



SINO-FOREST CORPORATION

Annual Information Form
in respect of the year ended
December 31, 2005

March 31, 2006

TABLE OF CONTENTS

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION.....	iv
THE CORPORATION.....	1
CORPORATE STRUCTURE.....	1
GENERAL DEVELOPMENT OF THE BUSINESS	4
Overview	4
Historical Milestones.....	5
DESCRIPTION OF THE BUSINESS	6
OVERVIEW	6
Vision.....	6
Market Conditions	6
Competitive Strengths	6
Strategy.....	6
BUSINESS SEGMENTS.....	7
Plantation Operations	7
Standing Timber.....	7
Wood Chips and Logs	16
Wood Based Products.....	18
Imported Wood Products.....	18
Manufacturing Operations.....	18
Flooring and Nursery Operation	20
OTHER INFORMATION	20
Selling Prices.....	21
Sales and Marketing	21
Suppliers.....	22
Transportation	22
Customers.....	22
Competition.....	22
Intellectual Property.....	25
Employees	26
Employee Benefits.....	26
Plantation Industry.....	27
Wood Panel Industry	31
Joint Venture Agreements.....	32
Zhangzhou WFOE.....	36

Plantation Purchase Agreements	36
RISK FACTORS	37
Risks Related to our Business.....	37
DIVIDEND RECORD AND POLICY	50
DESCRIPTION OF CAPITAL STRUCTURE	50
Share Capital.....	50
Ratings.....	50
MARKET FOR SECURITIES	51
Trading Price and Volume	51
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	54
TRANSFER AGENT AND REGISTRAR	55
MATERIAL CONTRACTS	55
INTERESTS OF EXPERTS.....	55
AUDIT COMMITTEE	55
ADDITIONAL INFORMATION	56
AUDIT COMMITTEE CHARTER	A-1

FORWARD-LOOKING STATEMENTS

This Annual Information Form, and the documents incorporated herein by reference, contains forward-looking statements which reflect management's expectations regarding Sino-Forest Corporation's ("Sino-Forest") future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include without limitations, the information concerning possible or assumed future results of operations of Sino-Forest set out under "Description of the Business". These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be materials, which are identified under "Risk Factors," other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. Sino-Forest does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

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\$1.163 to US\$1.00. All such H.K. dollar translations have been made at the rate of HK\$7.80 to US\$1.00. All such Renminbi translations have been made at the rate of RMB8.08 to US\$1.00. 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” or “BDMT” 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.

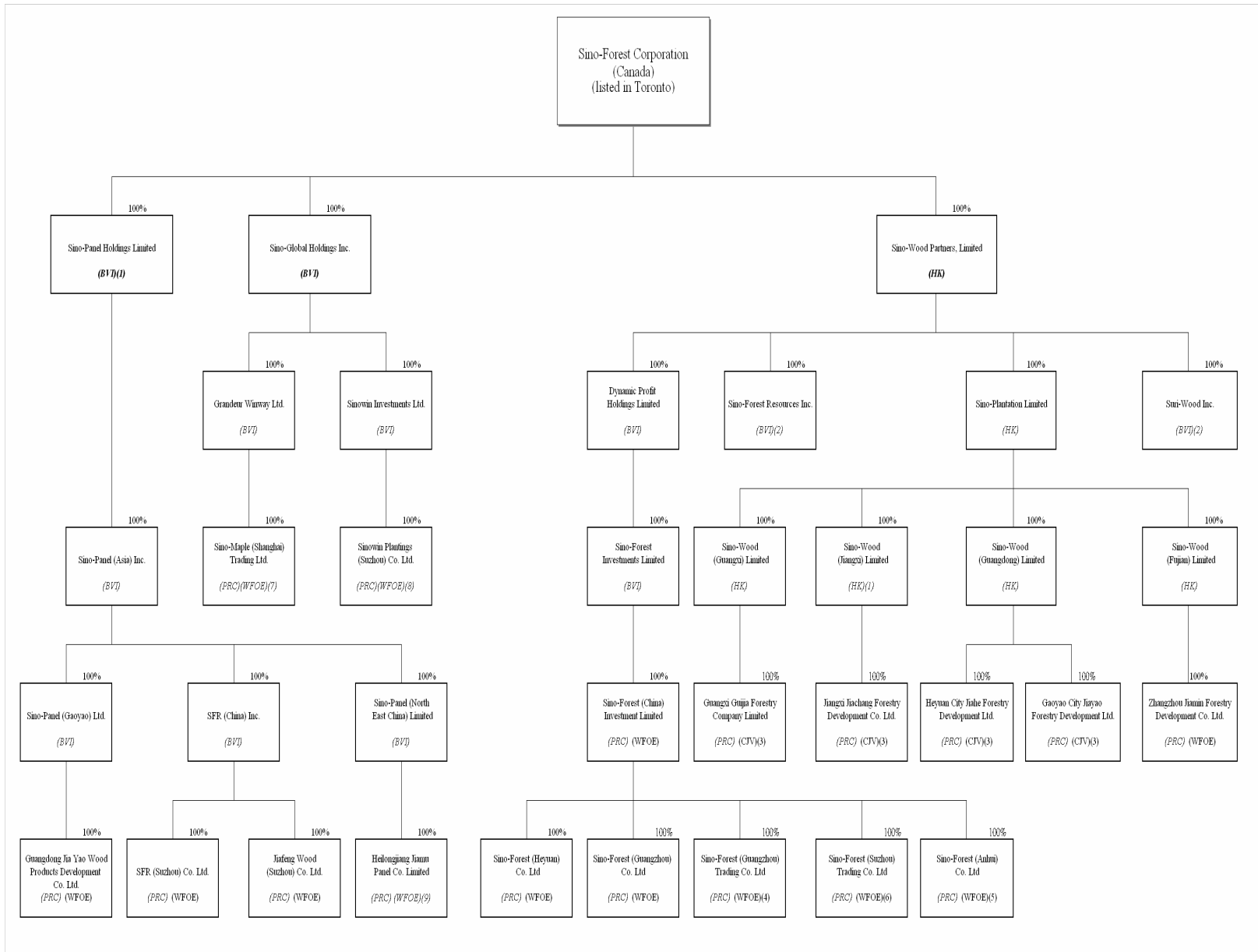
THE CORPORATION

Sino-Forest was 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 are located at 3815-29, 38/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.



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 trading activities of Sino-Forest Resources Inc. and Suri-Wood Inc. are conducted through authorized intermediaries. Sino-Forest Resources Inc. currently engages in standing timber sales and import of wood-based products while Suri-Wood Inc. engages in standing timber and wood chips sales.
- (3) For details of contractual arrangements with CJV PRC Partners, see section “Forestry Plantation Contractual Arrangements”
- (4) Sino-Forest (Guangzhou) Trading Co. Ltd., a WFOE which was established on 31 March 2005, engages in city greening projects, research and development on forestry plantation, logging, processing and sale of logs, wood chips and wood-based products, technological consultation, forestry plantation management and other related services.
- (5) Sino-Forest (Anhui) Co. Ltd., a WFOE which was established on 25 July 2005, engages in forest nursery and research and development on forestry plantation, technology transfer and related services.
- (6) Sino-Forest (Suzhou) Trading Co. Ltd., a WFOE which was established on 26 July 2005, engages in wood products, flooring and paneling business.
- (7) Sino-Maple (Shanghai) Trading Ltd., a WFOE, engages in wood products, flooring and paneling business.
- (8) Sinowin Plantings (Suzhou) Co. Ltd., a WFOE, engages in sourcing, supplying and managing landscaping products for property developers and other organizations.
- (9) Heilongjiang Jiamu Panel Co. Limited, a WFOE, engages in manufacturing and sale of OSB Board and other wood-based products.

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

We are the largest, foreign owned commercial forestry plantation operator in the PRC in terms of plantation area. The Corporation was established in 1994 and has been generating growing continually since inception by focusing on the development and supply of wood fibre to downstream consumers in the PRC operating in the wood panel, furniture, construction, interior decoration and pulp and paper industries.

Our plantations consist primarily of eucalyptus, poplar and pine forests. We have two types of forestry plantations : our own planted tree plantations and purchased tree plantations of third parties from which we purchase young trees that have not reached maturity. Our strategic goal is to produce and/or acquire on a sustainable basis 15 million cubic metres annually of wood fibre to supply to the PRC's wood panel, furniture, construction, interior decoration and pulp and paper industries.

Forestry plantations are a significant provider of wood fibre that we sell. We have a strong track record of acquiring and developing commercial forestry plantations. Since 1995, we have successfully executed our business model of purchasing and planting fast-growing trees at both purchased and planted plantations. Once we lease land at favourable forestry plantation locations, we operate plantations using advanced, environmentally prudent plantation management practices focused on the development of sustainable commercial plantations. We believe our ten-year track record in the PRC using advanced plantation management techniques is a competitive advantage in the PRC, where the commercial forestry plantation industry is comparatively underdeveloped and where there are currently limited large-scale plantations using advanced plantation management practices.

As of December 31, 2005, we have approximately 324,000 hectares of forestry plantations under cultivation with trees located mainly in southern and eastern China. Revenues are derived from three main sources as follows:

- Standing Timber Operation – we sell standing timber sourced from our purchased and planted forestry plantations;
- Wood Chips and Logs – we sell wood chips and logs sourced from PRC suppliers, and receive agency fees on the sale of wood chips;
- Wood-based Products – we source and sell imported wood based products such as logs, veneer, and sawn timber; we also manufacture and sell particleboard, melamine faced chipboard and sawn timber from our manufacturing plants; and we sell flooring and nursery products and provide forestry related services.

As of December 31, 2005, the three main sources contributed \$ 493 million in revenue and represented 48.8%, 31.6% and 19.6% respectively of total revenue.

Historical Milestones

The following are important historical milestones in the development of Sino-Forest's business:

- 1994
 - Sino-Forest Corporation formed as an Ontario corporation;
 - Began plantation operations in China; and
 - First year revenues of approximately \$20 million and total assets of approximately \$31 million.
- 1995
 - Initiated planted tree plantations business, using CJV model and entered into five CJVs, covering up to 603,000 hectares; and
 - TRE.A shares began trading on the Toronto Stock Exchange.
- 1996
 - Raised Cdn \$30 million in equity financing to fund plantation development.
- 1997
 - Purchased tree plantations model becomes the main focus because of its better economic returns.
- 1998
 - Plantation land under management reached 100,000 hectares.
- 1999
 - Began construction of manufacturing operations.
- 2000
 - Revenue exceeded \$140 million; total assets exceeded \$200 million.
- 2001
 - Plantation land under management exceeded 200,000 hectares; and
 - Obtained \$48 million funding for growth.
- 2002
 - Sales of standing timber made first significant contribution to revenues, which reached \$200 million.
- 2003
 - Raised Cdn\$17 million through issuance of convertible instruments and private placements; and
 - Converted Class B Multiple-Voting Shares into Class A Subordinate-Voting Shares (now Common Shares).
- 2004
 - Issued \$300 million, 9 1/8% Guaranteed Senior Notes due to 2011 listed on the Singapore Stock Exchange;
 - Proceeds of financing used to fund the Heyuan Pine Undertaking, an undertaking to acquire up to 200,000 hectares of mature pine tree around Heyuan City, Guangdong Province; and
 - First commercial operator in China to receive Forest Stewardship Council ("FSC") Certification for plantations located in Gaoyao, Guangdong province.
- 2005
 - Acquired 15% equity interest and invested \$15 million in the form of a subordinated loan in Mandra Forestry Holdings Limited ("Mandra"), a start-up forestry plantation company in the Province of Anhui.
- 2006
 - Entered into a syndicated loan facility with several financial institutions for a \$150 million five-year plus one day term loan. The proceeds are to be used for the acquisition of additional standing timber and logs, and for general corporate purposes.

DESCRIPTION OF THE BUSINESS

OVERVIEW

Vision

Our vision is to become a leading commercial forestry plantation operator and a preferred supplier of wood fibre to downstream consumers in the PRC operating in the wood panel, furniture, construction, interior decoration and pulp and paper industries. Our manufacturing operations are intended to complement our plantation operations and trading operations, and to create an additional source of demand for wood fibre in the PRC.

Market Conditions

Within the PRC wood fibre market, there are a number of factors that contribute to the opportunities that are available to the Corporation, including;

- strong and growing demand for wood fibre from downstream producers driven by demand for furniture, construction, interior decoration and pulp and paper;
- shortage of supply of wood fibre due to restrictions on logging of natural forests in the PRC and underdevelopment of economically viable plantations in the PRC;
- recent changes in the forestry industry favouring sustainable plantations, such as new equipment used to facilitate processing of plantation logs.

Competitive Strengths

We believe that we are well positioned to take advantage of the opportunities presented by current market conditions due to the following competitive strengths ;

- our status as the largest foreign owned commercial forestry plantation operator in the PRC in terms of plantation area with our predictable, sustainable and large-scale supply of forestry resources;
- strategic location of most of our plantations mainly in southern and eastern China;
- extensive forestry and management expertise with local knowledge of the PRC;
- systematic application of silviculture technique;
- strong research and development expertise; and
- established relationships with local forestry bureaus, other plantation owners and service providers and wood dealers in the PRC.

Strategy

In order to achieve our vision, we have developed a strategy that builds on our competitive strengths in order to realize the opportunities in the market place. The key elements of our strategy are as follows:

- focusing on acquiring additional forestry plantations and access to long-term supply of wood fibre in proximity to existing plantations in southern and eastern China as well as other areas where demand exists but where we do not yet have plantations;
- improving the yields of our forestry plantations by continued investment in research and development;

- practicing responsible environmental forestry;
- strengthening our management processes and information systems to keep pace with the growth in our business;
- maintaining our wood chips and logs and wood based products trading activities as another means of providing fibre to the consumers in the PRC;
- widening and diversifying our investor base and enhancing our corporate image and profile.

BUSINESS SEGMENTS

We view our operations as having two business segments. Plantation operations include the sale of standing timber and wood chips and logs, all of which are sourced in the PRC and are focused on providing wood fibre to the consumers in the PRC. Wood-based products operations include the sale of imported wood products such as logs, veneer and saw lumber, which are used by consumers in the PRC. Also included in this segment are our manufacturing operations and sales of flooring and nursery products.

Plantation Operations

Standing Timber

Overview

The principal source of wood fibre sold by us is from the plantations and standing timber operation. Our forestry plantations consist primarily of eucalyptus, poplar and pine forests. We have two types of forestry plantations:

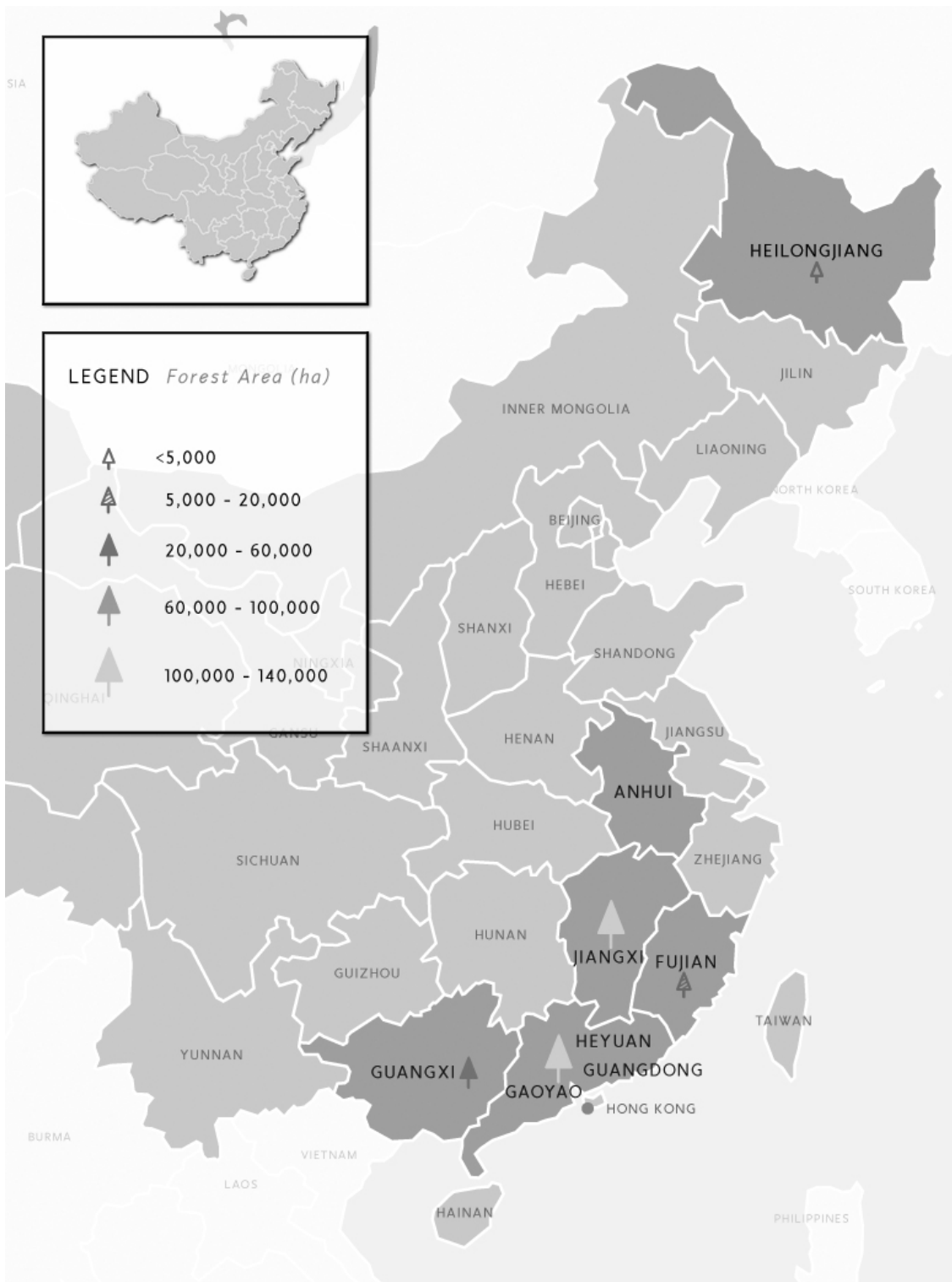
- | | | |
|----------------------------|---|--|
| Planted tree plantations | – | our own forestry plantations where we plant our trees and operate through CJVs and WFOEs under PRC law; and |
| Purchased tree plantations | – | existing forestry plantations where we purchase young trees and have rights to cultivate the land from third parties and maintain to maturity. |

Most of our forestry plantations are strategically located mainly in southern and eastern China, in the provinces of Guangdong, Guangxi, Jiangxi and Fujian. These regions have favourable climate and soil conditions for growing eucalyptus, polar 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.

As of December 31, 2005, we had a total plantation area of approximately 324,000 hectares of forestry plantations under cultivation with trees. Sales of standing timber contributed 48.8% of the total revenue in 2005.

Plantation Locations

The following map highlights the location of our forestry plantations in China.



The following table sets forth the total hectares of planted tree plantations and purchased tree plantations by geographical region as of December 31, 2005.

Location	Planted Tree Plantations	Purchased Tree Plantations
----------	--------------------------	----------------------------

	(area by thousands of hectares)	(area by thousands of hectares)
Guangdong Province Gaoyao City	6	17
Guangdong Province Heyuan City	19 <i>(Note)</i>	98
Guangxi Province	11	51
Jiangxi Province	7	108
Fujian Province	1	2
Heilongjiang Province	-	4
Total	44	280

Note :

The 19,000 hectares planted tree plantations in Guangdong Province Heyuan City include approximately 11,200 hectares planted by our WFOE.

Tree Species and Maturity

The following table sets forth our forestry plantations by tree species and maturity as of December 31, 2005.

	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)	
(area by thousands of hectares)									
Planted tree plantations	20	18	2	2	-	-	2	--	44
Purchased tree plantations	-	--	-	-	223	38	8	11	280
Total	20	18	2	2	223	38	10	11	324

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 trees species.

Eucalyptus is a high-density short-fibered hardwood tree, poplar is a low-density hardwood tree with fibres 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 centimetres) 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 centimetres) 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 fibres.

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 currently operate our planted tree plantations through our four CJVs and one WFOE under PRC law. For a further discussion of our CJVs and WFOE, see “Forestry Plantation Contractual Arrangements”.

In 2002, our forestry plantations started maturing. In 2003, 2004 and 2005, we sold approximately 373, 1,893 and 3,106 hectares of standing timber respectively. In 2003, we began with our second rotation of trees following the initial harvesting. Prior to 2002, when our plantations had not yet reached maturity, we generated all our revenue substantially from trading activities of wood chips, logs and wood-based products. As our forestry plantations mature, we anticipate that we will increase our sales of standing timber from our own plantations and the percentage of our revenue generated from these activities will increase. We intend to primarily replant with fast-growing, short rotation eucalyptus trees.

In 2005, we replanted approximately 11,200 hectares of fast-growing eucalyptus species in Heyuan, Guangdong Province. Our use of advanced forestry plantation management practices has enabled us to achieve an average yield of 90 cubic meters of wood per hectare per five-year cycle for eucalyptus trees, compared to the PRC national average of approximately 60 cubic meters of wood per hectare per five-year cycle. We believe that improved quality of planting materials and advanced plantation management techniques will enable us to improve our eucalyptus average yields further over the next two rotations.

Purchased Tree Plantations

We acquire young trees with the rights to sell them and to lease the land for replanting for a term of 30 to 50 years. The trees are purchased from authorized agents of the original owners of the plantations, which can either be collectively-owned or privately-owned tree plantations. The purchase price takes into account a variety of factors such as the size, location of the tree plantation, tree species, the yield, age and quality of the tree plantation, conditions for replanting, log prices and regional market demand.

We manage the silviculture of these trees until maturity. After harvesting, we can exercise an option to re-plant through long-term leases, subject to negotiation of the lease rate and other conditions.

We normally do not have to conduct extensive plantation management work with respect to the trees purchased, although we do take measures to ensure that the trees are protected from pests and disease, and apply fertilizer, where appropriate, depending upon the age and condition of the trees. After the trees on the purchased tree plantations reach maturity, we sell the trees as standing timber.

We will return the land to the land owners after harvesting, unless we exercise the option requiring the owner of the lands to transfer the plantation land use rights to us (or other suitable plantation land use rights with an equivalent area 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. 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 (coppicing) or clearing the land, replanting and implementing advanced plantation management. For a further description of the purchase agreements, see “Forestry Plantation Contractual Arrangements – Plantation Purchase Agreements”.

We have gradually shifted our plantation strategy from CJV with PRC partnership with 70/30 timber sharing basis to the higher-margin purchased tree plantation’s model, which generates revenue sooner and higher gross profit margins.

Heyuan Pine Undertaking

Pursuant to a letter of undertaking issued by our Heyuan PRC CJV Partner dated February 12, 2004, we could purchase mature pine trees of up to 200,000 hectares of mature trees in Heyuan, Guangdong Province until February 12, 2006, as well as 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 (“Heyuan Pine Undertaking”).

We started the acquisition project in the fourth quarter of 2004, in which an initial 30,000 hectares of mature pine trees for total cost of \$32.6 million were purchased. We purchased a further 79,824 hectares for total cost of \$87.6 million in 2005. Of the 30,000 hectares that were purchased in 2004, we sold 13,569 hectares of standing timber in the fourth quarter of 2004, generating total revenue of \$21.5 million. In 2005, we sold 64,189 hectares of standing timber, generating total revenue of \$102.8 million. In 2005, we commenced replanting of approximately 11,200 hectares of eucalyptus and plan to replant a further 25,000 to 30,000 hectares of eucalyptus in 2006.

As at December 31, 2005, we had purchased a total of 109,824 hectares of mature pine trees pursuant to the Heyuan Pine Undertaking. In the first two months of 2006, we acquired a further 15,865 hectares bringing the total to 125,689 hectares of purchases under the Heyuan Pine Undertaking. To December 31, 2005, we have sold under the Heyuan Pine Undertaking a total of 77,758 hectares of standing timber.

The indicative range for the purchase price is \$18 – \$24.50 per cubic metre and the cost for land lease is between \$21.75 – \$32.50 per hectare, per annum. Our acquisition costs are at the upper end of the indicative range of \$24.50 per cubic metre and we anticipate that it will exceed the upper end if and when we acquire additional hectares of trees going forward. For a number of reasons, including the increasing acquisition cost per hectare and the concentration risk of having such a large portion of our standing timber portfolio in one province, management has decided to adopt a more prudent approach to acquiring additional hectares under the Heyuan Pine Undertaking. If no further acquisitions are made under the Heyuan Pine Undertaking, then we will use our cash resources to continue to increase our purchased plantations in other areas. The balance of 47,931 hectares is expected to be sold over the first three quarters in 2006.

Mandra Forestry

In 2005, Sino-Forest formed an alliance with Mandra Forestry Holdings Limited by investing \$15 million in the form of a Subordinated Loan and acquiring a 15% equity interest, with the goal of gaining

access to timber in Anhui Province close to the strategically important Yangtze River Delta. Leveraging on the Corporation's track record and expertise in plantation operation, Sino-Forest will provide plantation management service for a fee and will have secured access to an inventory of Chinese fir and pine trees while earning a margin of 3% on the sale of the timber delivered by Mandra. At the earlier of three years or the acquisition of 300,000 hectares of standing timber by Mandra, Sino-Forest has the rights to purchase Mandra for fair market value at such time.

As of December 31, 2005, Sino-Forest has earned management fees of \$0.6 million. We have not purchased any timber from Mandra to-date. We expect to begin buying timber, at market price less a 3% discount, some time during 2006.

Historical Purchased Tree Plantation Purchases

The following table sets forth the purchased tree plantations purchased by us from 1997 to 2005 (area by thousands of hectares).

	1997-2000	2001	2002	2003	2004	2005	Total
Heyuan Project	--	--	--	--	30	80	110
Gaoyao (Guangdong Province)	20	7	--	4	--	6	37
Heyuan (Guangdong Province)	10	--	14	34	24	--	82
Jiangxi Province	28	10	--	11	33	48	130
Guangxi Province	11	--	5	3	24	37	80
Fujian Province & others	--	2	--	--	--	4	6
Total	69	19	19	52	111	175	445

Sales of Standing Timber

All timber sales from our forestry plantations are 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.

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. 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 and sell the timber in the form of logs, wood chips or wood-based products.

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, 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 field operations 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 increase harvesting efficiency and reduce waste through sawing and peeling.

We engage in planting the first cycle of our planted tree plantations. 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 planting trees from clones in 2000. As a result, approximately half of our forestry plantations currently consist of trees planted 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 more than 10 different clones in our forestry plantations.

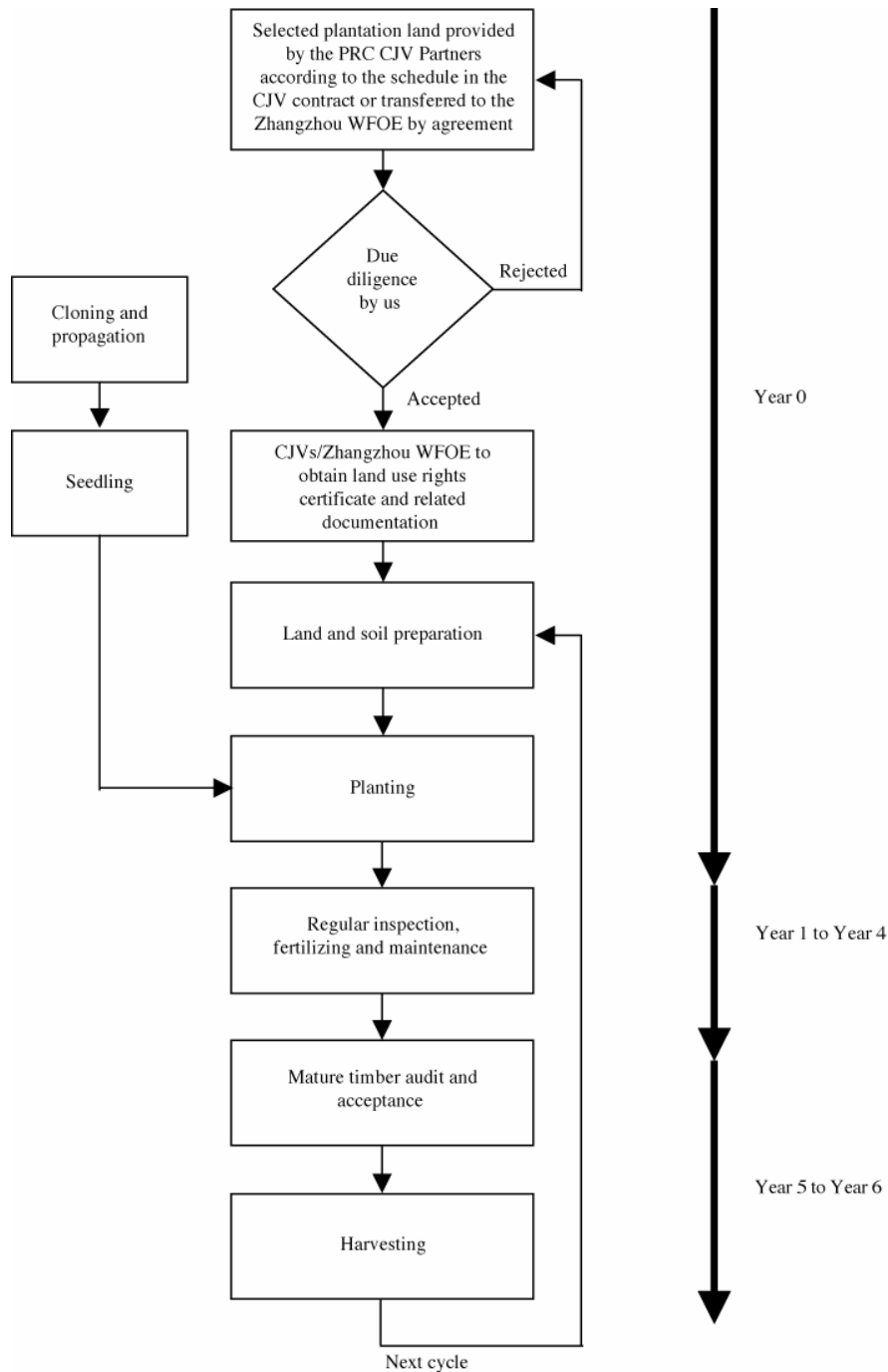
We grow cuttings or seedlings in the nursery for approximately three to four months before planting them in the forestry plantations. After site preparation, including clearing of existing plantation land or farmland, we generally plant the young seedlings, spaced two by three meters apart, in rows. 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 top-dressing fertilizer and intensively tend trees for the first three years after their planting.

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;
- superior planting material rearing, including proper clone choice, mother plant (hedge) management, cutting propagation and management, screening of cuttings;
- 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.

With respect to the 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 field 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, levelling 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.

Wood Chips and Logs

Wood Chips and Logs are the second largest revenue contributor, representing 32% of the total revenue in 2005.

We conduct our sales of wood chips and logs 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. During 2005, we engaged 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 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.

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.

For the three years ended December 31, 2005, sales transactions with these authorized intermediaries constituted approximately 57.90%, 57.70% and 29.56% for 2005, respectively, of our revenue. For the same periods, purchases from these authorized intermediaries constituted approximately 58.90%, 51.10% and 33.51% for 2005, respectively, of our total cost of sales.

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.

In the fourth quarter 2005, one of the two authorized intermediaries who process wood chips for us was acquired and ceased to provide service for us. As a result, our revenue earned during the fourth quarter 2005 from the sale of wood chips processed by authorized intermediary declined to nil from \$21.2 million in the fourth quarter of 2004. We increased the volume processed by the remaining authorised intermediary wood dealer from 303,180 BDMT generating revenue of \$28.9 million in the fourth quarter of 2004 to 328,500 BDMT generating revenue of \$34.6 million in the fourth quarter of 2005. The total volume of wood chips processed on our behalf during 2005 by the authorized intermediary that was sold was 527,720 BDMT generating revenue of \$55.7 million, compared to 732,290 BDMT generating revenue of \$69.5 million in 2004.

We are currently in the process of determining the best alternative to replace the lost production. These alternatives include finding another authorized intermediary to provide the chipping service or moving some or all of the volume to the remaining authorized intermediary.

We intend to reduce our reliance on authorized intermediaries going forward. Currently, Jia Yao WFOE engages in sales of wood chips and logs sourced from third parties in the PRC through authorized intermediaries in the PRC. We intended to transfer Jia Yao WFOE from Sino-Panel (Gaoyao) Limited to Sino-Forest (China) Investment Limited so that Jia Yao WFOE would enter into contracts with suppliers of raw timber through Sino-Forest (China) Investment Limited, instead of authorized intermediaries. With the successful establishment of Sino-Forest (China) Investment Limited and the subsequent

establishment of Sino-Forest (Guangzhou) Trading Co. Ltd. and Sino-Forest (Suzhou) Trading Co. Ltd., we believe that we would have better opportunities to engage in trading activities through Sino-Forest (Guangzhou) Trading Co. Ltd. and Sino-Forest (Suzhou) Trading Co. We anticipate that we will gradually phase out authorized intermediaries' involvement in these activities. However, the pace of such a phase-out is not clear and we expect to continue to rely on the authorized intermediary in the sale of woods chips in the PRC for the foreseeable future.

Wood Based Products

Imported Wood Products

We also engage in trading activities of wood-based products sourced from outside the PRC. These consist primarily of large diameter logs from Malaysia, Suriname, Papua New Guinea, Solomon Islands, Russia and New Zealand. In these transactions, we purchase wood-based products that correspond to the requirements of wood dealers and sell directly to these dealers. Our customers in these transactions are primarily wood dealers in the PRC, 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.

Manufacturing Operations

Overview

In 2000, we began 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 operation has a total land area of 170,000 m² and a total building area of 30,000 m². The Suzhou operation has 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 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 given the present development of our plantation business and the acquisition of mature pine trees in Heyuan. Under the revised plan, production lines to produce finger-jointed board and blockboard in the Suzhou facility will not be implemented.

The small oriented stranded board ("OSB") mill in Suzhou has been relocated to Heilongjiang where the supply of raw materials for the operation of this OSB mill can be secured much more cost-effectively. The installation has been completed and trial runs have commenced. In order to attract foreign direct investment, the local government agreed to provide Sino-Forest with land at minimal cost to house its mill in Heilongjiang. With the relocation of the OSB mill, our Suzhou manufacturing facility will be comprised of a sawmill, buildings, kiln drying equipment, and two pieces of land.

As of December 31, 2005, we had incurred approximately \$88 million in constructing our manufacturing facilities.

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 a 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 and 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 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 installation of the additional production line for particle board and melamine lamination has been completed and undergone the fine-tuning stage. The particle board line with capacity of 75,000 m² and the melamine lamination line will commence trial runs by early April 2006. The trial run for the other particle board line with capacity of 100,000 m³ is expected to take place in May 2006. The expansion capacity and lamination installation will position the Gaoyao particleboard mill as one of the largest particleboard mills in China.

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 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, Jia Yao WFOE acquired forestry plantations in the vicinity of the Gaoyao site. As of December 31, 2005, Jia Yao WFOE, had approximately 6,750 hectares of purchased tree plantations in Guangdong Province, including approximately 6,750 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.

Suzhou Operations

The Suzhou operations located at Suzhou, Jiangsu Province currently include a sawmill, buildings 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, which use it to produce timber flooring in the building industry.

In the first quarter of 2006, management finalized a plan to construct an engineered wood floor manufacturing operation in our Suzhou location. The plan will result in the integration of the sawmill and the kiln drying equipment with a new purchased flooring manufacturing operation. The facility is

expected to be constructed in two stages at a total cost of approximately \$15 million. Once completed, the facility will produce approximately 8 million m² of engineered wood flooring.

Heilongjiang Operation

In the fourth quarter of 2005, Sino-Forest established Heilongjiang Jiamu Panel Co. Limited, a WFOE, which manufactures and sells OSB and other wood-based products.

The management of Sino-Forest reassessed the merits of the OSB board operation in Suzhou and decided to relocate it to northeast China, Heilongjiang Province, close to the Russia border with abundant supply of wood fibre domestically and internationally that may be secured more cost-effectively. The annual capacity of the plant is approximately 12,000 cubic metres.

In order to attract foreign direct investment, the local government agreed to provide Sino-Forest with land at minimal cost to house its mill in Heilongjiang. In return, Sino-Forest will hire the local workforce to support the local economy. Sino-Forest has spent \$1.4 million on capital assets for this mill.

Flooring and Nursery Operation

Nursery Operation

According to China's State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the ten most polluted in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape management and supply of tree nursery products, Sino-Forest decided to pursue opportunities in this forest product business segment. With its plantation resources and expertise, the Corporation established Sinowin Plantings (Suzhou) Co. Ltd. to source, supply and manage landscaping products for property developers and other organizations.

The Nursery Operation began in 2003, with sales of \$0.2 million. For the year ended December 31, 2005, total sales from the Nursery Operations were \$2.5 million.

Flooring Operation

As China's GDP and household earnings continue to grow, allowing more middle- and high-income consumers to own and furnish apartments, Sino-Forest is well positioned to capture a share of the increasing domestic demand for flooring products. Operating under our indirect wholly-owned subsidiary, Sino-Maple (Shanghai) Trading Limited, we sell high-quality-density wood flooring targeted to various market segments, with choices of solid wood, laminated solid wood, and laminated high-density wood flooring.

The Flooring operation began in 2004, with sales of \$0.6 million. For the year ended December 31, 2005, total sales from the Flooring Operation were \$3.8 million.

OTHER INFORMATION

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.

Sales and Marketing

Substantially all of our sales are made in the PRC. We make limited export sales, primarily to Japan and Taiwan. In 2003, 2004 and 2005, 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 2003, 2004 and 2005, accounted for 5%, 4% and 2% of total sales, respectively. The remainder of our revenue consisted of export sales of wood-based products.

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 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 payment of 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.

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, Suriname, Papua New Guinea, Solomon Islands, Russia and New Zealand. In 2003, 2004 and 2005, our five largest suppliers accounted for approximately 72%, 73% and 72% of our total costs of sales, respectively. The largest supplier accounted for approximately 25%, 26% and 20% 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.

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.

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 to sales of timber from our planted tree plantations and purchased tree plantations, as of December 31, 2005, 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 2003, 2004 and 2005, our five largest customers (including authorized intermediaries) accounted for approximately 71%, 75% and 56% of our revenue, respectively. In the same periods, our largest customer (including authorized intermediaries) accounted for approximately 29%, 23% and 18% of our revenue, respectively.

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 substantially in compliance with applicable environmental laws and regulations in the PRC. There are currently no environmental proceedings against 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 9001:2000 (certification in 2002) and ISO 14001:2004 (certification in 2005) for the 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 of Forest Management certification for 5,300 hectares of forestry plantations in Guangdong Province. We plan to seek 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.

We perform research and development on a wide range of activities, including:

- genetic breeding research, including the breeding and selection of planting materials that perform better, including improved yield, quality and resistance to pests and diseases.;
- vegetative propagation technology, including lab tissue culture and nursery cutting and mass-propagation;
- site management and fertilizer application for different soil types and developing methods to optimize fertilizer application;
- improved silviculture practices, such as control of stand density, spacing and rotation;
- development of sustainable management system of commercial plantation ecosystems;
- wood properties and processing (such as change of water content and properties and of short-rotation eucalyptus plantation wood) and value-added products; and
- ecological and environmental technology, including the monitoring and evaluation of ecological and environmental conditions in short-rotation eucalyptus plantations.

In performing our research and development activities, from time to time we also collaborate with, and receive assistance from, research and academic institutions in the PRC. We collaborate with the Research Institute of Tropical Forestry, the Chinese Academy of Forestry, Forestry Academy of Jiangxi Province, Qinzhou Forestry Research Institute, Nanjing Forestry University, 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, Guangxi University and South China Agricultural University.

Our research and development division is composed of a team of nine individuals. The research and development division is headed by a Research Scientist with over 23 years of experience in forestry 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 42,000 hectares of our forestry plantations in various locations, representing approximately 13% 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, 2005, we have not experienced any significant loss or damage to our forestry plantations.

We also maintain insurance policies against risks of damage or destruction of our manufacturing facilities under Property All Risks and Public Liability Insurances. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

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, 2005, 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.

Trade Mark	Place of Registration	Registration Number	Class (Note 1)	Expiry Date
	United Kingdom	2270587	1, 16, 19, 31 & 35	21 May 2011
	Japan	4681407	1, 16, 19, 31 & 35	13 June 2013
	PRC	1750184	1	20 April 2012
	PRC	3019215	16	27 March 2013
	PRC	3019216	19	27 March 2013
	PRC	1797519	31	27 June 2012
	PRC	1951979	35	6 January 2014

Class Specification :

Class 01 : Chemicals products and substances for use in the manufacture of paper; wood-pulp, cellulose.

Class 16 : Paper, cardboard and goods made from these materials; wood-pulp board for stationery, wood-pulp paper.

- Class 19 : Wood; semi-worked wood; timber; wood solids (compact wood); wood-pulp board for buildings; buildings materials; board for the construction of buildings; coverings for buildings.
- Class 31 : Agricultural, horticultural and forestry products and grains; raw woods; wood chips for the manufacture of wood-pulp.
- Class 35 : Import-export agencies, advice relating to business organization and planning; supervision of business, business research and business surveys; business appraisals, provision of business information and business inquiries, business management, business management advice and assistance, market research; evaluation of standing timber; advisory and consultancy services relating to all the aforesaid services.

Employees

As of December 31, 2005, we had 783 full-time employees. The following table sets forth the number and location of our employees according to category as of December 31, 2005.

	Canada	Hong Kong	PRC	Total
Executives and Senior Management	1	3	14	18
Plantation Operation (1)	—	1	95	96
Personnel and Administration and IT	1	9	97	107
Finance, Accounting and Risk Management	1	5	44	50
Corporate and Organization Development	—	11	5	16
Sales and Marketing (import trading)	—	3	59	62
Research & Development and Environmental	—	5	4	9
Manufacturing (2)	—	6	419	425
Total	3	43	737	783

Notes :

- (1) Plantation Operation comprises of staff working in plantation, forestry project, quality control and purchase related to plantations, including forestry engineers, technicians, and forester.
- (2) Manufacturing comprises of staff such as engineers, technicians, factory workers, quality control and purchase personnel and warehouse and security guards.

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, life and medical insurance schemes to our Hong Kong employees. We also provide corporate business travel 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 plantation land for use as commercial forestry plantations
Plantation Tree Ownership Rights	Right to own the trees on commercial forestry plantations
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 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.

Plantation Land Use Rights Certificates

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.

Plantation Ownership Certifications for our Purchased Tree Plantations

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, Zhangzhou WFOE and Heyuan WFOE has obtained approval from the forestry departments at the provincial level guaranteeing its logging quota target. 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, Zhangzhou WFOE and Heyuan 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

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.

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 Lu Chen Technology Co. Ltd (formally known as 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, 2005, the PRC CJV Partners have contributed plantation land use rights for approximately 80,000 hectares of plantation land in the PRC, of which approximately 32,000 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, 2005, 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	11,000
Jiangxi	250,000	20,000	8,000
Gaoyao	33,000	13,000	6,000
Heyuan	50,000	8,000	7,000
Total	583,000	80,000	32,000

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.

Recent Development

In order to simplify our structure, we are currently in discussions with our four PRC CJV Partners in connection with our proposal to terminate the respective CJV contracts. With the exception of Heyuan CJV, we anticipate that we will buy out the entire interest of each of the PRC CJV Partners and convert the CJVs into WFOEs which are intended to be held under Sino-Forest (China) Investment Limited. Regarding the Heyuan CJV, we plan to buy the entire interest of Heyuan PRC CJV and transfer the Heyuan CJV assets to Heyuan WFOE. The Heyuen WOFE was established in September 2004 and is wholly-owned by Sino-Forest (China) Investment Limited. With the assistance of the PRC CJVs Partners, we are negotiating with the local farmers and collective organizations to enter into new plantation land lease contracts.

We anticipate that the termination of the four CJVs contracts and the conversion of the CJVs into WFOEs will be completed by the end of 2006.

Once these four “CJVs-converted-WFOEs” together with Zhangzhou WFOE become subsidiaries

of Sino-Forest (China) Investment Limited, and 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, should be able to distribute its after tax profits to its non-PRC incorporated parent companies. These payments of dividends are currently exempted from PRC withholding tax, and do not require approval from the State Administration for Foreign Exchange.

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, 2005, we operated approximately 416 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.

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 31, 2005, we had approximately 44,000 hectares of planted tree plantations. As of December 31, 2005, we also had approximately 280,000 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. Pursuant to the Heyuan Pine Undertaking we could purchase mature pine trees on up to 200,000 hectares of mature purchased tree plantations until February 12, 2006. We had purchased in aggregate 125,685 hectares of mature pine trees until the end of February 2006. The indicative range for the purchase price is \$18 – \$24.50 per cubic metre and cost of land lease is between \$21.75 – \$32.50 per hectare, per annum. Our acquisition costs are at the upper end of the indicative range of \$24.50 per cubic metre and we anticipate that it will exceed the upper end if and when we acquire additional hectares of trees going forward. For a number of reasons, including the increasing acquisition cost per hectare and the concentration risk of having such a large portion of our standing timber portfolio in one province, management has decided to adopt a more prudent approach to acquiring additional hectare under the Heyuan Pine Undertaking. If no further acquisition are made under the Heyuan Pine Undertaking, then we will use our cash resources to continue to increase our purchased plantations in other areas. The balance of 47,927 hectares are expected to be sold over the first three quarters in 2006.

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 583,000 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. If we are unable to find suitable replaced plantations, our consideration not to pursue to acquire the rest of tree plantations under the Heyuan Pine Undertaking may also have an adverse impact on our ability to meet our plan to develop our forestry plantation business.

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 5 to 12 years, depending upon the tree species. In 2003, 2004 and 2005, we incurred approximately \$89 million, \$173 million and \$268 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 have discontinued 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 installation of the additional production lines for particleboard and melamine lamination has been completed and undergone the fine-tuning stage. The particle board line with capacity of 75,000 m² and the melamine lamination line will commence trial runs by early April of 2006, The trial run for the other particle board line with capacity of 100,000 cubic meter will take place in May of 2006. As of December 31, 2005, we had incurred approximately \$88 million in constructing our manufacturing facilities in the PRC. 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 and internal controls

As of December 31, 2005, we had 355 employees (excluding manufacturing staff) 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 these measures, 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. Compliance with 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 pre-emptive 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.

In order to simplify our structure, we are currently in discussions with our four PRC CJV Partners regarding our proposal to terminate the respective CJV contracts. We anticipate that the termination of the four CJV contracts and the conversion of the CJVs into WFOEs will be completed by the end of 2006. Once the conversion is complete, our WFOEs will need to obtain plantation land use rights certificates for the forestry plantations to be contributed to the WFOEs. There can be no assurance that WFOEs will be able to provide us with the necessary plantation land use rights certificates.

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. Currently, we have obtained part of the new plantation rights certificates mainly from the Jiangxi and Guangdong Provinces. 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 cancelled. However, the cancellation of the forestry protection fee has not yet been fully implemented in the provinces where our forestry plantations are located.

Estimation of the Company's provision for income and related taxes

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises. In accordance with Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to corporate income tax as a foreign investment enterprise. Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements made with the AI, the AI are responsible for paying all PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities, including but not limited to, corporate income tax, value-added tax and business tax. Accordingly, the BVI Subsidiaries are not required to and therefore did not directly pay any PRC taxes with respect to the profits earned in the PRC. The relevant income remitted to the Company should have already been taxed and not subject to additional PRC taxes.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes as required on the Authorized Sales Activities on behalf of the BVI Subsidiaries, they may attempt to recover the applicable PRC taxes or any shortfall from the BVI Subsidiaries. Since the BVI Subsidiaries are unable to ascertain whether the AI have properly handled such tax settlements and/or able to recover relevant PRC taxes required to be paid by the BVI Subsidiaries from the AI, a provision for the corporate income tax at an amount representing management's best estimate of the amount the PRC tax authorities might seek to recover, is recognized in the financial statements each year. The yearly provision is reversed to the income statement after a period of three years based on management's best estimate of the liability. This means that the Company always maintains a three-year provision for tax on the profits earned from the Authorized Sales Activities of the three most recent years.

As at December 31, 2005 the balance of the provision for these tax related liabilities amounting to \$25,379,000 (2004 – \$17,936,000) was provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

The provision for income taxes and tax related liabilities is subject to a number of different estimates and judgment made by management. A change in these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by both domestic and foreign tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, changes in tax treaties between various tax

jurisdictions in which the Company operates. Due to the absence of a tax treaty between the PRC and Hong Kong, it is probable that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to three years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

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

Management evaluates the provision for tax related liabilities on an annual basis or as necessary and believes adequate but not excessive provision for tax related liabilities has been recognized in the financial statements.

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:

- unfavourable 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. 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 occur 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 under Growing Timber Insurance for losses from fires, lightning, aircraft, explosion, floods, windstorm, subterranean fire and malicious damage for approximately 42,000 hectares of forestry plantations in various locations in the PRC, representing approximately 13% 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 also maintain insurance policies against risks of

damage or destruction of our manufacturing facilities under Property All Risks and Public Liability Insurances. We maintain level of fire insurance in amounts that we consider to be appropriate for such risks. Such insurance is subject to deductibles that we consider reasonable and not excessive given the current insurance market environment. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

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.

In order to simplify our structure, we are currently in discussions with our four PRC CJV Partners regarding our proposal to terminate the respective CJV contracts. We anticipate that the termination of the four CJV contracts and the conversion of the CJVs into WFOEs will be completed by the end of 2006. Once the conversion is complete, there can be no assurance that WFOEs are able to serve as adequate replacement of PRC CJV Partners.

Authorized Intermediaries

In previous years, and during most of 2005, we relied on two authorized intermediaries for our authorized wood chips trading transactions in the PRC. In the fourth quarter of 2005, one of the two authorized intermediaries who process wood chips for us was acquired and ceased to provide service for us. We are currently in the process of determining the best alternative to replace the lost production. These alternatives include finding another authorized intermediary to provide the chipping service or moving some or all of the volume to the remaining authorized intermediary. For the year ended December 31, 2005, revenue generated from wood chip sales processed by this authorized intermediary totalled \$55.7 million. 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, woods 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 remaining authorized intermediary 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 the authorized intermediary in the sale of woods chips in the PRC for the foreseeable future.

Customers

A few large customers account for a significant percentage of our total revenue. During 2003, 2004 and 2005, our top five customers accounted for approximately 71%, 75% and 56%, respectively, of total revenue. For the same periods, our largest customer accounted for approximately 29%, 23% and 18%, 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 2003, 2004 and 2005, our five largest timber suppliers accounted for approximately 72%, 73% and 72%, respectively, of our total costs of sales. For the same periods, our largest supplier of timber accounted for approximately 25%, 26% and 20%, 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 to concentrate on our manufacture's facility in Gaoyao with a plan to expand its particle

board 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 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, 2005, we have indebtedness of RMB113.6 million and \$327.3 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 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 or 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 RMB14 trillion. The annual per capital GDP had also risen during this period, from RMB379 to RMB10,502. The central government has been prompt to take corrective measures and actions to stabilize the country's economy and any possible social unrest. After the country's soft landing from an overheating economy, the central government implemented various measures in strengthening and improving macroeconomic regulation and slowly pushing forward reform programmes to create stable momentum growth. We cannot assure that such growth will be sustained in the future. In addition, there have been concerns about rising labour demand, shrinking supply of traditional unskilled labour and increase in workforce wages. While the rise in wages may increase consumption power, it may increase inflationary pressures in the economy. The reform programmes and shortage of supply of labour may have an adverse impact on 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 provide 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.

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 2005	\$4.56	\$3.32	574,844
February 2005	\$4.30	\$3.93	725,014
March 2005	\$4.25	\$3.25	380,005
April 2005	\$3.24	\$3.12	488,650
May 2005	\$3.51	\$2.46	285,027
June 2005	\$3.10	\$2.61	192,618
July 2005	\$2.97	\$2.67	250,680
August 2005	\$2.89	\$2.51	262,156
September 2005	\$3.43	\$2.69	294,552
October 2005	\$3.44	\$2.95	543,735
November 2005	\$4.39	\$3.20	879,268
December 2005	\$5.40	\$4.17	873,190

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 Ontario, Canada	Senior Vice President and Chief Financial Officer	Officer of the Corporation	-
Chen Hua China	Senior Vice President, China Operations and Finance	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⁾⁽³⁾ British Columbia, Canada	Director	Real estate marketing agent, Re/Max Select Properties	1994
Thomas M. Maradin Ontario, Canada	Vice President, Risk Management	Officer of the Corporation	-
Zhao Wei Mao China	Senior Vice President, China Plantation	Officer of the Corporation	-
Judson Martin ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Director	Consultant	2006
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	Vice Chairman 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 and Nominating 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 our company, David Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent a 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 in 2002, Chen Hua was the board chairman and general manager of Suzhou New-Developed Area Economic Development Group in the PRC. Ms Chen had also served as deputy director of Suzhou New-Developed Area Supervisor Committee, vice-chairman of Suzhou Commercial Bank, director of Jiangsu Fujitsu Communication Company and director general of the Auditor Bureau of Suzhou New-Developed Area.

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 a private equity investment firm from July 2000 until October 2002 and Audit Manager with an international 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 August 1988 until April 2002.

Judson Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis") from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the Board of Directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 to June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is Chairman of Skypower Wind

Energy Fund LP and serves as Chair of the audit committee.

Thomas Maradin joined our company as Vice-President, Risk Management on September 1, 2005. Prior to joining our company, Mr. Maradin was a senior consultant to several multinational companies from January 1, 2001 until September 1, 2005, where his responsibilities included strategic planning, system implementations, restructuring of business units, financial reporting and internal control and regulatory compliance; he spent a 15 year career with Ernst & Young LLP, where, most recently he served as Principal managing a professional services practice.

Shareholdings

As of March 15, 2006, our directors and executive officers as a group beneficially owned, directly or indirectly or exercised control over, 10,287,858 Common Shares, representing approximately 7.46% 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, 2005 or since January 1, 2006 which has materially affected or will materially affect the Corporation.

Exchangeable Notes

In 2003, Sino-Wood 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. Ruby Worldwide Limited is 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, which has an agreement to provide certain advisory, management and general administrative services to GEMS Fund *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 each of August 14, 2004 and May 14, 2005. 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, 2005; or (ii) prior to January 1, 2006 that are still in effect, other than contracts entered into in the ordinary course of business:

1. 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 issuance of \$300,000,000 9 1/8% Guaranteed Senior Notes Due 2011, as amended by the Second Supplemental Indenture dated February 24, 2006.
2. Subordinated Loan Agreement dated May 11, 2005 among (1) Sino-Forest Investments Limited, an indirect wholly-owned subsidiary of the Corporation, as lender, (2) Mandra Forestry Holdings Limited, as borrower, and (3) JP Morgan Chase Bank N.A., as trustee, to finance the borrower in an aggregate amount of \$15,000,000 for the purposes of acquisition of forestry assets in Anhui Province.
3. Share Subscription Agreement dated May 11, 2005 between Sino-Forest Investments Limited and Mandra Forestry Holdings Limited pursuant to which Sino-Forest Investments Limited will purchase and subscribe from Mandra Forestry Holdings Limited 15% issued shares of Mandra Forestry Holdings Limited.

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, March 22, 2005 and March 8, 2006 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.

The auditors of Sino-Forest are BDO McCabe Lo & Co., Certified Public Accountants. Sino-Forest consolidated financial statements as of December 31, 2005 and for the year then ended have been filed under National Instrument 51-102 in reliance on the report of BDO McCabe Lo & Co., Certified Public Accountants, given their authority as experts in auditing and accounting. As of March 31, 2006, the partners and employees of BDO McCabe Lo & Co. as a group did not beneficially own, directly or indirectly, any of Sino-Forest’s outstanding securities.

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. James Hyde, Mr. Edmund Mak and Mr. Judson Martin. 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

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. Mr. Martin has obtained extensive experiences in finance and accounting related positions, including being a Chief Financial Officer at Alliance Atlantic, MDC Corporation, Brookfield Development Corporation and Trizec Corporation.

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 \$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) and \$315,000 during the financial years ended December 31, 2004 and 2005, respectively, for audit fees.

Audit-Related Fees - We did not pay any audit-related fees during the financial years ended December 31, 2004 and 2005 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 \$72,000 and \$69,000 during the financial years ended December 31, 2004 and 2005, 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, 2004 and 2005, 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, 2005.

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.