SINO-FOREST CORPORATION
Management's Discussion and Analysis

August 15, 2011

This Management's Discussion and Analysis ("MD&A") relates to the financial position and results of operations of Sino-Forest Corporation and its subsidiaries for the six months ended June 30, 2011. 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 International Financial Reporting Standards ("IFRS") for Canadian publicly accountable enterprises. This MD&A should be read in conjunction with Sino-Forest's unaudited condensed interim consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are intended to be forward-looking statements under the "safe harbour" provisions of applicable securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions, 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, the outcome of examinations currently underway by the Independent Committee (as defined below) and securities regulatory authorities, the outcome of class action proceedings initiated against the Company as a result of allegations made in the Report (as defined below), our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on the relationship with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, the evaluation of our provision for income and related taxes, economic, political and social conditions and government policy in the People's Republic of China ("PRC"), the Republic of Suriname ("Suriname") and New Zealand, stock market volatility, the risk factors referred under "Recent Developments" and 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, except as may be required by law.

RECENT DEVELOPMENTS

On June 2, 2011, Muddy Waters, LLC issued a report (the "Report") containing various allegations regarding the Company, its assets, operations and financial results. As a result of the Report, on June 2, 2011, the Board of Directors of the Company appointed a committee of independent directors (the "Independent Committee") to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and mainland China. The Independent Committee is also using the services of independent accounting firm PricewaterhouseCoopers and affiliates ("PwC") to assist with the examination. PwC is highly familiar with the forestry industry and with the business environment in China.

On June 7, 2011, the Company formally requested that the Toronto Stock Exchange and the Investment Industry Regulatory Organization of Canada investigate the trading of the Company's shares by Muddy Waters, LLC and its principal Carson Block and anyone associated with these persons in advance of the issuance of the Report. On June 8, 2011, the Ontario Securities Commission (the "OSC") announced that it had opened an investigation into matters regarding the Company. The Company welcomes the OSC initiative and believes that the issues the OSC will seek to address will be consistent with the examination and review commenced by the Independent Committee. No formal proceedings have been commenced by the OSC against the Company or any of its directors or officers.

The Company and certain of its officers and directors, along with the Company's current and former auditors, technical consultants and various underwriters involved in prior equity and debt offerings, have been named as defendants in four class action lawsuits. Three of these class action lawsuits were filed in the Ontario Superior Court of Justice on June 8, 2011, June 20, 2011 and July 20, 2011. One class action was filed in the Québec Superior Court on June 8, 2011. Additional law firms in both the United States and Canada have announced that they are investigating the Company and certain officers and directors thereof with respect to potential additional class action lawsuits.

On August 11, 2011, the Independent Committee delivered its First Interim Report to the Board of Directors. The Independent Committee advised the Board as to the current scope of the review, provided a progress update and the anticipated timing of its next interim report and the completion of the review. The Independent Committee indicated it expected to provide a further interim report within six to eight weeks and currently believes that its review process will be completed prior to the Company's year end. See also the more detailed description of the Independent Committee's progress under the heading "Update on the Independent Committee's Review" below.

Risk Factors in respect of Muddy Waters' Allegations

Class Action Suits
The damage claims being sought against the Company in the class action suits described above exceed both the value of the assets of the Company and the shareholders' equity as set forth in the accompanying unaudited condensed interim consolidated financial statements. If the Company is unsuccessful in defending against such claims, either in whole or in part, the Company may have to pay significant damages which would materially affect the Company and its financial position or, potentially, result in the insolvency of the Company.

Harm to Reputation
The allegations set forth in the Report, even if the Independent Committee's examination concludes that the allegations contained in the Report are inaccurate, may have a serious adverse effect on the reputation of the Company. As a result, the ability of the Company to conduct its operations in the normal course of business could be materially affected including, without limitation, employee retention and effects on customer and supplier relationships.

Diversion of Operational Resources
The investigation being conducted by the OSC, the examination by the Independent Committee and the class action lawsuits against the Company has required and will continue to require significant resources to be expended by the directors, officers and employees of the Company. As a result, the diversion of such resources could materially affect the ability of the Company to conduct its operations in the normal course of business. Further, management expects that, subject to unanticipated developments, at least until the completion of the Independent Committee's examination and the release of its final report, the pace of tree acquisition by the Company under its British Virgin Islands ("BVI") structure will be maintained at a sustainable level which is dictated by cash flows generated by sales of trees under its BVI structure being utilized to acquire additional plantations.

Additional Fees and Expenses
The Company will incur a substantial amount of fees and expenses in connection with the examination by the Independent Committee, the investigation by the OSC and the class action lawsuits and potentially in connection with the implementation of any recommendations of the Independent Committee. Further, pursuant to indemnification agreements between the Company and its directors and certain officers, the Company may be obligated to indemnify such individuals for additional legal and other expenses pursuant to such proceedings. The aggregate of such fees and expenses are expected to be substantial and could have a negative effect on the Company's future operating results. The Company may be able to recover certain costs and expenses incurred in

connection with such matters from its insurer. However, there can be no assurance regarding when or if the insurer will reimburse the Company for such costs and expenses.

Access to Capital
The allegations set forth in the Report have resulted in a material decline in the market value of the Company's common shares and notes. On June 30, 2011, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on the Company to 'B+' from 'BB', lowered the issue ratings on the Company's outstanding senior unsecured notes and convertible notes to 'B+' and lowered the Greater China scale credit ratings on the Company and its notes to 'cnBB' from 'cnBBB-'. Fitch Ratings withdrew its Foreign Currency Issuer Default Rating and senior unsecured debt rating of 'BB-' on July 14, 2011 after placing the Company on Negative Watch on June 20, 2011. On July 19, 2011, Moody's Investors Service downgraded the corporate family and senior unsecured debt ratings of the Company to 'B1' from 'Ba2'.

In the future, the Company may require additional funds and may attempt to raise additional funds through equity or debt financings or from other sources. The Company may be unable to obtain such additional financing. If the Company is unable to obtain financing or is unable to generate repatriated funds from China, it may not be able to meet its obligations, including under its notes, as they become due. Further, if additional equity financing is available to the Company without an increase in the Company's share price, such financing may be materially dilutive to existing shareholders of the Company. If additional debt financing is available to the Company, the associated interest payable by the Company may be at an increased rate and subject to more onerous terms and conditions which could have a material adverse impact on the Company's operations and profits. The Company will exercise prudence in making decisions that utilize its current cash resources held outside of the PRC including reducing or eliminating new commitments for the acquisition of tree plantations and reducing or eliminating investments in other opportunities which are outside the PRC.

Financial Statements
The Board of Directors and management believe that, based on information currently available to them, accompanying unaudited condensed interim consolidated financial statements were compiled in accordance with IFRS and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the Report prove to be accurate, in whole or in part, the information set forth in such financial statements may differ materially and such financial statements could be subject to restatement. As a result, readers should exercise caution in relying on such financial statements.

ADOPTION AND IMPLICATIONS OF IFRS

As described in our MD&A for the three months ended March 31, 2011, we commenced reporting our financial statements this year in accordance with IFRS. Note 19 to the condensed interim consolidated financial statements, filed at the same time as this MD&A, includes numerical reconciliation of the amounts we previously reported under Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to these reported under IFRS as at and for the three and six months ended June 30, 2010. Throughout this MD&A, we have amended the amounts we previously reported under Canadian GAAP to reflect the impact of adopting IFRS.

Although the adoption of IFRS has had a material impact on several aspects of our reporting, one aspect which warrants particular attention is how we are required to depict a certain component of our financing strategy, introducing a heightened degree of volatility to the financial statements. Specifically, our outstanding 2013 convertible notes and 2016 convertible notes (collectively the "Convertible Notes") are convertible into our common shares, at the option of the holder, at a defined conversion rate. However, the indentures governing the terms of the Convertible Notes provide that we may elect to deliver, in lieu of our common shares, cash or a combination of cash and common shares. Under Canadian GAAP, the conversion feature was analyzed as equity, based on our unconditional ability to settle the instrument on conversion by issuing our common shares. Under IFRS, however, the feature is analyzed as an embedded derivative liability, measured separately at fair value at the end of each reporting period because it is not closely related to the underlying Convertible Notes, recognizing changes in fair value through profit or loss.

This remeasurement of the embedded derivative liability at fair value alone generated a gain to our income statement of $416.5 million or diluted earnings per share ("EPS") of $1.46 for the six months ended June 30, 2011, compared to a gain of $132.9 million or diluted EPS of $0.50 for the same period in 2010. Consequently, our bottom-line result was a net profit for the six months ended June 30, 2011 of $425.0 million or diluted EPS of $1.63, compared to a net profit of $214.9 million or diluted EPS of $0.88 for the same period in 2010.

It is important to emphasize that the object of measuring the embedded derivative liability at fair value is to estimate what the transaction price for that instrument would have been at the end of the reporting period in an arm's length exchange motivated by normal business considerations, but no such arm's length exchange will in fact occur. The change in fair value of the embedded derivative liability does not represent a realized gain or loss, or a predicted cash outlay, or a measurement of future share price dilution. We fully retain the ability to respond to a conversion of the Convertible Notes by delivering common shares, and to avoid paying out any cash beyond our obligations relating to the principal amount of the Convertible Notes and to interest accruing on that amount.

As disclosed in the condensed interim consolidated financial statements for the three months ended March 31, 2011, on June 13, 2011, the Board of Directors approved the elimination of the Company's option to settle the Convertible Notes by delivering cash or a combination of cash and common shares. The elimination of this option would have changed the treatment of the embedded derivative liability, removing the requirement to measure that derivative financial liability at fair value at the end of each reporting period. Instead, the Convertible Notes would have been treated as consisting of a liability portion amortized over the loan period, and an equity portion classified as equity.

The Company obtained an opinion from legal counsel that the removal of the option would not adversely affect the holders' rights in any material respect pursuant to the indentures governing the Convertible Notes and therefore would not require approval of the holders or their agents. However, the trustee has taken the contrary position that the amendment would require consent of the Convertible Notes holders. While the Company and its legal advisors disagree with this position, management has decided not to pursue the amendment at this time.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forest plantation operator in China. Our principal businesses include the ownership and management of forest plantation trees, the sale of plantation fibre and wood logs, and the complementary manufacturing of downstream engineered-wood products. As at June 30, 2011, we had approximately 894,200 hectares of forest plantations under management which are located mainly in southern and eastern China.

In addition, we have a majority interest in Greenheart Group Limited ("Greenheart"), a company listed on the Hong Kong Stock Exchange (HKSE: 00094). Greenheart and its subsidiaries (collectively, "Greenheart Group") own certain rights and manage approximately 312,000 hectares of hardwood forest concessions in Suriname and 11,000 hectares of radiata pine plantation on 13,000 hectares of freehold land in New Zealand. We believe that our interest in Greenheart Group will strengthen our global sourcing network in supplying wood fibre for China in a sustainable and responsible manner.

SIGNIFICANT BUSINESS ACTIVITIES

In addition to the recent developments noted above under the heading "Recent Developments", the significant activities that occurred during the six months ended June 30, 2011 and to the date of this report were as follows:

Acquisition of New Zealand Plantation Assets

In November 2010, the Company completed the acquisition of an intensively managed radiata pine plantation in New Zealand (the "Mangakahia Forest"), an area of approximately 13,000 hectares of freehold land with plantation area of approximately 11,000 hectares. Total consideration paid was approximately $68 million in cash, including the assumption of a $24 million loan from the vendor of the Mangakahia Forest.

On January 7, 2011, the Company entered into a sales and purchase agreement to dispose of the Mangakahia Forest to Greenheart Group, a related party, for consideration of approximately $71 million, subject to adjustments upon the completion of the sale.

Management's Discussion and Analysis

On March 31, 2011, the disposal of the Mangakahia Forest to a related party, Greenheart Group, was completed. Total consideration was approximately $73.2 million including the issuance of 96.5 million ordinary shares of Greenheart (equivalent to approximately $33.2 million) and the undertaking of an interest-bearing loan of $40 million by Greenheart Group to the Company.

Entered into master agreements to acquire up to an aggregate of 266,667 hectares of plantation forests in Shaanxi and Yunnan Provinces

In May 2011, the Company entered into master agreements to acquire up to approximately 200,000 hectares and 66,667 hectares of plantation forests in Shaanxi and Yunnan Provinces, respectively, over a ten-year period with a price not to exceed RMB320 per m^3, to the extent permitted under the relevant PRC laws and regulations. The species are different kinds of pine, fir and other species including birch, spruce and cedar. The agreements also provide the Company with pre-emptive rights to lease the underlying plantation land at a price not to exceed RMB525 per hectare per annum for 30 years from the time of harvest, and the land lease may also be extended to 50 years, as permitted under the PRC laws and regulations.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

We have derived the following selected financial information from our unaudited interim consolidated financial statements for the three months and six months ended June 30, 2011 and 2010 and our financial positions as at June 30, 2011 and December 31, 2010:

	Three months ended June 30,		**Six months ended June 30,**	
	2011	2010	**2011**	2010
(in thousands, except earnings per share)	**$**	$	**$**	$
Operating Results				
Revenue	**317,384**	298,587	**656,308**	549,602
Cost of sales	**(246,874)**	(185,562)	**(470,387)**	(348,781)
Change in fair value of timber holdings	**4,892**	1,296	**15,281**	11,714
Gross profit[(1)]	**75,402**	114,321	**201,202**	212,535
Operating profit for the period	**31,241**	89,594	**124,552**	165,037
Gain on changes in fair value of financial instruments	**469,508**	150,066	**416,468**	128,948
Net profit for the period	**447,121**	198,960	**425,014**	214,875
EBITDA[(2)]	**155,232**	162,392	**347,288**	305,275
Earnings per share from continuing operations[(3)]				
Basic	**1.82**	0.82	**1.73**	0.89
Diluted	**1.64**	0.77	**1.63**	0.88
Earnings per share[(3)]				
Basic	**1.82**	0.82	**1.73**	0.88
Diluted	**1.64**	0.77	**1.63**	0.88

(In thousands, except cash dividends declared per share and common shares outstanding)	**As at June 30, 2011 $**	As at December 31, 2010 $
Financial Position		
Current assets	**4,973,967**	4,962,518
Non-current assets	**928,256**	834,438
Total assets	**5,902,223**	5,796,956
Current liabilities	**737,150**	775,201
Non-current liabilities	**1,648,262**	2,038,353
Total equity	**3,516,811**	2,983,402
Cash dividend declared per share	—	—
Common shares outstanding	**246,095,926**	245,740,889

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30, 2011 AND 2010

REVENUE

The following table sets forth the breakdown of our total revenue for the three months ended June 30, 2011 and 2010:

	2011		2010	
	$'000	**%**	$'000	%
Wood fibre				
Plantation fibre	**192,093**	**60.5**	180,909	60.6
Trading of wood logs	**96,123**	**30.3**	100,413	33.6
Wood fibre, total	**288,216**	**90.8**	281,322	94.2
Manufacturing and other	**18,088**	**5.7**	17,265	5.8
Greenheart	**11,080**	**3.5**	—	—
Revenue, total	**317,384**	**100.0**	298,587	100.0

Our revenue increased 6.3% to $317.4 million in the three months ended June 30, 2011 from $298.6 million in the same period in 2010. The increase in revenue was mainly due to the increase in revenue from our plantation fibre and Greenheart operations.

Wood fibre operations revenue

Plantation fibre

The following table sets forth revenue from our plantation fibre operations for the three months ended June 30, 2011 and 2010:

	2011				2010			
	Area sold hectares	**Volume of fibre sold '000 m^3**	**Average price per m^3 $**	**Total revenue $'000**	Area sold hectares	Volume of fibre sold '000 m^3	Average price per m^3 $	Total revenue $'000
Standing timber	**20,575**	**2,534**	**75**	**190,471**	6,702	1,681	92	154,391
Logs	**269**	**25**	**64**	**1,622**	2,634	363	73	26,518
Total	**20,844**	**2,559**	**75**	**192,093**	9,336	2,044	89	180,909

Revenue from sales of plantation fibre increased 6.2% to $192.1 million in the three months ended June 30, 2011 from $180.9 million in the same period in 2010, mainly due to an increase in the revenue from the sales of standing timber, partially offset by the decrease in the revenue of logs.

The average sales per hectare decreased 52.4% to $9,216 per hectare in the three months ended June 30, 2011 from $19,378 per hectare in the same period in 2010.

The average yield per hectare sold as standing timber was 123 m^3 for the three months ended June 30, 2011 and 251 m^3 in the same period in 2010. The average yield per hectare sold as logs was 94 m^3 for the three months ended June 30, 2011 and 138 m^3 in the same period in 2010.

The fall in the average selling price of standing timber was mainly due to a difference in sales mix. In the three months ended June 30, 2011, most of the standing timber sales were from plantations located in the Guangxi and Guizhou Provinces and in the same period in 2010, the standing timber sales were primarily from plantations located in the Yunnan Province. The average selling price of pine and Chinese fir that we sold from the Guangxi and Guizhou Provinces in the three months ended June 30, 2011 was $80 per m^3, compared to an average selling price of $98 per m^3 for broadleaf that we sold from Yunnan Province in the same period in 2010.

During the three months ended June 30, 2011, we sold approximately 14,000 hectares of plantations that were acquired under the master agreements, mainly in Guangxi Province.

Plantation fibre sales comprised 60.5% of total revenue in the three months ended June 30, 2011, compared to 60.6% of total revenue in the same period in 2010.

Trading of wood logs

Revenue from trading of imported and domestic wood products and logs decreased 4.3% to $96.1 million in the three months ended June 30, 2011 from $100.4 million in the same period in 2010. This decrease was mainly due to the fall in average selling price of products.

Trading of wood logs sales comprised 30.3% of total revenue in the three months ended June 30, 2011, compared to 33.6% of total revenue in the same period in 2010.

Manufacturing and other operations revenue

Revenue from manufacturing and other operations increased 4.8% to $18.1 million in the three months ended June 30, 2011 from $17.3 million in the same period in 2010.

Greenheart operations revenue

Revenue from Greenheart operations was $11.1 million in the three months ended June 30, 2011.

GROSS PROFIT (1)

Gross profit decreased 34.0% to $75.4 million in the three months ended June 30, 2011 from $114.3 million in the same period in 2010. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased to 23.8% in the three months ended June 30, 2011 from 38.3% in the same period in 2010, mainly due to the fall in gross profit margin of plantation fibre operations.

Wood fibre operations gross profit

Plantation Fibre

Gross profit margin from sales of standing timber decreased to 31.6% or $24 per m^3 in the three months ended June 30, 2011 from 63.0% or $58 per m^3 in the same period in 2010, mainly due to the lack of sales of plantations in Yunnan which generated relatively higher margins in 2010. In the three months ended June 30, 2010, the average selling price was $17 per m^3 higher than the same period in 2011 and the cost of fibre sold in the three months ended June 30, 2011 was $17 per m^3 higher than the same period in 2010, resulting in a reduction in the gross margin. The lower average selling price and higher cost of fibre per m^3 was the result of a difference in sales mix. In the three months ended June 30, 2010, 97.8% of standing timber sales were in Yunnan which achieved a higher average selling price and a lower purchase cost per m^3 compared to the same period in 2011 in which 96.6% of standing timber sales were from Guangxi and Guizhou Provinces where the average selling price was lower and the cost of fibre was higher.

As our results indicated, there can be considerable variation from quarter to quarter in our gross profit margin and our financial performance in general depending on the sales mix of our standing timber sales. The sales mix in any quarter will vary by variety of species, yield per hectare, quality, diameter, location and other factors. The selling price of fibre in certain locations in China (e.g. Yunnan Province currently) is higher than other locations. As well, the price we paid for the standing timber and the period of time for which we have held it will also impact our gross profit margin. As noted above, the standing timber we sold in Yunnan Province in the three months ended June 30, 2010 was sold at a high price and acquired at a low cost, relative to our sales of standing timber for the three months ended June 30, 2011 from plantations primarily located in Guangxi and Guizhou Provinces. As a result, our gross profit margin from sales of standing timber declined substantially in the second quarter of 2011 relative to the same period in 2010.

Our gross profit margin in the three months ended June 30, 2011 is more representative as compared to the three months ended June 30, 2010 of our expected average gross profit margin for future sales. In addition, we have recently made the decision to sell our purchased plantations on a 2.5 to 3 year cycle rather than the previously used 3 year cycle. We made this decision based upon the current age profile of our standing timber and the period for which we have held it relative to our need to have trees available for sale.

Trading of wood logs

Gross profit margin from trading of imported and domestic wood products and logs decreased to 4.1% in the three months ended June 30, 2011 from 5.5% in the same period in 2010, mainly due to the fall of margins from trading of Russian logs.

Manufacturing and other operations gross profit

Gross profit margin from our manufacturing and other operations decreased to 6.2% in the three months ended June 30, 2011 from 12.6% in the same period in 2010. The decrease was mainly due to a fall in average selling price of the wood flooring business segment.

Greenheart operations gross profit

Gross profit margin from our Greenheart operations was 48.5% in the three months ended June 30, 2011.

SELLING AND ADMINISTRATIVE EXPENSES

Our selling and administrative expenses increased 73.6% to $40.3 million in the three months ended June 30, 2011 from $23.2 million in the same period in 2010. The increase was mainly due to increased legal and professional fees of $2.9 million, research and development costs of $2.1 million, incremental plantation maintenance fees and insurance charges of $1.7 million as a result of increased plantation area under management, and incremental costs of approximately $6.9 million relating to the acquired Greenheart Group.

OTHER OPERATING EXPENSES

Our other operating expenses are normally comprised of exchange differences and gains or losses on disposal of capital assets and long-term assets. The increase was mainly due to the increase in exchange losses incurred in 2011.

OPERATING PROFIT

Our operating profit decreased 65.1% to $31.2 million in the three months ended June 30, 2011 from $89.6 million in the same period in 2010, due to the factors explained above. Our operating profit as a percentage of revenue decreased to 9.8% in the three months ended June 30, 2011 from 30.0% in the same period in 2010.

EBITDA

EBITDA decreased 4.4% to $155.2 million in the three months ended June 30, 2011 from $162.4 million in the same period in 2010, as a result of the factors explained above.

GAIN ON CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The gains for the three months ended June 30, 2011 and 2010 were mainly attributable to the fair value adjustment of the embedded derivatives relating to our outstanding Convertible Notes. See "Adoption and Implications of IFRS" above.

FINANCE COSTS

Our finance costs increased 32.9% to $45.6 million in the three months ended June 30, 2011 from $34.3 million in the same period in 2010, mainly due to the interest on the $600 million principal amount of senior notes issued in the fourth quarter of 2010.

FINANCE INCOME

Our finance income decreased 17.3% to $4.6 million in the three months ended June 30, 2011 from $5.5 million in the same period in 2010, mainly due to a decrease in average cash and bank balances as compared to 2010, partially offset by the increase in accretion of interest income of trade receivables.

INCOME TAX EXPENSE

Income tax expense was $12.5 million in the three months ended June 30, 2011, compared to $11.4 million in the same period in 2010. Under IFRS, the Company has adopted the use of the probability-weighted average method in determining the provision and contingencies for tax related liabilities. The probability-weighted average method considers various scenarios under which the Company's tax liabilities are determined.

NET PROFIT FOR THE PERIOD

As a result of the foregoing, and primarily as a result of the fair value adjustment of the embedded derivatives of our outstanding Convertible Notes of $469.5 million, our net profit for the period increased 124.7% to $447.1 million in the three months ended June 30, 2011 from $199.0 million in the same period in 2010. Our net profit for the period as a percentage of revenue increased to 140.9% in the three months ended June 30, 2011 from 66.6% in the same period in 2010. See "Adoption and Implications of IFRS" above.

CASH FLOWS

The following table sets forth a condensed summary of our statements of cash flows for the three months ended June 30, 2011 and 2010:

(in millions)	**2011** **$**	2010 $
Net cash flows used in operating activities	**(90.3)**	(62.4)
Net cash flows used in investing activities	**(17.6)**	(14.4)
Net cash flows (used in) from financing activities	**(86.2)**	19.2
Effect of exchange rate changes on cash and cash equivalents	**0.9**	—
Net decrease in cash and cash equivalents	**(193.2)**	(57.6)

Net cash flows used in operating activities

(in millions)	**2011** **$**	2010 $
Cash flows from operating activities before movement in timber holdings, measured at cost	**79.7**	51.3
Net increase in timber holdings, measured at cost	**(170.0)**	(113.7)
Net cash flows used in operating activities	**(90.3)**	(62.4)

Cash flows from operating activities before movement in timber holdings, measured at cost increased to a cash inflow of $79.7 million in the three months ended June 30, 2011 from a cash inflow of $51.3 million in the same period in 2010, mainly as a result of a decrease in trade and other receivables and an increase in trade and other payables. Net increase in timber holdings measured at cost increased to $170.0 million in the three months ended June 30, 2011 from $113.7 million in the same period in 2010, resulting in an increase to net cash flow used in operating activities in the three months ended June 30, 2011 compared to the same period in 2010.

Net cash flows used in investing activities

In the three months ended June 30, 2011 and 2010, cash used in investing activities was primarily used for capital expenditure to purchase additional planted plantations and nursery assets, investments in manufacturing facilities and other assets. Our net cash outflow for our planted plantations and nursery assets amounted to $5.4 million in the three months ended June 30, 2011 and $9.4 million in the same period in 2010. Our cash outlays for our manufacturing facilities and property plant and equipment amounted to $5.3 million in the three months ended June 30, 2011 and $3.3 million in the same period in 2010. Our cash outlays for investment properties amounted to $0.4 million in the three month period ended June 30, 2010. Our cash outlays for other assets amounted to $13.8 million in the three months ended June 30, 2011 and $0.5 million in the same period in 2010. Our cash outlays for prepaid lease payment amounted to $5.9 million in the three month period ended June 30, 2011 and $1.6 million in the same period in 2010. Our cash outlays for intangible assets amounted to $0.3 million in the three months ended June 30, 2011. Our non-pledged short-term deposits decreased by $12.4 million in the three months ended June 30, 2011 and $0.7 million in the same period in 2010. We received $1 million as a refund from other non-current financial assets in the three months ended June 30, 2011. We also received $23,000 from the proceeds of disposal of property, plant and equipment in the three months ended June 30, 2011 compared to $96,000 in the same period in 2010. In addition, we had net cash inflow of $149,000 from business acquisition in the three months ended June 30, 2011.

Net cash flows (used in) from financing activities

In the three months ended June 30, 2011, cash flows from financing activities consisted of the addition of interest-bearing loans of $106.2 million and proceeds from the exercise of share options of a subsidiary of $103,000, offset by the repayment of interest-bearing loans of $145.1 million, interest payment of $31.2 million, and an increase in the pledged short-term deposits of $16.1 million. In the three months ended June 30, 2010, cash flows from financing activities consisted of the net cash proceeds from an increase in interesting-bearing loans of $97.3 million and proceeds from the exercise of share options of $3.0 million offset by the repayment of interest-bearing loans of $69.1 million, interest payment of $11.3 million, and an increase in the pledged short-term deposits of $0.3 million and a payment for transaction cost of issue of shares of $411,000.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30, 2011 AND 2010

REVENUE

The following table sets forth the breakdown of our total revenue for the six months ended June 30, 2011 and 2010:

	2011		2010	
	$'000	**%**	$'000	%
Wood fibre				
Plantation fibre	**410,341**	**62.5**	337,698	61.4
Trading of wood logs	**202,295**	**30.8**	183,351	33.4
Wood fibre, total	**612,636**	**93.3**	521,049	94.8
Manufacturing and other	**30,942**	**4.7**	28,553	5.2
Greenheart	**12,730**	**2.0**	—	—
Revenue, total	**656,308**	**100.0**	549,602	100.0

Our revenue increased 19.4% to $656.3 million in the six months ended June 30, 2011 from $549.6 million in the same period in 2010. The increase in revenue was mainly due to the increase in revenue from our wood fibre operations.

Wood fibre operations revenue

<u>Plantation fibre</u>

The following table sets forth revenue from our plantation fibre operations for the six months ended June 30, 2011 and 2010:

	2011				2010			
	Area sold hectares	**Volume of fibre sold '000 m^3**	**Average price per m^3 $**	**Total revenue $'000**	Area sold hectares	Volume of fibre sold '000 m^3	Average price per m^3 $	Total revenue $'000
Standing timber	**35,584**	**4,934**	**82**	**405,721**	12,093	2,652	91	241,322
Logs	**1,027**	**80**	**58**	**4,620**	9,644	1,253	77	96,376
Total	**36,611**	**5,014**	**82**	**410,341**	21,737	3,905	86	337,698

Revenue from sales of plantation fibre increased 21.5% to $410.3 million in the six months ended June 30, 2011 from $337.7 million in the same period in 2010, mainly due to an increase in the revenue from the sales of standing timber, partially offset by the decrease in the revenue from the sales of logs.

The average sales per hectare decreased 27.9% to $11,208 per hectare in the six months ended June 30, 2011 from $15,536 per hectare in the same period in 2010.

Management's Discussion and Analysis

The average yield per hectare sold as standing timber was 139 m^3 for the six months ended June 30, 2011 and 219 m^3 in the same period in 2010. The average yield per hectare sold as logs was 78 m^3 for the six months ended June 30, 2011 and 130 m^3 in the same period in 2010.

The fall in average selling price of standing timber was mainly due to a difference in the sales mix. The revenue from sales of pine and Chinese fir from the Guangxi and Guizhou Provinces comprised 76.8% of total standing timber revenue in the six months ended June 30, 2011, compared to sales of broadleaf from Yunnan Province which comprised 92.9% of standing timber revenue in the same period in 2010. The average selling price of pine and Chinese fir from the Guangxi and Guizhou Provinces was $81 per m^3 in the six months ended June 30, 2011, compared to $64 m^3 in the same period in 2010. The average selling price of broadleaf from Yunnan Province in the six months ended June 30, 2011 was $115, compared to $99 in the same period in 2010.

During the six months ended June 30, 2011, we sold approximately 23,900 hectares of plantations that were acquired under the master agreements, mainly in Guangxi, Yunnan and Hunan Provinces.

Plantation fibre sales comprised 62.5% of total revenue in the six months ended June 30, 2011, compared to 61.4% in the same period in 2010.

<u>Trading of wood logs</u>

Revenue from trading of imported and domestic wood products and logs increased 10.3% to $202.3 million in the six months ended June 30, 2011 from $183.4 million in the same period in 2010. The increase was mainly due to increased trading volume of wood products and logs.

Trading of wood logs sales comprised 30.8% of total revenue in the six months ended June 30, 2011, compared to 33.4% of total revenue in the same period in 2010.

Manufacturing and other operations revenue

Revenue from manufacturing and other operations increased 8.4% to $30.9 million in the six months ended June 30, 2011 from $28.6 million in the same period in 2010.

Greenheart operations revenue

Revenue from Greenheart operations was $12.7 million in the six months ended June 30, 2011.

GROSS PROFIT [(1)]

Gross profit decreased 5.3% to $201.2 million in the six months ended June 30, 2011 from $212.5 million in the same period in 2010. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased to 30.7% in the six months ended June 30, 2011 from 38.7% in the same period in 2010, mainly due to the fall in gross profit margin of plantation fibre operations.

Wood fibre operations gross profit

<u>Plantation Fibre</u>

Gross profit margin from sales of standing timber decreased to 41.1% or $34 per m^3 in the six months ended June 30, 2011 from 60.0% or $55 per m^3 in the same period in 2010, mainly due to the decrease of sales of plantations in Yunnan Province which generated relatively higher margins in 2010. In the six months ended June 30, 2010, the average selling price was $9 per m^3 higher than the same period in 2011 and the cost of fibre sold in the six months ended June 30, 2011 was $12 per m^3 higher than the same period in 2010, resulting in a reduction in the gross margin. The lower average selling price and higher cost of fibre per m^3 was the result of a difference in sales mix. In the six months ended June 30, 2010, 92.9% of standing timber sales were of broadleaf from Yunnan Province which achieved a higher average selling price and was purchased at a lower cost per m^3 than the sales of pine and Chinese fir from Guangxi and Guizhou Provinces which represented 76.8% of standing timber sales in the same period in 2011 where the average selling price was lower and the cost of fibre was higher.

The gross profit margin from sales of logs was 47.7% or \$27 per m^3 in the six months ended June 30, 2011, compared to 43.2% or \$33 per m^3 in the same period in 2010. The decrease was mainly due to the difference in sales mix.

Trading of wood logs

Gross profit margin from trading of imported and domestic wood products and logs decreased to 4.7% in the six months ended June 30, 2011 from 5.8% in the same period in 2010.

Manufacturing and other operations gross profit

Gross profit margin from our manufacturing and other operations decreased to 6.1% in the six months ended June 30, 2011 from 12.7% for the same period in 2010. The decrease was mainly due to a fall in average selling price of the wood flooring business segment.

Greenheart operations gross profit

Gross profit margin from our Greenheart operations was 45.2% for the six months ended June 30, 2011.

SELLING AND ADMINISTRATIVE EXPENSES

Our selling and administrative expenses increased 52.8% to \$70.7 million in the six months ended June 30, 2011 from \$46.2 million in the same period in 2010. The increase was mainly due to incremental plantation maintenance fees and insurance charges of \$3.1 million as a result of increased plantation area under management, increased staff costs of \$2.6 million, research and development costs of \$2.4 million and incremental costs of approximately \$12.6 million relating to the acquired Greenheart Group.

OTHER OPERATING EXPENSES

Our other operating expenses are normally comprised of exchange differences and gains or losses on disposal of capital assets and long-term assets. The increase was mainly due to the increase in exchange losses incurred in 2011.

OPERATING PROFIT

Our operating profit decreased 24.5% to \$124.6 million in the six months ended June 30, 2011 from \$165.0 million in the same period in 2010, due to the factors explained above. Our operating profit as a percentage of revenue decreased to 19.0% in the six months ended June 30, 2011 from 30.0% in the same period in 2010.

EBITDA

EBITDA increased 13.8% to \$347.3 million in the six months ended June 30, 2011 from \$305.3 million in the same period in 2010, as a result of the increase in revenue in 2011.

GAIN ON CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The gains for the six months ended June 30, 2011 and 2010 were mainly attributable to the fair value adjustment of the embedded derivatives relating to our outstanding Convertible Notes. See "Adoption and Implications of IFRS" above.

FINANCE COSTS

Our finance costs increased 38.7% to \$90.0 million in the six months ended June 30, 2011 from \$64.9 million in the same period in 2010, mainly due to the interest on the \$600 million principal amount of senior notes issued in the fourth quarter of 2010.

FINANCE INCOME

Our finance income decreased 31.6% to $6.1 million in the six months ended June 30, 2011 from $8.9 million in the same period in 2010, mainly due to a decrease in average cash and bank balances as compared to 2010, partially offset by the increase in accretion of interest income of trade receivables.

INCOME TAX EXPENSE

Income tax expense was $32.3 million in the six months ended June 30, 2011, compared to $22.1 million in the same period in 2010. Under IFRS, the Company has adopted the use of the probability-weighted average method in determining the provision and contingencies for tax related liabilities. The probability-weighted average method considers various scenarios under which the Company's tax liabilities are determined. The increase in tax expense is mainly due to an increase in probability assigned to the scenarios under which the same deemed profit rate (i.e. 15%) is used in all provinces in the PRC for years prior to 2010 and a decrease in probability assigned to scenario under which different deemed profit rates (i.e. 10% to 15%) are used in different provinces (see note 18 to the condensed interim consolidated financial statements).

NET PROFIT FOR THE PERIOD

As a result of the foregoing, and primarily as a result of the fair value adjustment of the embedded derivatives of our outstanding Convertible Notes of $416.5 million, our net profit for the period increased 97.8% to $425.0 million in the six months ended June 30, 2011 from $214.9 million in the same period in 2010. Our net profit for the period as a percentage of revenue increased to 64.8% in the six months ended June 30, 2011 from 39.1% in the same period in 2010. See "Adoption and Implications of IFRS" above.

CASH FLOWS

The following table sets forth a condensed summary of our statements of cash flows for the six months ended June 30, 2011 and 2010:

(in millions)	**2011** **$**	2010 $
Net cash flows used in operating activities	**(211.9)**	(184.4)
Net cash flows used in investing activities	**(30.4)**	(5.7)
Net cash flows (used in) from financing activities	**(121.3)**	10.2
Effect of exchange rate changes on cash and cash equivalents	**1.9**	0.3
Net decrease in cash and cash equivalents	**(361.7)**	(179.6)

Net cash flows used in operating activities

(in millions)	**2011** **$**	2010 $
Cash flows from operating activities before movement in timber holdings, measured at cost	**327.1**	46.0
Net increase in timber holdings, measured at cost	**(539.0)**	(230.4)
Net cash flows used in operating activities	**(211.9)**	(184.4)

Cash flows from operating activities before movement in timber holdings, measured at cost increased to a cash inflow of $327.1 million in the six months ended June 30, 2011 from a cash inflow of $46.0 million in the same period in 2010, mainly as a result of a decrease in trade and other receivables and an increase in trade and other payables. Net increase in timber holdings measured at cost increased to $539.0 million in the six months ended June 30, 2011 from $230.4 million in the same period in 2010, resulting in an increase in net cash flows used in operating activities in the six months ended June 30, 2011 compared with the same period in 2010.

Net cash flows used in investing activities

In the six months ended June 30, 2011 and 2010, cash used in investing activities was primarily used for capital expenditures to purchase additional planted plantations and nursery assets, investments in manufacturing facilities and other assets. Our net cash outflow for our planted plantations and nursery assets amounted to $5.1 million in the six months ended June 30, 2011 and $4.3 million in the same period in 2010. Our cash outlays for our manufacturing facilities and property plant and equipment amounted to $8.5 million in the six months ended June 30, 2011 and $12.1 million in the same period in 2010. Our cash outlays for investment properties amounted to $0.6 million in the six month period ended June 30, 2010. Our cash outlays for other assets amounted to $16.5 million in the six months ended June 30, 2011 and $0.7 million in the same period in 2010. Our cash outlays for prepaid lease payment amounted to $7.5 million in the six month period ended June 30, 2011 and $1.7 million in the same period in 2010. Our cash outlays for intangible assets amounted to $5.3 million in the six months ended June 30, 2011. Our non-pledged short-term deposits decreased by $11.7 million in the six months ended June 30, 2011 and $7.9 million in the same period in 2010. We received $1 million as a refund from other non-current financial assets in the six months ended June 30, 2011. We also received $103,000 from the proceeds of disposal of property, plant and equipment in the six months ended June 30, 2011 compared to $133,000 in the same period in 2010. In addition, we had net cash outflow of $149,000 from business acquisition in the six months ended June 30, 2011, and an inflow of $5.6 million from business acquisitions in the six months ended June 30, 2010.

Net cash flows (used in) from financing activities

In the six months ended June 30, 2011, cash flows from financing activities consisted of the addition of interest-bearing loans of $225.5 million and proceeds from the exercise of share options of a subsidiary of $446,000, offset by the repayment of interest-bearing loans of $265.0 million, interest payment of $65.9 million, and an increase in the pledged short-term deposits of $16.4 million. In the six months ended June 30, 2010, cash flows from financing activities consisted of the net cash proceeds from an increase in interesting-bearing loans of $189.9 million and proceeds from the exercise of share options of $4.9 million offset by the repayment of interest-bearing loans of $142.0 million, interest payment of $36.0 million, repayment of deferred financing costs of $5.9 million, an increase in pledged short-term deposits of $0.2 million and a payment for transaction cost of issue of shares of $411,000.

ISSUED AND OUTSTANDING SHARE CAPITAL

Our authorized capital consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 246,095,926 common shares are issued and outstanding as of the date of this MD&A. On a diluted basis, we have 287,886,121 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,042,118 outstanding stock options and the issuance of 17,007,603 and 21,740,474 common shares upon the conversion of the 2013 convertible notes in the aggregate principal amount of $345.0 million and the 2016 convertible notes in the aggregate principal amount of $460.0 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

The allegations set forth in the Report have resulted in a material decline in the market value of the Company's common shares and notes as well as a decline in note rating by two rating agencies and the cessation of note ratings coverage by another rating agency. In the future, the Company may require additional funds and may attempt to raise additional funds through equity or debt financings or from other sources. The Company may be unable to obtain such additional financing. If the Company is unable to obtain financing or is unable to generate repatriated funds from China, it may not be able to meet its obligations, including under its notes, as they become due. Further, if additional equity financing is available to the Company without an increase in the Company's share price, such financing may be materially dilutive to existing shareholders of the Company. If additional debt financing is available to the Company, the associated interest payable by the Company may be at an increased rate and subject to more onerous terms and conditions which could have a material adverse impact on the Company's operations and profits. See also "Financing Requirements and Contractual Obligations" and "Expenditures on Timber Holdings and Manufacturing Subsidiaries" below.

The Company will exercise prudence in making decisions that utilize its current cash resources held outside of the PRC including reducing or eliminating new commitments for the acquisition of tree plantations and reducing or eliminating investments in other opportunities which are outside the PRC.

As at June 30, 2011 we have cash and cash equivalents and short-term deposits of $898,865,000. This includes approximately $29,381,000 pledged for certain of our short-term credit facilities, $287,174,000 subject to PRC foreign exchange control (within which $15,311,000 is pledged) and $62,957,000 held by Greenheart Group.

In August 2011, the Company deposited with paying agent Citibank, N.A., for payment in cash to holders of its 9.125% Guaranteed Senior Notes due August 17, 2011 (the "2011 Notes"), the outstanding principal amount of $87,670,000, plus accrued interest to maturity. The Company is thereby repaying the outstanding principal of the 2011 Notes. Following such repayment, the 2011 Notes will be cancelled and de-listed from the Singapore Exchange Securities Trading Limited.

Recently, certain entities have publicly filed reports that they have acquired greater than 10% of the Company's outstanding number of Common Shares. Under the Company's note indentures, the acquisition of shares can result in a change of control, but only at ownership levels well in excess of the current ownership levels disclosed by such entities. Upon the occurrence of a "Change of Control" under the Company's Convertible Notes, or upon the occurrence of a "Change of Control" and a "Rating Decline" under the Company's senior notes, the Company would be required to make an offer to purchase all of the outstanding notes. The ownership threshold under the Convertible Notes is 50% or more and under the Senior Notes is 35% or more. A change of control may also be triggered by certain changes to the composition of the Company's Board of Directors among other things. The Company's note indentures are available on SEDAR and contain the details of the change of control provisions.

FINANCING ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

As at June 30, 2011, we had secured and unsecured short-term borrowings of $116.8 million, consisting of $69.0 million of short-term bank loans and $47.8 million of trust receipt loans. We had long-term debt, including the current portion, of principal amount of $1.9 billion. Our borrowings were mainly denominated in U.S. dollars and Renminbi.

Short-term borrowings

As at June 30, 2011, we had $238.8 million of short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As at June 30, 2011, $116.8 million in respect of bank indebtedness and $11.1 million in respect of other bank instruments were utilized. Pursuant to the amended provisions of the indenture governing the 9.125% guaranteed senior notes due 2011 and the indentures governing the 10.25% guaranteed senior notes due 2014 (the "2014 Senior Notes") and the 6.25% guaranteed senior notes due 2017, the maximum aggregate amount of the short-term borrowings and other indebtedness which is at any time outstanding may not exceed an amount equal to 10.0% of our total consolidated assets, but in any case may not exceed $400.0 million. Interest is payable on these short-term borrowings at a weighted average rate of 3.9% per annum, and the borrowings are either repayable on demand or due in less than one year. As at June 30, 2011, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate carrying amount of approximately $62.7 million and certain bank deposits of $29.4 million.

Other contractual obligations

As at June 30, 2011, we had other contractual obligations relating to: (1) approximately $68.1 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $292.7 million of capital commitments with respect to timber holdings, buildings and plant and machinery; (3) $312.5 million of purchase commitments mainly regarding wood logs; (4) commitments under operating leases of approximately $253.2 million; and (5) $1.9 billion principal amount of long-term convertible and non-convertible guaranteed senior notes and Greenheart convertible notes.

Scheduled maturity of contractual obligations

The following table presents the scheduled maturities of our contractual obligations as at June 30, 2011:

		Payment due by period			
	Total $'000	Within one year $'000	In the second and third year $'000	In the fourth and fifth year $'000	After the fifth year $'000
Long-term debt (4)	1,917,187	87,670	345,000	424,517	1,060,000
Capital contributions	68,110	6,000	62,110	—	—
Capital commitments (5)	292,668	292,668	—	—	—
Purchase commitments	312,455	247,286	29,430	35,739	—
Operating leases (6)	253,212	18,474	31,676	29,358	173,704
Total contractual obligations	2,843,632	652,098	468,216	489,614	1,233,704

Under an assignment agreement entered in May 2010, pursuant to which an agreement entered into in July 2006 to secure at least 1.5 million m^3 of wood fibre annually in Inner Mongolia up to July 2018 was assigned to us, we have acquired approximately 1.17 million m^3 of wood fibre as at June 30, 2011.

Under a long term wood supply agreement entered in July 2010, the supplier has agreed to provide, and the Company has agreed to acquire, at least 600,000 m^3 of wood fibre annually for a period not longer than 10 years in Russia. We have acquired approximately 317,700 m^3 of wood fibre pursuant to this agreement as at June 30, 2011.

Under master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, we have acquired approximately 226,300 hectares of plantation trees for $926.5 million as at June 30, 2011.

Under a master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, we have actually acquired approximately 230,200 hectares of plantation trees for $1.2 billion as at June 30, 2011.

Under a master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, we have acquired approximately 137,100 hectares of plantation trees for $690.6 million as at June 30, 2011.

Under a master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, we have not acquired any hectares of plantation trees as at June 30, 2011.

Under a master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, we have acquired approximately 69,100 hectares of plantation trees for $309.6 million as at June 30, 2011.

Under a master agreement entered in January 2010 to acquire 150,000 hectares of plantation trees over a 3-year period in Guizhou, we have acquired approximately 38,200 hectares of plantation trees for $201.4 million as at June 30, 2011.

Under a master agreement entered in May 2011 to acquire 200,000 hectares of plantation trees over a 10-year period in Shaanxi, we have not acquired any hectares of plantation trees as at June 30, 2011.

Under a master agreement entered in May 2011 to acquire 66,667 hectares of plantation trees over a 10-year period in Yunnan, we have not acquired any hectares of plantation trees as at June 30, 2011.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As at June 30, 2011, we had provided guarantees of approximately $169.5 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

EXPENDITURES ON TIMBER HOLDINGS AND MANUFACTURING SUBSIDIARIES

The following table sets forth the breakdown of our expenditures on timber holdings (both planted and purchased) for the three months and six months ended June 30, 2011 and 2010:

	Three months ended June 30,				**Six months ended June 30,**			
	2011		2010		**2011**		2010	
	Hectares	**$'million**	Hectares	$'million	**Hectares**	**$'million**	Hectares	$'million
Plantation acquisition	**44,457**	**258.6**	39,137	203.8	**144,491**	**733.2**	76,441	392.7
Re-planting of plantations and maintenance		**5.1**		8.3		**8.9**		15.5
Manufacturing and others		**5.8**		10.2		**14.6**		12.3
Business acquisition		**0.2**		—		**0.2**	86,786	17.9
Total		**269.7**		222.3		**756.9**		438.4

Expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees and various plantation management costs, including land lease costs and, the costs of planting, developing seedlings, fertilization, insecticide, labour and plantation maintenance service fees. Expenditures for manufacturing plants included the costs of constructing the facilities, purchasing and installing production line equipment, and costs of investment properties.

Management will review its planned acquisition pace and adjust these projected expenditures as necessary based on several factors, including some that that may be beyond our control such as changes in the macroeconomic environment in the PRC. Further, management expects that, subject to unanticipated developments, at least until the completion of the Independent Committee's examination and the release of the summary of its report, the pace of tree acquisition by the Company will be maintained at a sustaining level which is dictated by cash flows generated by sales of trees under the BVI structure being utilized to acquire additional plantations. However, the replanting of 200,000 hectares in the next two to three years will remain a top priority and the Company expects to explore financing within the PRC through bank loans to fund replanting.

AGING OF TRADE RECEIVABLES

Plantation fibre operations

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

		Aging Analysis					
	Total	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	Over One Year
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At June 30, 2011	**217,052**	**42,041**	**35,769**	**69,578**	**—**	**51,283**	**18,381**
At December 31, 2010	467,659	258,483	—	158,488	8,998	17,534	24,156

Trading of wood logs operations, Manufacturing and other operations, Greenheart operations

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

	Total	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	Over One Year
	Aging Analysis						
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At June 30, 2011	**172,989**	**32,284**	**40,443**	**27,134**	**45,530**	**11,570**	**16,028**
At December 31, 2010	168,967	97,917	30,570	21,531	3,195	13,173	2,581

Currently, as there is no indication that our trade receivables are non-collectible, we have not established an allowance. To mitigate the risk on these receivables, we have established relationships with customers who have a very good credit rating and solid reputation.

OFF-BALANCE SHEET ARRANGEMENTS

Other than the conversion feature of our Convertible Notes as noted above, 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 at June 30, 2011. 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 IFRS and are more fully discussed above.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, Sino-Forest pays the salaries of the Chairman and Chief Executive Officer and the President in the form of consultancy fees to companies controlled by the noted executive officers.

The consultancy fees incurred for the three months and six months ended June 30, 2011 amounted to $153,000 [three months ended June 30, 2010 – $152,000] and $305,000 [six months ended June 30, 2010 – $305,000], and were recorded at an exchange amount as agreed upon by the related parties.

In addition, as at June 30, 2011, no amount [December 31, 2010 – $7,632,000] was payable for consultancy fees to these related companies.

Compensation of key management personnel of the Company

	Three months ended June 30,		**Six months ended June 30,**	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Short-term employee benefits	**3,509**	3,196	**6,909**	6,221
Equity compensation benefits	—	—	**1,478**	—
	3,509	3,196	**8,387**	6,221

NON-IFRS MEASURES

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

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

QUARTERLY FINANCIAL INFORMATION

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

The following table summarizes our selected quarterly financial information for each of the eight quarters ended June 30, 2011:

	Revenue from continuing operations	Profit (Loss) from continuing operations	Profit (Loss) from discontinued operations	Earnings (Loss) per share(3) from continuing operations		(Loss) Earnings per share(3) from discontinued operations	
				Basic	Diluted	Basic	Diluted
	$'000	$'000	$'000	$	$	$	$
2011							
June 30	**317,384**	**447,225**	**(104)**	**1.82**	**1.64**	**(0.00)**	**(0.00)**
March 31	338,924	(22,384)	277	(0.09)	(0.09)	0.00	0.00
2010							
December 31*	767,273	160,368	9,149	0.66	0.62	0.04	0.03
September 30*	599,490	116,374	(274)	0.48	0.47	(0.00)	(0.00)
June 30	298,587	199,415	(455)	0.82	0.77	(0.00)	(0.00)
March 31	251,015	16,510	(595)	0.07	0.07	(0.00)	(0.00)
2009							
December 31*	469,570	97,349	15,350	0.43	0.43	0.07	0.06
September 30*	366,962	106,497	(880)	0.48	0.48	(0.00)	(0.00)

* This quarterly financial information has not been restated for the adoption of IFRS and is presented under Canadian GAAP. Information for quarters in 2010 will be restated under IFRS in the course of this year as the Company issues comparative IFRS financial statements for the remaining quarters of 2011.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements that comply with IFRS requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Our significant accounting policies are described in note 3 to the condensed interim consolidated financial statements for the three months ended March 31, 2011. Each policy involves a number of estimates and assumptions made by management. We base our estimates on historical experience and various other assumptions we believe 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, we evaluate our estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on our financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. We believe our most critical policies and estimates are those related to revenue recognition of plantation fibre, the valuation of timber holdings, impairment of capital assets, our income tax provision and the valuation of embedded derivatives.

Revenue recognition of plantation fibre

We sell standing timber at various stages of maturity to domestic wood dealers from our tree plantations, and this represents a significant portion of our consolidated revenue. The timing of recognition of revenue from plantation fibre sales depends on the terms and conditions of our contractual arrangements with our customers. To date, we have recognized substantially all of our plantation fibre revenue when we and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, we and the buyer will have negotiated the approximate timber volume and the expected harvest yield associated with a specified plantation area. The sales agreement typically provides the buyer with a fixed period of time over which the buyer is entitled to harvest the plantation on the specified plantation area; amounts due from the buyer are fixed at the time of entering into the agreement and are not subject to adjustment based on the actual amount of timber harvested by the buyer. Harvesting and all related costs have to date been the responsibility of the buyer and we have not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the plantation on the specified plantation area over the harvest period.

A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which we recognize revenue.

Valuation of timber holdings

Timber holdings represented approximately 63% of our consolidated total assets as at June 30, 2011. We measure our timber holdings at either: (i) the lower of cost and net realizable value; or (ii) fair value less costs to sell, based on their classification as purchased plantations, which are accounted for as inventory under IAS 2, or planted plantations, which are accounted for as biological assets under IAS 41, respectively. We measure planted plantations at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model. We believe the accounting estimates used in these valuations are critical accounting estimates because they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding timber market demand and pricing, cost of production such as harvesting costs, transportation costs, taxes and overhead costs, plantation risk such as fire, pest and disease, frost and typhoons, plantation growth and yield, future yield development and our weighted average cost of capital.

We measure planted plantations at initial recognition and at the end of each reporting period at fair value less costs to sell, by referring to valuations using a discounted cash flow model, for which we engage an independent consultant. If our best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, the fair value of our timber holdings could potentially be reduced, generating a material loss.

Impairment of property, plant and equipment, investment properties, intangible assets and goodwill

We evaluate the recoverability of the carrying value of our property, plant and equipment, investment properties, intangible assets and goodwill (or the cash-generating units to which they belong) whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of an existing property, plant and equipment, investment properties, intangible assets and goodwill, or otherwise change its use. If any such indication exists, we compare the asset's carrying value to its recoverable amount, calculated as the higher of fair value less costs to sell and value in use. In assessing value in use, we discount estimated future cash flows to their present value, using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the asset or cash-generating unit for which the estimates of future cash flows have not been adjusted. We measure impairment losses on property, plant and equipment, investment properties, intangible assets and goodwill or cash-generating units as the amount by which the carrying value of the asset or unit exceeds its recoverable amount.

We believe estimates related to impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding among other things, the impact of improvement plans on current operations, other new business opportunities, forecasted production volumes, cost of production assumptions on current and future business, and the appropriate discount rate to be applied in the calculation; and (ii) any resulting impairment loss could have a material impact on our consolidated financial statements and the reported property, plant and equipment, investment properties, intangible assets and goodwill amounts in the consolidated statement of financial position.

Business acquisitions

There is significant estimation and judgment in the recording of business acquisitions. This estimation and judgment includes the determination of the purchase price and the date of the business combination, and the allocation of the purchase price among the fair values of assets acquired and liabilities assumed. The Company frequently obtains the assistance of third parties in the determination of fair values of forestry and intangible assets.

The Company has completed the allocation of the fair values of the identifiable assets and liabilities for the acquisition of Mandra Forestry Holdings Limited. As part of the fair value allocation, the Company has requested a valuation by an independent valuation consultant to assist in determining the fair values of the assets and liabilities acquired. The final report of the consultant has not yet been made available to the Company and the Company is relying on preliminary estimates of value provided from the consultant as at the acquisition date. Significant risk exists that the values used by the Company may differ from those calculated by the independent valuation consultant. Any material differences between those amounts used by management and those calculated by the independent valuation consultant will be adjusted in these financial statements as the information becomes available to the Company.

Provision and contingencies for tax related liabilities

The provision for income taxes and contingent tax related liabilities and whether tax filings are required in a particular jurisdiction are subject to a number of different factors, estimates and judgments made by management. A change in the facts or in these estimates and judgments could have a material impact on the Company's tax expense.

The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and that are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions, changes in tax laws and administrative practice in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions.

In particular, the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. Under the terms of the relevant sales contracts and commission agreements made with the AI (collectively, the "AI Agreements"), the AI are responsible for withholding and remitting all relevant PRC taxes that arise from the Authorized Sales Activities.

Under the current PRC laws and regulations (which came into effect in 2008) relating to PRC Enterprise Income Tax ("EIT"), foreign companies deriving income from sources in the PRC are subject to EIT. For EIT payable by foreign companies not having an establishment in the PRC, the payer has the duty to withhold and pay. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are also subject to EIT because of the Authorized Sales Activities.

Should the PRC tax authorities recover EIT, 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 for up to a period from four (current year plus three prior years) to six years (current year plus five prior 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 triple amount of the tax underpaid.

Management has concluded that based on all available information it is appropriate to recognize in these financial statements a provision representing management's estimate, based upon a probability-weighted average, of the amounts the PRC tax authorities might seek to recover under various scenarios. In accordance with current PRC laws, regulations and practices relating to EIT, it is probable that the PRC tax authorities would compute tax on income of BVI Subsidiaries, engaged in Authorized Sales Activities in the PRC with AI, on the deemed profit percentage basis and it is probable that basis would be applied to income of the current year plus the three prior years. Applying this aforementioned basis of computation, at June 30, 2011 this provision is $204,722,000 [December 31, 2010 – $168,914,000], which amount mainly relates to the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current six months and in the four preceding years including discontinued operations.

The PRC tax authorities issued Circular 19 in February 2010 (the "Circular") stating that the deemed profit percentage for certain activities should be a minimum of 15%. The activities subject to this minimum percentage appear to include sales of plantation fibre. The Company has been assessing the effect of the Circular on the BVI

Subsidiaries and monitoring its interpretation and its application by the PRC tax authorities. Based upon the Company's analysis to date, the Company has recorded income tax based on a probability-weighted average method which considers various scenarios under which the Company's tax liabilities are determined.

Management applies significant estimates and judgment to determine the appropriate amount of tax related liabilities, and contingencies for such liabilities, to be recognized and disclosed in the financial statements respectively. The amount recognized as a provision is the best estimate of the consideration required to settle the liabilities at the end of the reporting period, calculated by weighting the possible outcomes flowing from the matters described above by their associated probabilities, taking into account the surrounding risks and uncertainties. The Company actively revisits and adjusts its measurement of this provision as it updates its analysis. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of related contingencies in a period.

Valuation of embedded derivatives

The Convertible Notes are convertible into our common shares, at the option of the holder, at a defined conversion rate; however, the indentures governing the terms of the Convertible Notes provide that we may elect to deliver, in lieu of our common shares, cash or a combination of cash and common shares. This feature is analyzed as an embedded derivative liability, measured separately at fair value at the end of each reporting period because it is not closely related to the underlying Convertible Notes, recognizing changes in fair value through profit or loss. The liability is measured using the Black-Scholes valuation model, incorporating inputs for factors including volatility, risk-free interest rates, and the liability's expected life. These inputs are, by their nature, unpredictable, and the resulting valuation of the embedded derivative will be inherently volatile. Changes in the amounts of the inputs and in the operation of the valuation model could materially increase or decrease the carrying amount of the embedded derivative liability in future periods.

FUTURE ACCOUNTING STANDARDS

The IASB and International Financial Reporting Interpretations Committee ("IFRIC") have issued certain new standards, interpretations, amendments and improvements to existing standards, mandatory for future accounting periods. The most significant of these are as follows, and are all effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted:

The IASB issued IFRS 9, *Financial Instruments* in November 2009 as the first step in its project to replace IAS 39 *Financial Instruments: Recognition and Measurement*; in particular, it introduces new requirements for classifying and measuring financial assets. The IASB intends to expand IFRS 9 before its effective date to add new requirements for classifying and measuring financial liabilities, derecognizing financial instruments, impairment and hedge accounting. The IASB has proposed to adjust the effective date of IFRS 9 to January 1, 2015.

IFRS 10, 11, 12 and 13 were all issued in May 2011. IFRS 10 *Consolidated Financial Statements* replaces the consolidation guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation — Special Purpose Entities* by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee. IFRS 11 *Joint Arrangements* introduces new accounting requirements for joint arrangements, replacing IAS 31 *Interests in Joint Ventures*. It eliminates the option of accounting for jointly controlled entities by using proportionate consolidation. IFRS 12 *Disclosure of Interests in Other Entities* requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement.

IFRS 13 *Fair Value Measurement* replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. It defines and provides guidance on determining fair value and requires disclosures about fair value measurements, but does not change the requirements regarding which items are measured or disclosed at fair value.

In June 2011, the IASB amended IAS 1 *Presentation of financial statements* ("IAS 1") to require presenting items in other comprehensive income in two categories: items that might be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or as two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

The Company has not yet determined the impact of these standards and amendments on its financial statements.

RISKS AND UNCERTAINTIES

Other than as disclosed under "Forward Looking Statements" and "Recent Developments" above, there are no significant changes to the risk and uncertainties as described in our most recent annual information form, which is available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The Company acquired Greenheart Group in August 2010. Although the CEO and CFO have not identified any material weaknesses relating to the Greenheart Group's controls and procedures, they have not completed evaluating these controls and procedures or designing and implementing any necessary changes. Therefore, they have concluded it is appropriate to apply the provision in National Instrument 52-109 whereby acquisitions made not more than 365 days before the last day of the period covered in the interim filings may be excluded from the scope of the design of DC&P and ICFR, provided appropriate disclosure is made. Accordingly, the CEO and CFO have limited the scope of the design of DC&P and ICFR at June 30, 2011 to exclude controls, policies and procedures of Greenheart Group. The Company intends to include such controls, policies and procedures within the design of DC&P and ICFR during the three months ended September 30, 2011. Summary financial information of the Greenheart Group included in the Company's consolidated financial statements is as follows:

As at and for the three months and six months ended June 30, 2011	**Three months ended June 30, 2011 $'000**	**Six months ended June 30, 2011 $'000**
Revenue	**5,424**	**6,521**
Net loss before non-controlling interests	**(3,439)**	**(8,278)**
Current assets	**71,336**	**71,336**
Non-current assets	**262,395**	**262,395**
Current liabilities	**(3,386)**	**(3,386)**
Non-current liabilities	**(41,110)**	**(41,110)**

Except as described above, the design and effectiveness of ICFR was assessed as of December 31, 2010. Based on that evaluation, the Company concluded that the design and effectiveness of the Company's DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. Management expects that the work currently being conducted by the Independent Committee and by PwC, as described under "Recent Developments" above, will also generate observations and recommendations relevant to this weakness, and intends to continue its work on mitigating this weakness in conjunction with its review of those recommendations.

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

There has been no change in the design of our ICFR during the six months ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, Sino-Forest's ICFR.

OUTLOOK

Management's overriding priorities are to maintain the operations of the business and to continue to support the work of the Independent Committee and its advisors and to cooperate with the OSC. Our company has been significantly impacted by the allegations made by Muddy Waters and the second quarter of 2011 was further impacted by management's focus on dealing with the allegations. We expect this will continue to be the case as the Independent Committee's review and the investigation of the OSC proceed. However, we believe that we will be able to overcome this difficult situation in due course. We look forward to the release of the Independent Committee's and PwC's findings.

Sino-Forest's business continues to be affected by a variety of macro-economic factors. On the one hand, the high inflation rate and property speculation have triggered interest rate increases and curbs on lending in China, which have impacted housing policy and building. This has resulted in the easing of log prices especially for construction and plywood manufacturing. On the other hand, we have benefited from our strategy of targeting inland provinces and third tier cities with consistent demand for wood fibre as those regions benefit from economic development such as investment in low-income housing and infrastructure construction.

Domestic log prices especially for eucalyptus and pine have been flat during the second quarter of 2011 due to reduced domestic demand, but management expects them to recover in the second half of 2011 or in the first quarter of 2012. At the same time, spending at the local government level increased 28% in the first half of 2011 to 11.7 trillion Renminbi even though spending by the Central government was down 3.8%, according to National Bureau of Statistics of China. Therefore, we remain optimistic regarding China's long-term development and growth, which in turn benefits the forestry sector as China remains a net wood fibre importer.

As our results indicated, there can be considerable variation from quarter to quarter in our gross profit margin and our financial performance in general depending on the sales mix of our standing timber sales. The sales mix in any quarter will vary by variety of species, yield per hectare, quality, diameter, location and other factors. The selling price of fibre in certain locations in China (e.g. Yunnan Province currently) is higher than other locations. As well, the price we paid for the standing timber and the period of time for which we have held it will also impact our gross profit margin. As noted above, the standing timber we sold in Yunnan Province in the three months ended June 30, 2010 was sold at a high price and acquired at a low cost, relative to our sales of standing timber for the three months ended June 30, 2011 from plantations primarily located in Guangxi and Guizhou Provinces. As the sales of broadleaf from Yunnan Province accounted for 97.8% of our standing timber sales in the three months ended June 30, 2010 compared to sales of pine and Chinese fir from Guangxi and Guizhou Provinces which accounted for 96.6% of our standing timber sales in the same period in 2011, our gross margin declined substantially in the three months ended June 30, 2011 relative to the same period in 2010.

Our gross profit margin for sales of standing timber in the three months ended June 30, 2011 is more representative as compared to the three months ended June 30, 2010 of our expected average gross profit margin for future sales. In addition, we have recently made the decision to sell our purchased plantations on a 2.5 to 3 year cycle rather than the previously used 3 year cycle. We made this decision based upon the current age profile of our standing timber and the period for which we have held it, relative to our need to have trees available for sale.

UPDATE ON THE INDEPENDENT COMMITTEE'S REVIEW

On June 2, 2011, Muddy Waters, LLC issued its Report containing various allegations regarding the Company, its assets, operations and financial results. As a result of the Report, on June 2, 2011, the Board of Directors of the Company appointed the Independent Committee to thoroughly examine and review the allegations contained in the Report, and report back to the Board of Directors. The Independent Committee has retained independent legal counsel in Canada, Hong Kong and mainland China. The Independent Committee is also using the services of PwC to assist with the examination. PwC is highly familiar with the forestry industry and with the business environment in China.

The scope of the Independent Committee's review is significant, reflecting the wide range of allegations contained in the Report. The Independent Committee and its advisors have worked, and will continue to work to compile and analyze the vast amount of data required for their comprehensive review of Sino-Forest's operations and business, the relationships between Sino-Forest and other entities, and Sino-Forest's ownership of assets.

At the beginning of the process, the Independent Committee informed the Board that the review would likely take at least two to three months. On August 11, 2011, the Independent Committee delivered its First Interim Report to the Board of Directors. The Independent Committee advised the Board as to the current scope of the review, provided a progress update and the anticipated timing of its next interim report and the completion of the review. The Independent Committee indicated it expected to provide a further interim report within six to eight weeks and currently believes that its review process will be completed prior to the Company's year end.

Throughout the fact finding exercise, the Independent Committee has faced challenges due among other issues to the decentralization of data necessary for the completion of its review. This has lengthened the period of time required for gathering and commencing analysis of vast amounts of electronic data and thousands of documents from all the subsidiaries of the Company, including contracts, government documentation, computer and server data, and other information that could relate to the allegations in the Report and the OSC investigation. This has been indicative of broader challenges associated with the sourcing and verification of data in China. Additionally, the cooperation with the OSC's investigation continues to require resources of management and the Independent Committee alongside the process of the Independent Committee's review.

Until the completion of its review, the Independent Committee believes it would be premature to provide any further updates, due to the breadth and generality of many of the allegations and their interrelated natures. When the review is finalized, the Company's intention is to share a summary of the findings publicly and announce all actions to be taken as a result of any recommendations from the Independent Committee.

(1) We define gross profit as revenue less cost of sales, plus or minus – for wood fibre operations - the change in fair value of timber holdings less estimated point-of-sale costs. We present a measure for gross profit because we believe certain investors find this useful in assessing our operating performance. In addition, we include the fair value change as part of our calculation of gross profit because the fair value change represents a portion of the total gain or loss we will ultimately realize on the underlying assets, and we believe this should be regarded as a component of our core operating performance. However, gross profit is not a recognized term under IFRS and should not be considered as an alternative to net income or as an indicator of operating performance or as any other measure of performance derived in accordance with IFRS. Because it is not a measure defined by IFRS, gross profit as calculated and presented by us may not be comparable to similar measures presented by other companies.

(2) We define EBITDA as operating profit for the year/period after adding back depreciation and amortization, as well as a component of timber holdings from cost of sales and changes in fair value of timber holdings less estimated point-of-sale costs for the year/period. We present EBITDA as additional information because we believe 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 IFRS 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 IFRS.

We calculate EBITDA as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
Operating profit	**31,241**	89,594	**124,552**	165,037
Add (less):				
- depreciation and amortization	**3,451**	2,556	**6,864**	4,750
- component of timber holdings from cost of sales	**125,432**	71,538	**231,153**	147,202
- change in fair value of timber holding less estimated point-of-sale costs	**(4,892)**	(1,296)	**(15,281)**	(11,714)
EBITDA	**155,232**	162,392	**347,288**	305,275

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

(4) Represents principal amount of the U.S. dollar denominated interest-bearing loans and borrowings due in 2011, 2013, 2014, 2015 and 2016.

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

(6) Represents mainly leases of plantation land.