exempted or reduced. Reforestation and maintenance fees are charged at 20% of sales, but are subject to a 50% reduction and a rebate of 50% to 70%, subject to approval, if the enterprise replants the land. There is also a forest protection fee of RMB5 per cubic meter of wood harvested. No assurance can be given that these taxes and fees will not be increased in the future. According to a notice issued by the Finance Bureau, State Development Reform Committee and State Forestry Bureau on August 4, 2003, the forestry protection fee has been canceled. However, the cancellation of the forestry protection fee has not yet been fully implemented in the provinces where our forestry plantations are located.

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

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

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

In recent years, certain areas of the PRC have been adversely affected by severe flooding. In addition, the coastal areas of southern China suffer a number of typhoons each season, which lasts from July to September, which occasionally result in significant damage. Further, there have been several incidences of forest fires in Guangdong Province, in areas where we are currently conducting an evaluation of pine trees plantations pursuant to our undertaking to purchase up to 200,000 hectares of pine trees and to lease the underlying plantation lands. Dry weather conditions brought by the El Nino weather pattern in 1998 adversely affected certain areas of the world. In 1996, damage brought about by frost adversely affected the yield of eucalyptus plantations on higher altitude inland plantations in the PRC. Similar conditions may well recur in the future. 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, which may adversely affect our business, financial condition and results of operations.

Our insurance coverage may be insufficient to cover losses

Consistent with PRC forestry industry practice, we maintain insurance for only a portion of our forestry plantations. We have insurance for losses from fires, floods, typhoons and malicious damage for approximately 45,000 hectares of forestry plantations at a variety of locations in the PRC, representing approximately 19% of our total forestry plantations. We do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on uninsured forestry plantations. If we were to suffer an uninsured loss to our forestry plantations, our business, financial condition and results of operations could be materially adversely affected.

We rely on our relationships with joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities

We rely on our relationships with joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. These relationships are discussed below.

Joint Venture Partners and Contract Parties

We have joint venture arrangements with our PRC CJV Partners and contractual arrangements with China Fujian Zhangzhou Lumin Development Company (“**Zhangzhou Lumin**”) for our WFOE, which operates our forestry plantation in Fujian Province. These, and possible future joint ventures and contractual arrangements with other third parties in connection with forestry plantations in the PRC, may involve certain risks. These risks include, among others, the possibility that the joint venture partners and contract parties may be unable or unwilling to fulfill their obligations, whether of a financial nature or otherwise, under the relevant joint venture or other agreements, or that the joint venture partners or contract parties could terminate our arrangements with them before the end of the term of the relevant contract or refuse to renew such arrangements when the term of the relevant contract expires. Although we have not experienced any significant disputes with our PRC CJV Partners or contract parties, a serious dispute over joint venture and contractual obligations, timber-sharing arrangements or otherwise, or an early termination of our arrangements with them, could adversely affect our business, financial condition and results of operations.

Authorized Intermediaries

Currently, we principally rely on two authorized intermediaries for our authorized wood chips trading transactions in the PRC. We intend to reduce our reliance on authorized intermediaries going forward. Pursuant to this plan, one of our existing WFOEs will commence entering into contracts directly with suppliers of raw timber, and either process such raw timber itself, or engage third parties to do this processing on its behalf, before selling logs, wood chips and wood-based products to customers. However, we expect that a significant portion of our sales of wood chips processed from third party suppliers of timber in the PRC will continue to be performed by the authorized intermediaries on behalf of the British Virgin Islands subsidiaries. While we anticipate that we will gradually phase out their involvement in these activities, the pace of this process is not clear and we expect that we will continue to rely on authorized intermediaries in the sale of wood chips in the PRC for the foreseeable future.

Customers

A few large customers account for a significant percentage of our total revenue. During 2002, 2003 and 2004, our top five customers accounted for approximately 86%, 71% and 75%, respectively, of total revenue. For the same periods, our largest customer accounted for approximately 30%, 29% and 23%, respectively, of total revenue. These top customers are all wood dealers and our authorized intermediaries who sell logs, wood chips and wood-based products to end-user customers of these products. As a result, we expect that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a significant percentage of our total revenue. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

Suppliers

A few large suppliers account for a significant percentage of our timber supply. In 2002, 2003 and 2004, our five largest timber suppliers accounted for approximately 82%, 72% and 75%, respectively, of our total costs of sales. For the same periods, our largest supplier of timber accounted for approximately 31%, 25% and 26% respectively, of our total costs of sales. These top suppliers are all wood dealers and our authorized intermediaries. We have not entered into any long-term supply contract for supply of raw timber. Dependence on a limited number of suppliers exposes us to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on our business, financial condition and results of operations.

Service Providers

We rely to a significant extent on third party service providers for day-to-day operation of our forestry plantations. The operations performed by third party service providers include: site preparation, planting, plantation management, fertilization and harvesting. We occasionally experience seasonal labour shortages in May and September as farmers become fully engaged in the planting and harvesting of rice. If we are unable to obtain these third party service providers, at economical rates or at all, or if any of the services they provide are inadequately performed, our business, financial condition and results of operations would be materially adversely affected.

Our manufacturing plants have a short operating history and they may not be successful

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. Our manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures. Our ability to conduct and expand our manufacturing plants will depend upon our ability to, among other things:

- produce and develop high quality wood-based products that will be acceptable to customers;
- recruit and retain technical and management personnel with requisite expertise and experience in the wood-based products manufacturing industry; and
- raise working capital and fund capital expenditures for the expansion of the manufacturing plants.

Our manufacturing plants were originally expected to be completed by the end of 2002 but certain production lines were subject to delays. In 2004, we reassessed our manufacturing development plan and decided that the production lines for the manufacturing of finger-jointed board, blockboard, kitchen cabinet and composite door will not be developed as our current plan is to focus on the development of its plantation. We, however, have decided to concentrate on its manufacture's facility in Gaoyao with a plan to expand its particleboard operating capacity to 275,000 m³ from 100,000 m³, and the capability to produce 6,400,000 m² of laminated particleboard from 1,000,000 m² annually. We can give no assurance that the production lines planned at our Gaoyao manufacturing plant will be completed on schedule or that the facility will operate at planned operating capacity.

Our manufacturing plants are subject to operational risks for which we may not be adequately insured

The operation of manufacturing plants involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labour disturbances, natural disasters, environmental hazards and industrial accidents. In addition, the costs of repairing or replacing our production equipment and the associated downtime of the

affected production line may not be insured, or the level of insurance may not be adequate. The occurrence of material operational problems could have a material adverse effect on our business, financial condition and results of operations.

We are subject to risks presented by fluctuations in foreign currencies

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

Since 1994, the conversion of Renminbi into Canadian and U.S. dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The PRC government has stated publicly that it intends to make Renminbi freely convertible in the future. However, we cannot predict when the PRC government will allow free conversion of Renminbi into foreign currencies. Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because of our substantial foreign currency-denominated indebtedness, expenses and other requirements. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors.

At December 31, 2004, we have indebtedness of RMB92.5 million and \$317.3 million. Other than a currency swap agreement to fix interest payments at \$27.4 million per annum over the next five years with respect to the Non-Convertible Guarantee Senior Notes, we do not hedge exchange rate fluctuations between the Renminbi and other currencies and currently have no plans to do so.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the Canadian dollar, U.S. dollar, Euro and Hong Kong dollar, or in the U.S. dollar against the Renminbi, the Canadian dollar, the Euro 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 Canadian dollars, U.S. dollars or otherwise, of our revenue and net income.

If we lose any of our key personnel, our operations and business may suffer

We are heavily dependent upon our senior management in relation to their expertise in the forestry industry and research and development in forest plantation management practices and wood-based products manufacturing production processes, and the relationships cultivated by them with our PRC CJV Partners, major customers and others. We have no long-term contracts with any of our senior management. The departure, or otherwise loss of service, of any of our senior management could materially and adversely affect our business, financial condition and results of operations. We do not have key person life insurance policies covering any of our employees, including our senior management.

We are subject to increased credit risk and risks of provisions and write-offs as a result of our increased sales of standing timber

We began selling standing timber in 2002 and expect sales of standing timber to increase as a percentage of revenue in the future. We recognize revenue from sales of standing timber when the buyer has signed the sales contract. As a result of our sales of standing timber, our accounts receivables have increased significantly beginning in 2002. To the extent that customers that have purchased or will purchase in the future standing timber fail to pay, in a timely fashion or at all, our business, financial condition and results of operations could be materially and adversely affected.

Risks Related to the PRC

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

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

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

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

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

In addition, the growth of demand in China for forestry products depends heavily on economic growth. Between 1978 and 2004, China's GDP increased from approximately RMB362 billion to approximately RMB11,669 billion. We cannot assure, however, that such growth will be sustained in the future. In addition, since early 2004 the PRC government has implemented certain measures in order to prevent the PRC economy from overheating. Such governmental measures may cause a decrease in the level of economic activity, including demand for timber products, and have an adverse impact on economic growth in the PRC. If China's economic growth slows down or if the Chinese economy experiences a recession, the growth of demand for forestry products may also slow down or stop, and our business, financial condition and results of operations will be adversely affected.

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

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, and due to the limited volume of published cases and judicial interpretation and their lack of precedential force, interpretation and enforcement of these laws and regulations involve significant uncertainties. At present, the legal framework for the forestry plantation industry in the PRC is at an early stage of development. For example, the laws and regulations relating to the ownership, licensing and rights over forestry areas are not well developed. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal

requirements involve some uncertainty. Such uncertainty may make it difficult for us to enforce our plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, we cannot make any assurance that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our business, financial condition and results of operations.

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

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

- purchase timber imported from other countries;
- fund other business activities outside the PRC, such as the purchase of equipment for our manufacturing plants;
- service and repay our indebtedness; and
- pay out dividends to our shareholders.

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

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

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay dividends to us or to satisfy their other foreign currency requirements. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from the State Administration for Foreign Exchange, this could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

We intend for one of our existing WFOEs to process and sell logs, wood chips and wood-based products from raw timber, operate immature purchased tree plantations and conduct sales of standing timber from our purchased tree plantations once the trees mature in the RC in order to enhance our ability to obtain and remit foreign currency from our operating subsidiaries. In addition, according to the Administrative Measures Regarding Foreign Investment in the Commercial Sector promulgated by the PRC Ministry of Commerce on April 16, 2004 and effective from June 1, 2004, foreign companies are permitted to engage in trading activities in China commencing in 2005 by establishing foreign invested enterprises in China. We also intend to establish a new wholly foreign owned subsidiary company to be in compliance with the newly promulgated measures. However, there is no assurance that we will be able

to establish this new wholly foreign owned subsidiary company, or will be able to obtain the necessary business licenses and permits in the PRC.

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

A significant portion of our investments are in the form of Sino-foreign cooperative joint venture companies established in the PRC, which are subject to PRC laws and regulations applicable to foreign investment companies, and other applicable laws and regulations in the PRC. These laws and regulations may not afford investors the same legal protections available to them in Canada, the United States or elsewhere, and may be less developed than those applicable to companies incorporated in Canada, the United States and other developed countries or regions.

If our subsidiaries incorporated in the PRC are restricted from paying dividends and other distributions to us, our primary source of funding would decrease

We are a holding company with no significant assets other than our equity interests in our wholly owned subsidiaries in the PRC, Hong Kong and the British Virgin Islands. As a result, we rely on dividends paid to us by our subsidiaries and affiliated entities in the PRC, including the funds necessary to service or repay any debt we may incur. If our subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to meet our financial obligations and to pay dividends or make other distributions to us, which in turn would limit our ability to pay dividends on our shares. PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standard and regulations to fund certain reserve funds that are not distributable as cash dividends.

DIVIDEND RECORD AND POLICY

We have not declared any dividends on our shares. There are no restrictions which would prevent us from paying dividends. Any payment of dividends on our shares is at the discretion of our board of directors and is dependent upon our results of operations, financial condition, financing requirements and other factors that the board of directors deems relevant.

DESCRIPTION OF CAPITAL STRUCTURE

Share Capital

Our authorized share capital consists of an unlimited number of Common Shares and an unlimited number of preference shares issuable in series. Each holder of Common Shares is entitled to one vote at meetings of our shareholders other than meetings of the holders of another class of shares. Each holder of Common Shares is also entitled to receive dividends if, as and when declared by our board of directors. Holders of Common Shares are entitled to participate in any distribution of our net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, retraction, purchase or conversion rights attaching to the Common Shares.

Ratings

On August 17, 2004, we issued \$300,000,000 principal amount of 9 1/8% guaranteed senior notes (the “**Guaranteed Senior Notes**”) with a maturity date of August 17, 2011. The Guaranteed Senior Notes have been given a Ba2 (stable) rating by Moody's Investors Services and a BB- (stable) rating by Standard & Poor's Rating Services.

The rating on our company reflects our good business profile, which is supported by management's ability to successfully develop forestry plantations, strong demand for wood products in mainland China and adequate financial flexibility. These strengths are partially offset by our company's modest size, active acquisition program, the cyclical nature of the industry, regulatory risk in mainland China and exposure to foreign currency risk (Source: Standard & Poor's).

A rating of BB- by Standard and Poor's Ratings Service is a speculative grade in general, suggesting these bonds face exposure to adverse business or economic conditions which could lead to an issuer inadequate capacity to meet its financial commitment. A rating of Ba2 by Moody's Investors Service is also a speculative grade, suggesting the future of these bonds cannot be considered as well-assured. The ratings address our ability to perform our obligations under the terms of the Guaranteed Senior Notes and credit risks in determining the likelihood that payments will be made when due under the Guaranteed Senior Notes. A rating is not a recommendation to buy, hold or sell securities and may be subject to revision, suspension or withdrawal at any time. No assurances can be given that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders the Guaranteed Senior Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Guaranteed Senior Notes may adversely affect the market price of the Guaranteed Senior Notes.

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are listed on the TSX and trade under the stock symbols "TRE" and "TRE.S". The following table sets forth, for the periods indicated, the reported high and low prices and the average volume of trading of the Common Shares on the TSX:

Calendar Period	High	Low	Average Daily Volume
January 2004	\$5.65	\$4.45	706,949
February 2004	\$6.90	\$4.65	682,569
March 2004	\$7.12	\$2.78	1,544,076
April 2004	\$3.75	\$2.50	912,468
May 2004	\$3.79	\$2.50	597,325
June 2004	\$3.10	\$2.39	336,188
July 2004	\$3.10	\$2.27	595,546
August 2004	\$2.96	\$2.62	241,916
September 2004	\$3.45	\$2.86	284,405
October 2004	\$3.40	\$2.74	158,741
November 2004	\$3.99	\$2.77	321,933
December 2004	\$3.75	\$3.13	174,903

Prior Sales

We issued Common Shares in the following transactions during the financial year ended December 31, 2004:

1. On May 14, 2004, we issued 35,000,000 Common Shares pursuant to a public offering by way of short-form prospectus at a price of Cdn.\$2.65 for gross proceeds of Cdn.\$92,750,000.
2. On May 21, 2004, we issued 3,970,000 Common Shares at a price of Cdn.\$2.65 per share for gross proceeds of Cdn.\$10,520,500 pursuant to the exercise of the over-allotment option by the underwriter of the aforementioned public offering.
3. During the financial year ended December 31, 2004, we issued an aggregate of 200,000 Common Shares upon the exercise of certain stock options previously issued pursuant to our stock option plan. The Corporation received aggregate gross proceeds of Cdn.\$358,000 as a result of such issuances.
4. On August 17, 2004, we issued an aggregate of 1,200,000 Common Shares to certain members of our management pursuant to previously issued rights. No additional compensation was received by the Corporation at the time of such exercise.

DIRECTORS AND EXECUTIVE OFFICERS

The table presented below provides the names of our current directors and executive officers, the offices held by them and the date of their first appointment.

Name and Place of Residence	Position(s) Held	Principal Occupation	Director Since ⁽¹⁾
Allen T.Y. Chan Hong Kong	Chairman, Chief Executive Officer and Director	Officer of the Corporation	1994
David J. Horsley ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Director	Senior Vice-President and Chief Financial Officer, Cygnal Technologies Corporation, a network solutions provider	2004
Chen Hua Hong Kong	Senior Vice President, China Operations and Finance	Officer of the Corporation	-
Samuel T.W. Hui Hong Kong	Senior Vice President, Corporate Development	Officer of the Corporation	-
Alfred Hung Hong Kong	Vice President, Corporate Planning, Banking and Sales	Officer of the Corporation	-
James M.E. Hyde ⁽²⁾⁽⁴⁾ Ontario, Canada	Director	Vice President Finance and Chief Financial Officer, GSW Inc., a manufacturer and distributor of consumer durable products	2004
Albert Ip Hong Kong	Vice President, Sino-Panel (Project Management)	Officer of the Corporation	-
James A.C. Lau Hong Kong	Vice President, Sino-Panel (Asia)	Officer of the Corporation	-
R. John (Jack) Lawrence ⁽³⁾ Ontario, Canada	Director	Chairman of Lawrence & Company Inc., a private investment company	1997
Jay A. Lefton Ontario, Canada	Corporate Secretary	Partner, Aird & Berlis LLP Barristers & Solicitors	-
Alvin Lim Hong Kong	Vice President Finance and Group Financial Controller	Officer of the Corporation	-
Edmund Mak ⁽²⁾ British Columbia, Canada	Director	Real estate marketing agent, Re/Max Select Properties	1994
Zhao Wei Mao Hong Kong	Senior Vice President, China Plantation	Officer of the Corporation	-
Simon Murray ⁽³⁾ Hong Kong	Director	Chairman, General Enterprises Management Services Limited, a private equity fund management company	1999
Kai Kit Poon Hong Kong	President and Director	Officer of the Corporation	1994
Kee Y. Wong Hong Kong	Executive Vice President, Chief Financial Officer and Director	Officer of the Corporation	1997

Notes:

- (1) All our directors serve until the next annual meeting of shareholders or until such director's successors is duly elected or appointed.
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.
- (4) Member of the Corporate Governance Committee.

Prior Principal Occupations

Each of the foregoing persons has held the position shown as his principal occupation for the last five years except as follows:

Prior to joining Cygnal Technologies Corporation in September 2003, David Horsley spent an 11 year career with Canadian General Capital Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

Prior to joining our company, Samuel Hui was Chief Operating Officer of Omnicorp Limited (an investment holding company) from July 2001 until April 2003, Executive Director of WLS Holding Limited (a construction company) from April 2001 until July 2001 and Senior Vice President of First Pacific Bank from April 1997 until March 2001.

Prior to joining GSW Inc. in 2002, James Hyde was with Ernst & Young (an accounting and auditing firm) for 24 years, including twelve years as a Partner.

Prior to joining our company, James Lau was an advisor with VGI Global Media (an outdoor media advertiser and leasing agent) from June 2001 until March 2003, Chief Officer, Sales and Marketing, of Chen Hsong Machinery Co. Ltd. (a plastic injection moulding machine manufacturer) from September 2000 until May 2001 and Managing Director of The Ultimate Collection Ltd. (a kitchen manufacturer and trading company) from February 1999 until August 2000.

Prior to joining our company, Alvin Lim was an Investment Manager with Transpac Capital Limited (a private equity investment firm) from July 2000 until October 2002 and Audit Manager with Ernst & Young (an accounting and auditing firm) from November 1993 until June 2000.

Prior to joining our company, Zhao Wei Mao was General Manager with Everbright Timber (Shenzhen) Industry Co., Ltd. (a wood panel manufacturer) from October 1998 until April 2002.

Shareholdings

As at March 15, 2005, our directors and executive officers as a group beneficially owned, directly or indirectly or exercised control over, 10,287,858 Common Shares, representing approximately 7.53% of the issued and outstanding Common Shares.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed below, none of our directors or executive officers, or persons or companies that are the direct or indirect beneficial owners of, or who exercise control or direction over, more than 10% of our outstanding Common Shares, or any associate or affiliate of any of the foregoing,

has any interest, direct or indirect, in any material transactions in which we have participated during the three financial years ending December 31, 2004 or since January 1, 2005 which has materially affected or will materially affect the Corporation.

Exchangeable Notes

In 1999, Sino-Wood issued an aggregate of \$20.0 million of exchangeable notes (the “**Exchangeable Notes**”) to Ruby Worldwide Limited, a wholly owned subsidiary of General Enterprise Management Services Oriental and General Fund Limited, a Cayman Islands company, (“**GEMS Fund**”). Mr. Simon Murray, one of our directors, is a shareholder and the Chairman of General Enterprise Management Services Limited, a British Virgin Islands company (“**GEMS Management Company**”), which has an agreement to provide certain advisory, management and general administrative services to GEMS Fund. We have guaranteed the obligations of Sino-Wood under the Exchangeable Notes. As of December 31, 2003, approximately \$156,000 in principal value of Exchangeable Notes remained outstanding. In 2004, the remaining Exchangeable Notes were repaid in full together with accrued interest.

Convertible Instruments

In connection with the issuance on February 7, 2003 by Sino-Wood of \$14.0 million of convertible instruments (“**Convertible Instruments**”) comprising of convertible notes and convertible preference, Sino-Wood issued on March 10, 2003 approximately \$15.5 million of convertible notes (the “**Convertible Notes**”) in exchange for approximately \$9.8 million (having an accrued value of \$15.5 million) of Exchangeable Notes. In 2004, the \$15.5 million of Convertible Notes were redeemed together with the payment of accrued interest and applicable redemption premium. As Sino-Wood did not complete an initial public offering prior to the maturity date of the Convertible Notes, in 2004, Ruby Worldwide Limited received an additional redemption premium of approximately \$2.5 million under the Convertible Notes.

As part of the above transaction, Sino-Wood also issued to Ruby Worldwide Limited 66,325 class B shares of Sino-Wood which are convertible into ordinary shares of Sino-Wood on a one-for-one basis. In 2004, we purchased all of the outstanding class B shares held by Ruby Worldwide Limited at a price of HK\$1.00 per class B share.

Purchase of Rights from Management

In connection with our intention to effect an initial public offering and listing of Sino-Wood on the Hong Kong Stock Exchange, in March 2003, we granted rights to Allen T.Y. Chan, Kai Kit Poon and Kee Y. Wong, conditional upon completion of the initial public offering and Hong Kong Stock Exchange listing, to acquire 5% of the equity of Sino-Wood for nominal consideration (the “**Rights**”). In May 2004, although Sino-Wood had not yet completed an initial public offering and the listing of its shares on the Hong Kong Stock Exchange, our independent directors determined, in view of the public offering (the “**Offering**”) of Common Shares completed in May 2004, that it was appropriate to restructure the Rights.

Accordingly, on May 7, 2004, we agreed to purchase the Rights for an aggregate purchase price not to exceed approximately CDN\$12 million (\$9.4 million) to be paid by the future issuance of an aggregate of 2.4 million Common Shares. Of such Common Shares, 50% were issued on August 14, 2004 with the remaining Common Shares to be issued on May 14, 2005 provided that Messrs. Chan, Poon and Wong have been continuously employed by, and/or have been an officer of, our company or any of our subsidiaries until such date.

In consideration of our intention to purchase the Rights, and in recognition of the Offering, Messrs. Chan, Poon and Wong agreed to the cancellation of existing options originally granted to them in November 1997, to acquire up to approximately 8.1% of the equity of a predecessor to Sino-Panel

Holdings, Limited, one of our subsidiaries (which was subsequently changed to approximately 8.1% of the equity of Sino-Panel Holdings, Limited) for nominal consideration, including any shares issuable as a result of a public offering of Sino-Panel Holdings, Limited.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our Common Shares is CIBC Mellon Trust Company of Canada at its principal offices in the city of Toronto, Ontario.

MATERIAL CONTRACTS

The following are the contracts that are material to the Corporation that were entered into either (i) during the year ended December 31, 2004; or (ii) prior to January 1, 2004 that are still in effect, other than contracts entered into in the ordinary course of business:

1. Purchase Agreement dated August 10, 2004 between the Corporation, Morgan Stanley & Co. Incorporated and certain subsidiaries of the Corporation in connection with the issuance by the Corporation of \$300,000,000 9 1/8% Guaranteed Senior Notes Due 2011.
2. Trust Indenture dated as of August 17, 2004 between the Corporation, Law Debenture Trust Company of New York, as Trustee, and certain subsidiaries of the Corporation in connection with the aforementioned issuance of Guaranteed Senior Notes.
3. Underwriting Agreement dated May 7, 2004 between the Corporation and Morgan Stanley Canada Limited in connection with the public offering of 38,970,000 Common Shares by way of short-form prospectus.

INTERESTS OF EXPERTS

JP Management Consulting (Asia-Pacific) Ltd. (“**Jaakko Pöyry**”), an independent forestry consultant, located at 2 Battery Road, #21-01 Maybank Tower, Singapore 049907, is considered an expert in valuing forest assets and prepared reports dated February 24, 2004 and March 22, 2005 regarding the description and valuation of Sino-Wood’s plantation forest assets in Southern China. To our knowledge, the partners and associates of Jaakko Pöyry, as a group, beneficially own, directly and indirectly, less than 1% of our outstanding Common Shares.

AUDIT COMMITTEE

Audit Committee’s Charter

The charter (the “**Charter**”) of our Audit Committee is reproduced as Exhibit “A”.

Composition of Audit Committee

The Audit Committee is comprised of Mr. David Horsley, Mr. James Hyde and Mr. Edmund Mak. Each member of the Audit Committee is “independent” and “financially literate” (as such terms are defined in Multilateral Instrument 52-110 - Audit Committees (“**MI 52-110**”)).

Relevant Education and Experience

Each of Mr. Horsley and Mr. Hyde is a chartered accountant and has extensive experience in finance and accounting related positions with private and public companies. Mr. Mak is a member of the Certified General Accountants of British Columbia, holds a Masters in Business Administration from the University of Toronto and has extensive experience in financial management and corporate audit management for various Fortune 500 companies and a TSX listed company.

Reliance on Certain Exemptions

At no time since the commencement of our most recently completed financial year have we relied on any exemption described in items 4, 5 and 6 of Form 52-110F1 under MI 52-110.

Audit Committee Oversight

At no time since the commencement of our most recently completed financial year have any recommendations by the Audit Committee respecting the appointment and/or compensation of our external auditors not been adopted by our board of directors.

Pre-Approval Policies and Procedures

The terms of the Charter state that all non-audit services to be provided by our external auditor to us or any of our subsidiaries must be pre-approved by our Audit Committee or by any of its members, if so delegated by the Audit Committee.

External Auditor Service Fees (By Category)

Audit Fees - Our external auditors billed us approximately \$620,000 (a portion of such sum comprising approximately \$459,000 of prospectus related fees for the proposed listing of Sino-Wood Partners, Limited on the Hong Kong Stock Exchange) and \$811,000 (a portion of such sum comprising approximately \$523,000 of prospectus related fees for our equity offering completed in May 2004 and our offering of Guaranteed Senior Notes completed in August 2004) during the financial years ended December 31, 2003 and 2004, respectively, for audit fees.

Audit-Related Fees - We did not pay any audit-related fees during the financial years ended December 31, 2003 and 2004 for assurance and related services that are reasonably related to the performance of the audits or reviewing our financial statements and which are not included under "Audit Fees" set out above.

Tax Fees - Our external auditors billed us approximately \$31,000 and \$72,000 during the financial years ended December 31, 2003 and 2004, respectively, for services related to tax compliance, tax advice and tax planning.

All Other Fees - Our external auditors did not bill us any amount during the financial years ended December 31, 2003 and 2004, respectively, for services other than those reported above.

ADDITIONAL INFORMATION

Additional information relating to our company may be found on SEDAR at www.sedar.com.

Additional information relating to our company, including directors' and officers' remuneration and indebtedness, principal holders of our securities and securities authorized for issuance under equity

compensation plans, if applicable, is contained in our management information circular for our recent annual meeting of shareholders.

Additional financial information is provided in our consolidated financial statements and MD&A for our most recently completed year ended December 31, 2004.

Exhibit “A”

SINO-FOREST CORPORATION

(the “Corporation”)

AUDIT COMMITTEE CHARTER

1. PURPOSE

The overall purpose of the Audit Committee (the “**Committee**”) of the Corporation is to monitor the Corporation’s system of internal financial controls, to evaluate and report on the integrity of the financial statements including the management’s discussion and analysis and related press releases of the Corporation, to enhance the independence of the Corporation’s external auditor and to oversee the accounting and financial reporting processes and audits of financial statements of the Corporation.

2. COMPOSITION, PROCEDURES AND ORGANIZATION

- 2.1 The Committee shall consist of at least three members of the board of directors of the Corporation (the “**Board**”), each of whom shall be, in the determination of the Board, “independent” as that term is defined by the Canadian Securities Administrators in Multilateral Instrument 52-110 - Audit Committees, as amended from time to time.
- 2.2 All members of the Committee shall be, in the determination of the Board, “financially literate”, as that term is defined by the Canadian Securities Administrators in Multilateral Instrument 52-110 - Audit Committees, as amended from time to time.
- 2.3 At least 50% of the members of the Committee shall be resident Canadians.
- 2.4 The Board, at its organizational meeting held in conjunction with each annual meeting of shareholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a director shall cease to be a member of the Committee.
- 2.5 New Committee members will participate in such training and orientation as may be deemed by the Board or the Corporate Governance Committee to be necessary or appropriate in the circumstances.
- 2.6 Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from amongst their number.
- 2.7 The Committee shall have access to such officers and employees of the Corporation and to the Corporation’s external auditor and its legal counsel, and to such information respecting the Corporation as it considers necessary or advisable in order to perform its duties.
- 2.8 Notice of every meeting shall be given to the external auditor, who shall, at the expense of the Corporation, be entitled to attend and to be heard thereat.

- 2.9 Meetings of the Committee shall be conducted as follows:
- (a) the Committee shall meet on a regular basis, at least four times per year and at such times and at such locations as the chair of the Committee shall determine;
 - (b) the external auditor or any member of the Committee may call a meeting of the Committee;
 - (c) any director of the Corporation may request the chair of the Committee to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such director, and may participate in such meeting to the extent permitted by the chair of the Committee; and
 - (d) the external auditor and management employees shall, when required by the Committee, attend any meeting of the Committee.
- 2.10 The external auditor shall be entitled to communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee in the Corporation as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.
- 2.11 Compensation to members of the Committee shall be limited to directors' fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the Corporation (other than as members of the Board and Board committee members).
- 2.12 The Committee is authorized, at the Corporation's expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties and to set their compensation.

3. AUDITORS

The Committee shall recommend to the Board: (a) the external auditor to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation; and (b) the compensation of the external auditor.

The external auditors of the Corporation shall both report to, and ultimately be accountable to, the Committee and the Board as representatives of the shareholders. The Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

4. DUTIES

Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The Committee is responsible for reviewing management's actions in that regard. The Committee shall:

- 4.1 pre-approve all non-audit services to be provided to the Corporation or any subsidiaries by the Corporation's external auditor. The Committee may delegate to one of its members the approval of such services, in which case the items approved will be reported to the Committee at its next scheduled meeting following such pre-approval;
- 4.2 review with management and the Corporation's internal and external auditors the Corporation's financial reporting in connection with the annual audit and the preparation of the financial statements, including, without limitation, the judgment of the external auditors as to the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting;
- 4.3 review with the auditors, before completion of the annual audit of the Corporation, the financial statements and the report of the auditors thereon, in order to ensure that the auditors are satisfied with the disclosure made to them of the required information and with the content of the financial statements;
- 4.4 review and recommend to the Board of Directors for approval, prior to public dissemination:
 - (a) the financial statements of the Corporation;
 - (b) management's discussion and analysis of the financial condition and results of operations ("**MD&A**") with regard to the financial statements;
 - (c) the annual information form;
 - (d) the contents of the annual report to shareholders;
 - (e) annual and interim earnings press releases;
 - (f) all certifications that may be made by the Chief Executive Officer and Chief Financial Officer on the annual or quarterly financial results, disclosure controls and procedures and internal controls over financial reporting;
 - (g) any financial information contained in any prospectus, information circular or other disclosure documents or regulatory filings containing financial information of the Corporation; and
 - (h) any other similar disclosure filings to be made by the Corporation under the requirements of securities laws or stock exchange rules applicable to the Corporation;

The Board may delegate responsibility for the approval of the interim filings of the Corporation under (a), (b), (e) and (f) above to the Committee, who shall then be responsible for approval, prior to public dissemination.

- 4.5 be satisfied that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in paragraph 4.4 above, and must periodically assess the adequacy of those procedures;

- 4.6 review, as appropriate, any report required by the appropriate regulatory authority to be included in the annual management information circular related to the matters covered by this Charter including the disclosure of the external auditors' services and fees, Committee members and their qualifications and activities of the Committee;
- 4.7 discuss with management the Corporation's policies and procedures for managing the principal risks of its business to determine that management has identified the principal risks of the Corporation's businesses and has implemented and is maintaining systems and procedures to manage those risks;
- 4.8 review the audit plans of the internal and external auditors of the Corporation, including the degree of detail of those plans and the co-ordination between those plans;
- 4.9 review and consider, as appropriate, any significant reports and recommendations issued by the Corporation or by any external party relating to internal audit issues, together with management's response thereto;
- 4.10 review the internal control procedures to determine the effectiveness of the Corporation's internal controls and to determine that the Corporation is in compliance with legal and regulatory requirements and with the Corporation's policies;
- 4.11 review management's plans regarding any changes in accounting practices or policies and the financial impact thereof;
- 4.12 review with management, the external auditors and, if necessary, legal counsel, any litigation, claim or contingency, including tax assessments, that could have a material effect upon the financial position of the Corporation, and the manner in which these matters may be, or have been, disclosed in the financial statements;
- 4.13 meet separately with management, the external auditors and internal auditors from time to time, as it deems necessary, but not less than annually, and consider any matter that they recommend bringing to the attention of the Board;
- 4.14 review all related party transactions entered into by the Corporation;
- 4.15 review any business plans and operating and capital budgets of the Corporation;
- 4.16 establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- 4.17 review and discuss with the external auditors all significant relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the external auditors' independence, including, without limitation: (i) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to the Corporation; (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors; (iii) review and approve the Corporation's hiring policies regarding partners,

employees and former partners and employees of the present and former external auditor of the Corporation; and (iv) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence;

- 4.18 annually prepare a report from the Committee to shareholders or others, concerning the Committee's activities in the discharge of its responsibilities, when and as required by applicable laws or regulations; and
- 4.19 at least annually, perform a self-evaluation to determine the Committee's effectiveness and performance, evaluate succession plans related to Committee membership and review this Charter and, if required, recommend changes to the Board.

5. OTHER

The Committee may, at the request of the Board or on its own initiative, investigate such other matters as are considered necessary or appropriate in the circumstances and shall have the authority to (i) retain independent counsel and other advisors, as it determines necessary to carry out its duties, and (ii) set and pay the compensation for any advisors employed by the Committee.