



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

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P/K

**IN THE MATTER OF THE *SECURITIES ACT*,  
R.S.O. 1990, c. S.5, AS AMENDED**

**- AND -**

**IN THE MATTER OF  
SINO-FOREST CORPORATION, ALLEN CHAN, ALBERT IP, ALFRED  
C.T. HUNG, GEORGE HO AND SIMON YEUNG**

**AFFIDAVIT OF ANTHONY LONG  
(Sworn September 7, 2011)**

I, Anthony Long, of the City of Toronto, in the Province of Ontario, **MAKE OATH AND SAY as follows:**

1. I am a Senior Forensic Accountant with Staff of the Enforcement Branch ("Staff") of the Ontario Securities Commission (the "Commission") and have personal knowledge of the matters deposed to herein. Where I am informed by others I do believe that information to be true. I make this affidavit in support of Staff's request to extend temporary orders made by the Commission against Sino-Forest Corporation, a publicly traded Canadian company (TRE:TSX) ("Sino-Forest"), Allen Chan ("Chan"), Albert Ip ("Ip"), Alfred C.T. Hung ("Hung"), George Ho ("Ho") and Simon Yeung ("Yeung"), collectively the "Respondents".
2. A temporary cease trade order against the Respondents was originally made by the Commission on August 26, 2011 pursuant to section 127 (1) and (5) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the "Act") (the "TCTO") and was varied pursuant to an order under section 144(1) of the Act (together the "Temporary Order"). The Temporary

Order, a copy of which is attached as Exhibit 1, provides as follows:

- 1) pursuant to paragraph 2 of section 127(1) of the Act that all trading in the securities of Sino-Forest shall cease (the "General Cease Trade Order");
- 2) pursuant to paragraph 2 of section 127(1) of the Act that all trading by Chan, Ip, Hung, Ho and Yeung in securities shall cease (the "Individual Respondents' Cease Trade Order"); and
- 3) pursuant to section 127(6) of the Act that this order shall take effect immediately and shall expire on the fifteenth day after its making unless extended by order of the Commission.

### **Commencement of the Investigation**

3. Muddy Waters LLC ("MW"), an investment research firm, made serious allegations of breaches of securities laws by Sino-Forest in its research report released on June 2, 2011 (the "MW Report"). As acknowledged in the MW Report, MW had a short position in Sino-Forest shares at the time of the public release of the MW Report. Attached as Exhibit 2 is a copy of the MW Report. Attached as Exhibits 3 and 4 are two further MW commentaries dated June 13, 2011 and June 20, 2011 respectively.
4. On June 3, 2011, Sino-Forest announced the appointment of an independent committee (the "IC") to "thoroughly examine and review the allegations made in the MW Report and report back to the Board (of Directors)". Attached as Exhibits 5 and 6 are copies of press releases issued by Sino-Forest on June 3, 2011 announcing the appointment of the IC and certain advisors to the IC and on June 6, 2011 announcing the IC's appointment of PricewaterhouseCoopers LLP to assist in the investigation.
5. On June 6, 2011 Sino-Forest responded to the allegations made by MW. Attached as Exhibit 7 is a copy of the press release of Sino-Forest of June 6, 2011.
6. On June 8, 2011, the Commission announced that it had commenced an investigation into Sino-Forest ("Staff's Investigation"). Attached as Exhibit 8 is a copy of the press release of Sino-Forest referring to the announcement.

7. Staff continues to investigate this matter.
8. The allegations first raised by MW against Sino-Forest led various media to conduct their own inquiries. On June 20, 2011, Sino-Forest responded to one article. Attached as Exhibit 9 is a copy of that press release of Sino-Forest of June 20, 2011.

### **Recent Developments**

9. On June 14, 2011, Sino-Forest filed its interim financial statements and interim MD&A for the first quarter ended March 31, 2011 (the "Q1 Interim Filings") and on August 15, 2011 it filed its interim filings for the second quarter ended June 30, 2011 (the "Q2 Interim Filings"). Attached as Exhibits 10 and 11 are copies of the Q1 Interim Filings and Q2 Interim Filings.
10. In the Q1 Interim Filings and the Q2 Interim Filings, Sino-Forest referred to the MW Report and the appointment of the IC. For instance, in the Q2 Interim Filings, Sino-Forest stated the following:

"The Board of Directors and management believe that, based on the information currently available to them, the Interim Financial Statements were compiled in accordance with IAS 34 Interim Financial Reporting and the requirements of IFRS 1 First Time Adoption of International Financial Reporting Standards and fairly depict the financial condition and results of operations of the Company. However, in the event that the allegations set forth in the [MW] Report prove to be accurate, in whole or in part, the information set forth in the Interim Financial Statements may differ materially and the Interim Financial Statements could be subject to restatement. As a result, readers should exercise caution in relying on such financial statements."

11. Sino-Forest also stated as follows with respect to the planned auditor review of the condensed interim consolidated financial statements.

"The Company's external auditors were initially engaged to conduct a review of the interim financial statements for the three months ended March 31, 2011 in accordance with Canadian standards for the auditor review of interim financial statements. The Company's auditors have advised that they are unable to complete a review of the Interim Financial Statements until the completion of the examination and review by the Independent Committee and the auditors' considerations of the results thereof."

12. I am advised by Laura Lavalley, a member of Staff, that on the afternoon of August 24, 2011, Staff were informed that Hung and Ho had been temporarily suspended by Sino-Forest.
13. Hung is Vice-President, Corporate Planning and Banking, Hong Kong, of Sino-Forest. Ho is Vice-President, Finance (China), Hong Kong, of Sino-Forest. Attached as Exhibit 12 is a description of Hung and Ho as currently set out on Sino-Forest's website.
14. I am advised by Greg Gard, a member of Staff, ("Gard") that on August 25, 2011, Staff learned of the further suspension of Yeung who is Vice President - Operation within the Operation / Project Management group of Sino-Panel (Asia) Inc., a subsidiary of Sino-Forest.
15. I am advised by Gard that on August 26, 2011, Staff was informed during a telephone call with Rob Staley ("Staley"), counsel to Sino-Forest, and others that Ip's duties at Sino-Forest had been significantly curtailed by Sino-Forest. Ip is the Senior Vice-President, Development and Operations North-East and South-West China, of Sino-Forest as set out in Exhibit 12.
16. On August 28, 2011, Sino-Forest issued a press release announcing that Allen Chan had voluntarily resigned as Chairman, Chief Executive Officer ("CEO") and Director of Sino-Forest, pending completion of the review by the IC of the allegations made by MW. Sino-Forest further announced that its board of directors had appointed William Ardell as Chairman and Judson Martin as CEO ("Martin"). Attached as Exhibit 13 is a copy of the press release of Sino-Forest issued August 28, 2011.
17. In its August 28, 2011 press release, Sino-Forest announced that a fourth senior employee had been requested to act solely on the instructions of Martin. I am advised by Gard that Staff received confirmation from Staley on August 28, 2011 that the fourth senior employee is Ip. I am advised by Gard that on August 29, 2011, I received confirmation from Staley that Ip has no operational responsibilities and no decision-making authority.

18. Sino-Forest also announced in the press release issued August 28, 2011 that it had placed three employees on administrative leave, during which they have been relieved of their responsibilities but remain available to assist Sino-Forest if required. I am advised by Gard that on August 28, 2011, Staff received confirmation from Staley, counsel for Sino-Forest ("Staley"), that the three employees referred to in the press release as being on administrative leave were Hung, Ho and Yeung.

#### **The Parties Affected by the Orders**

19. As set out in further detail below, all the Respondents have been served with the Temporary Order and the Notice of Hearing and have either consented to or indicated through counsel that they do not oppose the extensions of the Temporary Order:
  - a) Sino-Forest has consented to the extension of the General Cease Trade Order to January 25, 2012;
  - b) Ip, Hung, Ho and Yeung have all consented to extensions of the Individual Respondents' Cease Trade Order to January 25, 2012; and
  - c) Chan has indicated that he does not oppose the extension of the Individual Respondents' Cease Trade Order to January 25, 2012.

Attached as Exhibit 14 are copies of signed consents received by Staff for Ip, Hung, Ho and Yeung.

20. I am advised by Hugh Craig ("Craig"), a member of Staff, that on August 29, 2011, Staff couriered certified copies of the Temporary Order to Staff in Hong Kong who had previously obtained contact information for the Individual Respondents in Hong Kong.
21. I am advised by Anna Perschy ("Perschy"), a member of Staff, that Staley worked with Staff to assist in serving the Individual Respondents and confirmed on August 29, 2011 Sino-Forest's position that it was appropriate that the General Cease Trade Order continue.
22. All the Respondents were personally served with a certified copy of the Temporary Order on August 29 or August 30, 2011. Attached as Exhibit 15 are copies of sworn affidavits to

that effect.

23. I am advised by Swapna Chandra, a litigator with Staff, that, commencing on August 29, 2011, Staff in Hong Kong have been in contact with various individual Respondents, either directly or through counsel they have retained in Hong Kong, to advise them of Staff's request to extend the Individual Respondents' Cease Trade Order to January 25, 2012, to ascertain their position regarding this extension and to ascertain whether they intended to attend at the hearing in Toronto in that regard.
24. I am advised by Craig that on August 30, 2011, Emile Cole ("Cole"), an Ontario lawyer, confirmed that she had been retained to act on behalf of Chan.
25. I am advised by Craig that on September 2, 2011 Cole informed Staff that Chan does not oppose the extension of the Individual Respondents' Cease Trade Order as against him until January 25, 2012. Cole further indicated at that time that she preferred that the hearing to extend the Temporary Order be scheduled later in the week commencing September 6, 2011.
26. On September 2, 2011, all the Respondents were served as follows with a certified copy of the Notice of Hearing of Staff's request to extend the Temporary Order:
  - a) Sino-Forest and Chan, who both had Ontario counsel, were served by emails to their respective counsel with a certified copy of the Notice of Hearing and a cover letter from Staff;
  - b) With respect to Hung and Ip whose counsel in Hong Kong had contacted Staff, they were served by emails to their respective counsel with a certified copy of the Notice of Hearing and a cover letter from Staff;
  - c) With respect to Ho and Yeung, as Staff had not been contacted by any counsel for them as of September 2, 2011, they were served with a certified copy of the Notice of Hearing and a cover letter from Staff by email to their last known email addresses. In the emails, Staff requested that Ho and Hung advise if they had retained counsel, their position in regard to the extension of the Individual Respondents' Cease Trade Order as against them to January 25, 2012 and whether

they intended to appear, or have counsel appear on their behalf, at the hearing on September 8, 2011.

Attached as Exhibit 16 is an affidavit of service to that effect.

27. On September 2, 2011, Desmond Yu ("Yu"), Hong Kong counsel to Ip, responded and advised that while he had no instructions to accept service as Ip intended to retain Canadian counsel, he would bring Staff's email and attachments to Ip's attention. Attached as Exhibit 17 is a copy of Yu's email of September 2, 2011. On September 5, 2011, Gallacher served Ip personally with a certified copy of the Notice of Hearing, a copy of which is Exhibit 15.
28. Between September 3 and 7, 2011, Ip, Hung, Ho and Yeung all provided through their respective counsel in Hong Kong signed consents to the extension of the Individual Respondents' Cease Trade Order to January 25, 2012. Copies of the signed consents are Exhibit 14.
29. I am advised by Craig that on September 6, 2011, Staley confirmed by telephone that Sino-Forest had no issues with respect to service of the Temporary Order or the Notice of Hearing. Staley further confirmed that Sino-Forest consented to an extension of the General Cease Trade Order to January 25, 2012.

#### **Progress of the Investigation and Request of Staff**

30. Staff continues to investigate the serious allegations set out in paragraphs 12, 13 and 14 of the TCTO.
31. Staff's Investigation involves complex issues. Sino-Forest has a complex corporate structure which involves approximately 150 subsidiaries, the majority of which are registered in the British Virgin Islands and People's Republic of China. Sino-Forest has offices in Ontario, Hong Kong as well as several offices in the People's Republic of China.



32. Staff's Investigation is a major undertaking and Staff has committed significant resources to it. Staff's work includes the interviewing of many witnesses, some of whom require interpreters, and the compilation and review of tens of thousands of documents, many of which are in Simplified Chinese or Traditional Chinese. Staff's Investigation also requires the gathering of significant quantities of information from jurisdictions outside of Canada.
33. Staff has requested certain information and documentation from Sino-Forest which has not yet been provided to Staff. During the course of Staff's Investigation, Staff has obtained information and documents which support the recitals of conduct contrary to Ontario securities laws and the public interest set out in paragraphs 12, 13 and 14 of the TCTO.
34. Staff is not in a position to disclose the information received thus far as such disclosure would seriously compromise Staff's Investigation.
35. I am aware that the investigation by the IC is also on-going. In a press release issued on August 15, 2011, Sino-Forest provided an update in regard to the IC's investigation. Sino-Forest referred to the challenges for the IC in conducting its investigation including the decentralization of data. Sino-Forest went on to state as follows regarding the timing of the investigation of the IC and its reports:


"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 review, provided a progress update and the anticipated timing of its next interim report and the completion of the review. The Independent Committee indicated that it expected to provide a further interim record within six to eight weeks and currently believes that its review process will be completed prior to the Company's year end."

Attached as Exhibit 18 is a copy of Sino-Forest's press release issued on August 15, 2011.




36. I make this Affidavit in connection with Staff's request to continue the General Cease Trade Order and the Individual Respondents' Cease Trade Orders until January 25, 2012 and for no other or improper purpose.

SWORN BEFORE ME at the City of Toronto, in  
the Province of Ontario, on September 7, 2011.

  
Commissioner for taking Affidavits

Daniela De Chellis, a Commissioner, etc.,  
Province of Ontario, for Government of Ontario,  
Ontario Securities Commission.  
Expires January 12, 2014.

  
Anthony Long