Sino-Forest Corporation

First Quarter Report 2006

Three Months Ended March 31, 2006

(Unaudited)

Report To Shareholders
(All amounts are expressed in U.S. dollars, unless otherwise indicated)

Sino-Forest's net income increased 22.3% to $9.5 million in the three months ended March 31, 2006 compared to $7.7 million in the first quarter 2005, and diluted earnings per share $0.07 compared to $0.06. Revenue increased 30.7% to $98.9 million in the first quarter of 2006. EBITDA rose to $42.2 million – representing an increase of 16.4%. Our gross profit increased 8.8% to $22.4 million in the first quarter this year, however, gross profit margin decreased to 22.7% in the first quarter of 2006, compared to 27.2% last year. Cash flows from operating activities increased 45.2%, to $55.8 million in the first quarter of 2006.

We are pleased with the continuing strong performance that Sino-Forest has achieved in this quarter. We had our efforts focused on several business matters during the first quarter of 2006. Firstly, we continued to make good progress on the completion of our particleboard manufacturing facility in Gaoyao, and we expect the new facility to be completed by the second half of 2006. Secondly, we began shifting a certain amount of wood chipping volume previously produced by one of our two authorized intermediaries to the remaining one. In addition, we significantly increased revenue from imported wood products.

Beginning this quarter, we have re-organised the reporting of our business segments to reflect our role as a key wood fibre supplier and provider of value-added wood products through our manufacturing operations.

Wood Fibre Operations – include standing timber, wood chips and logs, commission income generated from selling wood chips & logs, and imported wood products.

- Revenue from sales of standing timber increased 22.8% to $43.5 million in the first quarter of 2006. The increase in revenue was due to the sale of 32.9% more hectares of standing timber, slightly offset by a 7.5% reduction in the average selling price per hectare.
- Revenue from sales of wood chips and logs were $11.7 million in the first quarter of 2006, compared to $18.5 million last year, down 37.2%. The related drop in revenue was partly offset by the 3.8% increase in price obtained per bone dry metric ton at $108 in 2006, compared to $104 in 2005.
- Revenue from sales of imported wood products increased 96.7%, from $20.2 million in the first quarter of 2005 to $39.7 million in the first quarter of 2006.

Manufacturing and Other Operations, include particleboard, flooring and nursery. Revenue increased 166.5% from $1.5 million in the first quarter of 2005 to $4.0 million in the first quarter of 2006.

The economy in China and the market for wood products and logs continue to be strong as we witnessed from the upward pricing trend.

The central government in China has set out its 11th Five-Year Plan for 2006 to 2010, in which it pledged to improve rural area poverty. One of the Plan's priorities is to develop interior, rural regions by creating regional economic markets. We are therefore adapting and adjusting our business strategy to align it with the government's Plan – looking into regions in central and northern part of China, and to be the "first mover" to secure long-term, economically viable wood fibre.

Allen T.Y. Chan
Chairman and Chief Executive Officer

May 11, 2006

Q1 2006 FINANCIAL RESULTS

Management's Discussion and Analysis

May 11, 2006

The following Management's Discussion and Analysis (MD&A) relates to the financial condition and results of Sino-Forest's operations for the three months period ended March 31, 2006. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with Sino-Forest's interim consolidated financial statements and notes thereto for the three months period ended March 31, 2006. The United States dollar is our reporting currency and all figures contained herein are in United States dollars unless otherwise indicated.

Additional information relating to our company, including our annual information form for the year ended December 31, 2005 is available on SEDAR at www.sedar.com.

Forward-looking Statements

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

Overview of Business

Introduction

We are the leading foreign owned commercial forestry plantation operator in the People's Republic of China ("PRC") in terms of plantation area. As at March 31, 2006, we had approximately 345,000 hectares of forestry plantations located mainly in southern and eastern China. We have been operating forestry plantations in the PRC since 1995. We are focused on the development and supply of wood fibre to meet the increased demand from manufacturers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC. Our manufacturing plants are intended to complement our forestry plantations and trading operations, and to create an additional source of demand for wood fibre in the PRC.

We currently sell standing timber from our planted tree plantations and purchased tree plantations, wood chips and logs and wood-based products. We also earn commission income from agency services in the sale of wood chips. Imported wood products include the sale of imported wood-based products such as logs, veneer and sawn timber. Manufacturing and other operations include the sale of particleboard and melamine faced chipboard from our manufacturing plants and the sale of flooring and nursery products and services.

The standing timber, wood chips and logs and wood-based products that we sell, directly or through authorized intermediaries, are used in the PRC to produce a variety of wood-based products in the wood panel, furniture, construction, interior decoration and pulp and paper industries. In general, we sell the larger diameter portion (i.e. 14 centimetres or above) of the trees as logs to solid-wood furniture manufacturers, and the smaller diameter portion (i.e. below 14 centimetres) of trees as wood chips to wood panel manufacturers and pulp and paper mills.

We sell standing timber by hectare. Prices per hectare of standing timber vary according to a variety of factors, including the yield, age and species of the trees sold.

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 Company, 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; and
- recent changes in the forestry industry favor 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 techniques;
- 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

Our eleven year strong track record, demonstrated our successful strategy in building up a viable business. In order to achieve our vision, we have to be at the forefront of the competition and market place, by moving into inner lands to seize up strategic locations to realize opportunities in the market place. We will continue to focus on the elements that made us successful:

- focusing on acquiring additional forestry plantations and access to long-term supply of wood fibre in China where regional markets will be potentially located, as well as other areas where demand exists but where we do not 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-based business to complement our standing timber plantation and provide fibre as alternate means; and
- widening and diversifying our investor base and enhancing our corporate image and profile.

Key Factors Affecting Our Business

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. 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 market 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;
- interest rates;
- governmental regulations and policies;
- 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. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

The success of our business depends upon the productivity of our forestry plantations and our ability to realize our expected yields. Forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease and pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain and improve our yields will depend on these factors and the results of our research and development efforts.

We rely on our relationships with joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on our joint venture partners to, among other things, fulfill their obligations under the agreements. We rely on authorized intermediaries for our wood chips and trading activities. We rely on a few large customers for a significant percentage of our total revenue. We rely on a few large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

We are heavily dependent upon our senior management in relation to their expertise in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes and relationships cultivated by them with our PRC CJV partners, major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. 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.

The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of our control. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our forestry plantations are located.

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

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

Components of Income Statement Items

Revenue

We derive our revenue from the following sources:

Wood Fibre Operations

Standing Timber

- selling standing timber sourced from our purchased and planted forestry plantations

Wood Chips and Logs

- selling wood chips and logs sourced from PRC suppliers and receiving agency fees on the sale of wood chips

Imported Wood Products

- selling imported wood-based products such as logs, veneer, sawn timber

Manufacturing and Other Operations

- selling particleboard, melamine faced chipboard and sawn timber from our manufacturing plants; selling flooring and nursery products and services

Cost of Sales

Our cost of sales consists of: (1) depletion of timber holdings as they are sold; (2) the costs of logs used as the raw materials in our sales of wood chips; (3) processing fees and administrative charges associated with wood chip sales; (4) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (5) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

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

Significant Business Activities

Significant activities that have occurred during the period ended March 31, 2006 and to the date of this report were as follows:

Appointment of Director

In February 2006, the Company announced the appointment of Mr. Judson Martin to its Board of Directors to replace Mr. David Horsley who resigned as a result of becoming the Company's Senior Vice President and Chief Financial Officer.

Syndicated Loan Facility

In February 2006, the Company announced the signing of a US$150 million 5-year and one day Loan Facility, bearing interest at LIBOR plus between 0.80% and 1.50% depending on consolidated debt to EBITDA. The facility will be primarily used for the acquisition of additional standing timber and logs and for general corporate purpose. As at May 11, 2006, $50 million of the available facility has been drawn down.

Selected Consolidated Financial Information

First Quarter Financial Information

The following table sets forth the selected unaudited financial information for the three months ended March 31, 2006 and 2005 and our financial position as at March 31, 2006 and December 31, 2005.

(in thousands, except earnings per share and common shares outstanding)	**2006** $	2005 $
Operating Results		
Revenue	**98,864**	75,645
Cost of sales	**76,458**	55,045
Gross profit (1)	**22,406**	20,600
Net income from operations	**15,813**	15,757
Net income	**9,464**	7,736
EBITDA (2)	**42,202**	36,255
Basic earnings per share	**0.07**	0.06
Diluted earnings per share	**0.07**	0.06

	As at March 31	As at December 31

	2006	2005
	$	$
Financial Position		
Current assets	**272,173**	277,340
Non-current assets	**677,974**	617,931
Total assets	**950,147**	895,271
Current liabilities	**120,791**	127,262
Long-term debt	**350,000**	300,000
Total shareholders' equity (net assets)	**479,356**	468,009
Cash dividends declared per share	**Nil**	Nil
Common shares outstanding	**137,789,548**	137,789,548

Quarterly Financial Information

Our business is seasonal. Generally, the third and fourth quarters together account for approximately 60% of annual revenue, while the first and second quarters together account for approximately 40% of annual revenue. This reflects the desire of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, as well as the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended March 31, 2006.

			Earnings Per Share	
	Revenue	Net Income	Basic [(3)]	Diluted [(4)]
(in thousands, except per share amounts)	$	$	$	$
2006				
March 31	**98,864**	**9,464**	**0.07**	**0.07**
2005				
December 31	170,411	27,535	0.20	0.20
September 30	144,359	33,175	0.24	0.24
June 30	102,886	13,241	0.10	0.10
March 31	75,645	7,736	0.06	0.06
2004				
December 31	130,629	20,144	0.15	0.15
September 30 [restated]	94,715	14,016	0.11	0.11
June 30	64,818	12,742	0.11	0.09

Results of Operations – Q1 2006 vs Q1 2005

Revenue

The following table sets forth the breakdown of our total revenue for the first quarters ended March 31, 2006 and 2005:

Revenue	**2006**		2005	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Standing timber	**43,492**	**44.0**	35,415	46.8
Wood chips and logs	**11,636**	**11.8**	18,533	24.5
Imported wood products	**39,723**	**40.2**	20,191	26.7
Manufacturing and Other Operations	**4,013**	**4.0**	1,506	2.0
Total revenue	**98,864**	**100.0**	75,645	100.0

Revenue increased 30.7%, from $75.6 million in the first quarter of 2005 to $98.9 million in the first quarter of 2006. The significant increase was due primarily to increases in revenue from standing timber and imported wood products partially offset by a decline in revenue from wood chips and logs.

Wood Fibre Operations Revenue

Standing Timber

For the first quarters ended March 31, 2006 and 2005, standing timber sales were as follows:

Standing Timber	**2006**			2005		
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**4,557**	**2,954**	**13,460**	3,631	3,955	14,360
Heyuan Pine Undertaking	**17,291**	**1,664**	**28,770**	13,032	1,586	20,669
Planted plantations	**769**	**1,641**	**1,262**	361	1,069	386
Total	**22,617**	**1,923**	**43,492**	17,024	2,080	35,415

Revenue from sales of standing timber increased 22.8%, from $35.4 million in the first quarter of 2005 to $43.5 million in the first quarter of 2006. The increase in revenue was due to the sale of 32.9% more hectares of standing timber offset by a 7.5% reduction in the average selling price per hectare.

In the first quarter of 2006, we sold 22,617 hectares compared to 17,024 hectares in the first quarter of 2005, an increase of 32.9%. The average selling price in the first quarter of 2006 was $1,923 per hectare compared to $2,080, a 7.5% decrease. The decrease in the average selling price was due to the sale of 2,307 hectares of acacia purchased plantations which has a shorter growing cycle than the pine which we generally sold from the purchased plantations.

Standing timber sales comprised 44.0% of total revenue in the first quarter of 2006, compared to 46.8% in the first quarter of 2005.

Wood Chips and Logs

The following table sets forth revenue from wood chips and logs for the first quarters ended March 31, 2006 and 2005.

Wood Chips and Logs	**2006** **BDMT**	**Average selling price**	**Revenue**	2005 BDMT	Average selling price	Revenue
		$	**$'000**		$	$'000
Wood chips	**96,230**	**108**	**10,360**	162,790	104	16,868
Wood logs			**—**			39
Commission	**84,240**	**15**	**1,276**	112,170	14	1,626
Total			**11,636**			18,533

Revenue from sales of wood chips and logs decreased 37.2%, from $18.5 million in the first quarter of 2005 to $11.7 million in the first quarter of 2006. The decrease in revenue was due to a decline of 40.9% in the volume of wood chips sold partially offset by a 3.8% increase in the average selling price.

Sales volume was 96,230 BDMT in the first quarter of 2006 compared to 162,790 BDMT in the first quarter of 2005, a decrease of 40.9%. The decline was the result of an authorized intermediary being acquired who ceased to provide wood chipping services to us since the fourth quarter of 2005. The revenue earned during the first quarter of 2005 from the sale of wood chips processed by this authorized intermediary was $8.6 million. The average selling price of wood chips increased from $104 per BDMT in the first quarter of 2005 to $108 per BDMT in the first quarter of 2006, an increase of 3.8%.

Wood chips and logs sales comprised 11.8% of total revenue in the first quarter of 2006, compared to 24.5% in the first quarter of 2005.

Imported Wood Products

Revenue from sales of imported wood products increased 96.7%, from $20.2 million in the first quarter of 2005 to $39.7 million in the first quarter of 2006. The increase in revenue was due primarily to an increase in sales volumes of imported logs in the first quarter of 2006 compared to the first quarter of 2005.

Imported wood products sales comprised 40.2% of total revenue in the first quarter of 2006, compared to 26.7% in the first quarter of 2005.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing operations and other increased from $1.5 million in the first quarter of 2006 to $4.0 million in the first quarter of 2006 mainly due to an increase in revenue from flooring and greening project sales.

Cost of Sales

Cost of sales increased 38.9%, from $55.0 million in the first quarter of 2005 to $76.5 million in the first quarter of 2006. The increase in cost of sales was due primarily to an increase in sales volumes and an increase in cost of wood chips and logs.

Wood Fibre Operations Cost of Sales

Standing timber cost of sales increased 29.2%, from $19.8 million in the first quarter of 2005 to $25.6 million in the first quarter of 2006. The increase in costs of sales reflected primarily the 32.9% increase in hectare sales. Cost of sales per hectare of standing timber decreased 2.8%, from $1,163 per hectare in the first quarter of 2005 to $1,131 per hectare in the first quarter of 2006 primarily reflecting the lower acquisition cost of acacia sold in this quarter.

Wood chips and logs cost of sales decreased 39.8%, from $14.3 million in the first quarter of 2005 to $8.7 million in the first quarter of 2006. The decrease in cost of sales reflected primarily a decrease in sales volume due to the reason mentioned above partially offset by an increase in the cost of wood chips.

Imported wood products cost of sales increased 96.6%, from $19.6 million in the first quarter of 2005 to $38.6 million in the first quarter of 2006, primarily reflecting an increase in the sales volumes of our imported log trading business.

Manufacturing and Other Operations Cost of Sales

Manufacturing operation cost of sales increased 185.9% from $1.3 million in the first quarter of 2005 to $3.6 million in the first quarter of 2006, primarily reflecting an increase in the sales of greening and flooring projects.

Gross Profit

Gross profit increased 8.8%, from $20.6 million in the first quarter of 2005 to $22.4 million in the first quarter of 2006. Gross profit margin, or gross profit as a percentage of total revenue, decreased from 27.2% in the first quarter of 2005 to 22.7% in the first quarter of 2006 mainly due to the decline in gross profit margin on standing timber and the higher proportion of total sales from the lower margin imported wood products business.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of standing timber decreased from 44.1% in the first quarter of 2005 to 41.2% in the first quarter of 2006 due to the higher percentage of sales to total sales of standing timber from the Heyuan Pine Acquisition in the first quarter of 2006 compared to the first quarter of 2005.

Gross profit margin from sales of wood chips and logs increased from 15.2% in the first quarter of 2005 to 16.7% in the first quarter of 2006 as a result of higher selling price for wood chips and logs partially offset by higher average cost of wood chips.

Gross profit margin from sales of imported wood products increased slightly from 2.7% in the first quarter of 2005 to 2.8% in the first quarter of 2006.

Manufacturing and Other Operations Gross Profit

Gross margin from our manufacturing and other operations decreased from 15.5% in the first quarter of 2005 to 9.4% in the first quarter of 2006 primarily due to increase in manufacturing costs and lower production volumes.

Selling, General and Administration Expenses

Selling, general and administration expenses increased 39.7%, from $4.1 million in the first quarter of 2005 to $5.8 million in the first quarter of 2006, due primarily to higher staff salaries and additional office cost from new offices opened in the second half of 2005.

Depreciation and Amortization

Depreciation and amortization in the first quarter of 2006 increased slightly to $0.8 million compared to $0.7 million in the first quarter of 2005.

Income from Operations

Income from operations remained flat at $15.8 million in the first quarters of 2006 and 2005, due to the factors discussed above. Income from operations as a percentage of revenue decreased from 20.8% in the first quarter of 2005 to 16.0% in the first quarter of 2006.

Interest Expense

Interest expense increased 5.5%, from $7.2 million in the first quarter of 2005 to $7.6 million in the first quarter of 2006, due primarily to higher bank indebtedness during the period.

Interest Income

Our interest income increased 35.2% from $0.8 million in the first quarter of 2005 to $1.1 million in the first quarter of 2006, primarily due to interest earned on the loan to Mandra Holdings.

Exchange Gains

Exchange gains amounted to $1.5 million in the first quarter of 2006 as compared to an exchange loss of $0.1 million in the first quarter of 2005 due to appreciation of the Renminbi and Canadian dollar against the U.S. dollar in 2006.

Net Income

As a result of the foregoing, our net income for the first quarter of 2006 increased 22.3%, from $7.7 million in the first quarter of 2005 to $9.5 million in the first quarter of 2006. Net income as a percentage of sales decreased from 10.2% in the first quarter of 2005 to 9.6% in the first quarter of 2006.

Liquidity and Capital Resources

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

Cash Flows

The following table is a condensed summary of our statement of cash flows.

Three months ended March 31 *(in millions)*	**2006** **$**	2005 $
Cash flows from operating activities		
Net cash provided by operations [5]	**36.3**	29.7
Net change in working capital [6]	**19.5**	8.7
Total	**55.8**	38.4
Cash flows used in investing activities	**(78.8)**	(71.9)
Cash flows from (used in) financing activities	**49.5**	(0.3)
Net increase (decrease) in cash and cash equivalents	**26.5**	(33.8)

Cash Flows From Operating Activities

Cash flows from operating activities increased 45.2%, from $38.4 million in the first quarter of 2005 to $55.8 million in the first quarter of 2006. The increase was primarily due to an increase in cash provided by working capital.

Cash Flows Used In Investing Activities

In the first quarters of each of 2005 and 2006, cash flows used in investing activities were primarily for capital expenditures to acquire additional forestry plantations and for investments in manufacturing plants. Cash outlays for our forestry plantations amounted to $70.2 million in the first quarter of 2005 and $92.8 million in the first quarter of 2006. Cash outlays for our manufacturing plants and other capital assets amounted to $1.3

million in the first quarter of 2005 and $5.3 million in the first quarter of 2006. In the first quarter of 2006, non-pledged short-term deposits have decreased $19.3 million compared to an increase of $0.4 million in the first quarter of 2005.

Cash Flows From (Used In) Financing Activities

In the first quarter of 2006, cash flows from financing activities was $49.5 million reflecting primarily an increase in bank indebtedness of $3.4 million and increase in long-term debt of $50.0 million which was offset by an increase in deferred financing costs of $2.9 million and pledged short-term deposits of $1.0 million. In the first quarter of 2005, cash flows used in financing activities were $0.3 million, reflecting primarily an increase in pledged short-term deposits of $4.2 million which was offset by an increase in bank indebtedness of $3.9 million.

Finance Arrangements and Contractual Obligations

As of March 31, 2006, we had secured and unsecured short-term liabilities of $44.7 million, comprising $9.7 million of short-term bank loans and $35.0 million of trust receipt loans. We had long-term debt of $350.0 million. Our borrowings are denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of March 31, 2006, we had $58.0 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. Of the $58.0 million of funding available under the short-term credit facilities $44.7 million is being utilized as at March 31, 2006. Interest is payable on those short-term borrowings at rates ranging from 4.3% to 7.8% per annum, and the borrowings are either repayable on demand or due within one year. As of March 31, 2006, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $9.4 million and certain bank deposit of $7.2 million.

Other Contractual Obligations

As of March 31, 2006, we had other contractual obligations relating to : (1) approximately $25.0 million in respect of capital contributions to a PRC wholly foreign-owned enterprise; (2) $5.0 million of capital commitments in respect of buildings, timber holdings, and plant and machinery; (3) $3.4 million of purchase commitments in respect of logs; and (4) commitments under operating leases of approximately $35.2 million.

The following table presents the scheduled maturities of our contractual obligations as of March 31, 2006:

	Payment Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	$'000	$'000	$'000	$'000	$'000
Long-term debt (7)	350,000	—	—	—	350,000
Capital contributions	25,000	25,000	—	—	—
Capital commitments (8)	5,041	5,041	—	—	—
Purchase commitments	3,447	3,447	—	—	—
Operating leases (9)	35,202	1,454	2,127	1,893	29,728
Total Contractual Cash Obligations	418,690	34,942	2,127	1,893	379,728

Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the first quarters ended March 31, 2006 and 2005.

	2006		2005	
(in millions)	**Hectares**	**$**	Hectares	$
Tree acquisition – Purchased plantations	**26,937**	**55.0**	24,800	46.0
Tree acquisition – Heyuan Pine Undertaking	**15,865**	**17.7**	30,000	32.6
Re-planting and maintenance of plantations		**5.6**		3.6
Panel manufacturing and others		**5.3**		1.3
Total		**83.6**		83.5

Total cash payments for timber holdings for the three months period ended March 31, 2006 amounted to $92.8 million which includes settlement of $14.5 million payable for timber holdings carried forward from last year.

Aging of Accounts Receivable

We recognize revenue from sales of standing timber when the buyer has signed the sales contract. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber up to 18 months to log and haul the timber from the plantations, and 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 sales contract, and payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. In addition, we have credit evaluation and monitoring processes intended to mitigate credit risk and maintain appropriate provisions for potential credit losses. We believe these measures mitigate our credit risks in our sales of standing timber. We generally grant our customers in our trading activities credit terms of 60 days for domestic sales of wood chips through authorized intermediaries, and 45 to 90 days with respect to domestic sales of imported logs and export sales of wood-based products. As a result, we may have large outstanding balances of accounts receivable with respect to sales of wood chips, wood-based products and standing timber. The following table sets forth an aging analysis of our accounts receivable for 2006 and 2005.

	Aging Analysis						
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
As at March 31, 2006	**88,748**	**42,918**	**7,289**	**23,035**	**15,378**	**128**	—
As at December 31, 2005	119,989	55,216	38,695	22,546	3,030	502	—

Off-Balance Sheet Arrangements

Other than a currency swap agreement with respect to the interest payable over the next five years on the non-convertible guaranteed senior notes, we do not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of March 31, 2006. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP.

Transactions with Related Parties

Pursuant to the respective service agreements, we pay consultancy fees to companies controlled by certain directors who are also executive officers in lieu of their compensation. The consultancy fees incurred for the period amounted to approximately $529,000 [March 31, 2005 - $152,000].

In addition, as at March 31, 2006, we had an aggregate amount of $2,505,000 [December 31, 2005 - $2,129,000] owed to these related companies.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting policies requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in Note 1 to the consolidated financial statements. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber and wood chips, asset impairment of timber holdings, and capital assets and income tax provision. See the Company's 2005 Financial Results MD&A filed on SEDAR for a complete description of the critical accounting estimates. During the first quarter 2006 there were no change to the critical accounting estimates.

Change in Accounting Policies

There were no changes in accounting policies adopted by the Company during the period.

Disclosure Controls and Procedures

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that all relevant information required to be disclosed in its annual and interim filings and other reports is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Disclosure Committee and Sino-Forest management.

The Company has such disclosure controls and procedures in place which provide reasonable assurance that material information relating to the Company is made known to senior management, particularly during the period in which interim filings are being prepared.

Market Risks

There are no significant changes to market risks in general as described in the 2005 Financial Results MD&A.

(1) Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

(2) EBITDA for any period is defined as income from operations for the period after adding back depreciation and amortization, impairment of capital assets as well as depletion of timber holdings from cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP.

EBITDA is calculated as follows:

	Three months ended March 31, 2006 $'000	2005 $'000
Income from operations	**15,813**	15,757
Plus: depreciation	**812**	705
depletion of timber holdings	**25,577**	19,793
	42,202	36,255

(3) On June 22, 2004, we filed articles of amendment whereby our Class A Subordinate-Voting Shares were reclassified as common shares and our Class B Multiple-Voting Shares were eliminated.

(4) Net Income per share is calculated using the weighted average number of common shares (formerly Class A Subordinate-Voting Shares) and Class B Multiple-Voting Shares outstanding during each period.

(5) Represents net income as adjusted for depletion of timber holdings, depreciation and amortization, amortization of deferred financing costs, interest earned from Mandra, stock-based compensation and other.

(6) Represents decreases (increases) in accounts receivable, inventories, due from PRC CJV partners, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

(7) Represents the U.S. dollar equivalent of foreign currency denominated debt due in 2011.

(8) Represents commitments to invest in buildings and plant and machinery for investments in the manufacturing plants in Guangdong and Heilongjiang province.

(9) These represent mainly leases of certain office premises and long-term leases of plantation land for the plantation operations and associated forestry plantations.

SINO-FOREST CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
[Expressed in thousands of U.S. dollars, except for earnings per share amounts] [Unaudited]

Three months ended March 31	**2006** **$**	2005 $
Revenue	**98,864**	75,645
Costs and expenses		
Cost of sales	**76,458**	55,045
Selling, general and administration	**5,781**	4,138
Depreciation and amortization	**812**	705
	83,051	59,888
Income from operations before the undernoted	**15,813**	15,757
Interest expense	**(7,621)**	(7,223)
Interest income	**1,138**	842
Exchange gains (losses)	**1,516**	(118)
Amortization of deferred financing costs	**(365)**	(345)
Other income	**332**	167
Income before income taxes	**10,813**	9,080
Provision for income taxes	**(1,349)**	(1,344)
Net income for the period	**9,464**	7,736
Earnings per share ***[note 8]***		
Basic	**0.07**	0.06
Diluted	**0.07**	0.06
Retained Earnings		
Retained earnings, beginning of period	**311,994**	230,307
Net income for the period	**9,464**	7,736
Retained earnings, end of period	**321,458**	238,043

See accompanying notes

SINO-FOREST CORPORATION

CONSOLIDATED BALANCE SHEETS
[Expressed in thousands of U.S. dollars]

	Unaudited As at March 31 2006 $	Audited As at December 31 2005 $
ASSETS		
Current		
Cash and cash equivalents	**134,966**	108,418
Short-term deposits *[note 2]*	**12,074**	30,268
Accounts receivable	**88,748**	119,989
Due from PRC CJV partners	**3,524**	3,842
Inventories	**13,439**	7,622
Prepaid expenses and other	**19,422**	7,201
Total current assets	**272,173**	277,340
Timber holdings	**565,806**	513,412
Capital assets, net *[note 3]*	**85,891**	81,077
Other assets	**26,277**	23,442
	950,147	895,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 2]*	**44,690**	41,312
Accounts payable and accrued liabilities *[note 4]*	**75,280**	85,212
Income taxes payable	**821**	738
Total current liabilities	**120,791**	127,262
Long-term debt *[note 5]*	**350,000**	300,000
Total liabilities	**470,791**	427,262
Commitments and Contingencies *[notes 10 and 11]*		
Shareholders' equity		
Share capital	**142,815**	142,815
Contributed surplus *[note 6]*	**2,176**	1,804
Cumulative translation adjustment	**12,907**	11,396
Retained earnings	**321,458**	311,994
Total shareholders' equity	**479,356**	468,009
	950,147	895,271

See accompanying notes

SINO-FOREST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
[Expressed in thousands of U.S. dollars] [Unaudited]

Three months ended March 31	**2006** **$**	2005 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the period	**9,464**	7,736
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**25,577**	19,793
Depreciation and amortization	**812**	705
Stock-based compensation	**372**	1,192
Amortization of deferred financing costs	**365**	345
Interest income from Mandra	**(300)**	—
Other	**(38)**	(39)
	36,252	29,732
Net change in non-cash working capital balances *[note 7]*	**19,523**	8,680
Cash flows from operating activities	**55,775**	38,412
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Increase in long-term debt	**50,000**	—
Increase in bank indebtedness	**3,448**	3,892
Increase in deferred financing costs	**(2,900)**	—
Increase in pledged short-term deposits	**(1,062)**	(4,229)
Cash flows from (used in) financing activities	**49,486**	(337)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(92,760)**	(70,231)
Additions to capital assets	**(5,348)**	(1,267)
Decrease (increase) in non-pledged short-term deposits	**19,307**	(377)
Increase in other assets	—	(20)
Cash flows used in investing activities	**(78,801)**	(71,895)
Effect of exchange rate changes on cash and cash equivalents	**88**	—
Net increase (decrease) in cash and cash equivalents	**26,548**	(33,820)
Cash and cash equivalents, beginning of period	**108,418**	201,166
Cash and cash equivalents, end of period	**134,966**	167,346
Supplemental cash flow information		
Cash payment for interest charged to income	**14,275**	14,067

See accompanying notes

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

1. Basis of presentation

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2005. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2005.

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue is typically the lowest in the first quarter of the year and represents approximately 15% of the entire year.

2. Bank indebtedness

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at the consolidated balance sheet date of $9,433,000 [December 31, 2005 – $3,713,000]; and

[b] certain short-term deposits at the consolidated balance sheet date of $7,228,000 [December 31, 2005 – $6,166,000].

Total interest expense for the three months period ended March 31, 2006 amounted to $587,000 [March 31, 2005 – $379,000].

3. Capital assets

Capital assets consist of the following:

	March 31, 2006		December 31, 2005	
	Cost **$**	**Accumulated depreciation and amortization** **$**	Cost $	Accumulated depreciation and amortization $
Machinery and equipment	**80,399**	**9,162**	75,059	8,604
Buildings	**8,943**	**1,175**	8,760	1,079
Land-use rights	**5,002**	**565**	4,980	539
Office furniture and equipment	**1,382**	**806**	1,362	764
Vehicles	**2,635**	**762**	2,574	672
	98,361	**12,470**	92,735	11,658
Less: accumulated depreciation and amortization	**(12,470)**		(11,658)	
Net book value	**85,891**		81,077	

As at March 31, 2006, buildings, machinery and equipment of $45,474,000 [December 31, 2005 – $42,034,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation.

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

4. Provision for tax related liabilities

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.

Included in accounts payable and accrued liabilities as at March 31, 2006 is the balance of the provision for these tax related liabilities amounting to $26,714,000 [December 31, 2005 – $25,379,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

5. Long-term debt

Three months ended March 31	**2006**	2005
	$	$
Senior notes	**300,000**	300,000
Syndicated loan	**50,000**	—
	350,000	300,000

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

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the notes; and
- at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law.

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. The Company received $750,000 from the counterparty to enter into this contract. This amount is amortized into income over the term of the contract on a straight-line basis.

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.30% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. As at May 11, 2006, $50 million of the available facility has been drawn down.

Total interest expense on the long-term debt for the three months period ended March 31, 2006 amounted to $7,034,000 [March 31, 2005 – $6,844,000].

6. Contributed surplus

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

	$
Balance, beginning of period	1,804
Stock-based compensation	372
Balance, end of period	2,176

7. Net change in non-cash working capital balances

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

Three months ended March 31	**2006** **$**	2005 $
Accounts receivable	**29,577**	21,944
Due from PRC CJV partners	**337**	1,802
Prepaid expenses and other	**(12,188)**	(3,068)
Inventories	**(3,218)**	(855)
Accounts payable and accrued liabilities [a]	**4,932**	(12,487)
Income taxes payable	**83**	1,344
	19,523	8,680

[a] As at March 31, 2006, the Company had an aggregate amount of $10,741,000 [March 31, 2005 – $19,406,000] payable in respect of timber holdings acquired during the period included in accounts payable and accrued liabilities.

8. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

Three months ended March 31	**2006**	2005
Weighted average shares for basic earnings per share	**137,790,000**	136,590,000
Stock-based payments and options	**1,635,000**	1,515,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	**139,425,000**	138,105,000

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

9. Segmented information

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

[a] the wood fibre segment engages in the sale of wood chips, logs, standing timber, imported wood products and the provision of agency services in the sale of wood chips; and

[b] the manufacturing segment engages in the manufacturing of particleboard, flooring and nursery products and services.

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

By industry segment

	March 31, 2006				March 31, 2005			
	Wood Fibre $	**Manu-facturing $**	**Cor-porate $**	**Total $**	Wood Fibre $	Manu-facturing $	Cor-porate $	Total $
Revenue from external customers								
Sale of standing timber	**43,492**	—	—	**43,492**	35,415	—	—	35,415
Sale of wood chips and logs	**11,636**	—	—	**11,636**	18,533	—	—	18,533
Sale of imported wood products	**39,723**	—	—	**39,723**	20,191	—	—	20,191
Sale of manufacturing and other operations' products	—	**4,013**	—	**4,013**	—	1,506	—	1,506
	94,851	**4,013**	—	**98,864**	74,139	1,506	—	75,645
Income (loss) from operations before interest, other income, exchange gains (losses) and amortization of deferred financing costs	**21,013**	**(1,613)**	**(3,587)**	**15,813**	19,784	(1,126)	(2,901)	15,757
Identifiable assets	**717,220**	**125,841**	**107,086**	**950,147**	540,591	111,743	117,382	769,716
Interest income	**433**	**39**	**666**	**1,138**	37	26	779	842
Interest expense	**488**	**99**	**7,034**	**7,621**	266	110	6,847	7,223
Depreciation and amortization	**54**	**730**	**28**	**812**	37	648	20	705
Provision for income taxes	**1,339**	**10**	—	**1,349**	1,344	—	—	1,344
Depletion of timber holdings included in cost of sales	**25,577**	—	—	**25,577**	19,793	—	—	19,793
Additions to timber holdings and capital assets	**78,186**	**5,373**	**4**	**83,563**	82,253	1,270	4	83,527

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated] [Unaudited]

By geographic segment

The Company conducts substantially all of its operations in one geographic area, East Asia. During the quarter ended March 31, 2006, sales in the PRC and to other countries amounted to approximately $98,624,000 [March 31, 2005 – $75,307,000] and $240,000 [March 31, 2005 – $338,000], respectively.

10. Contingencies for tax related liabilities

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

11. Commitments

As at March 31, 2006, the Company has a commitment to make capital contributions to a PRC wholly foreign-owned enterprise of $25,000,000 [December 31, 2005 – $25,000,000]. In addition, the Company has capital commitments in respect of buildings, timber holdings, plant and machinery of $5,041,000 [December 31, 2005 – $7,820,000]. Commitments under operating leases for land and buildings are as follows:

	$
Within one year	1,454
In the second year	1,169
In the third year	958
In the fourth year	945
In the fifth year	948
Thereafter	29,728
	35,202

12. Related party transactions

Pursuant to the respective service agreements, the Company pays consultancy fees to companies controlled by certain directors who are also executive officers in lieu of their compensation. The consultancy fees incurred for the period amounted to $529,000 [March 31, 2005 – $152,000].

In addition, as at March 31, 2006, the Company had an aggregate amount of $2,505,000 [December 31, 2005 – $2,129,000] owed to these related companies.

13. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the March 31, 2006, consolidated financial statements.