REPORT TO SHAREHOLDERS
(All amounts are expressed in U.S. dollars, unless otherwise indicated)

Sino-Forest is pleased to report outstanding financial performance in the second quarter 2008 while maintaining a solid balance sheet. Revenue from continuing operations of $187.1 million grew 45.3%, compared to last year. Overall gross profit increased 59.6% to $67.2 million; EBITDA rose 72.2% to $106.2 million and net income was up 98.1% to $43.4 million over same period 2007. Diluted EPS increased 81.6% to $0.24 in the second quarter 2008.

The increase in net earnings was attributable to higher-margin plantation fibre sales, specifically the sale of harvested logs from our integrated plantations.

Wood Fibre Operations includes plantation fibre and other fibre (imported wood products and wood logs).

- Sales of plantation fibre increased $55.1 million or 78.1% to $125.6 million in the second quarter of 2008, mainly as a result of the sale of logs harvested from 3,209 hectares of integrated plantations in Hunan and Yunnan Provinces.
- Sales of imported wood products dropped $5.1 million or 10.7% to $42.9 million from $48.0 million due to lower imports primarily from Russia.
- Sales of wood logs decreased $0.3 million or 2.2% to $1.1 million compared to $1.2 million in the same quarter last year.

Manufacturing and Other Operations includes particleboard, flooring, oriented strand board, finger-joint board and nursery businesses.

- Revenue increased 92.5% in the second quarter of 2008 to $17.5 million.

The key contributing factor to this favorable performance is related to the gross margin earned on harvesting and sales of logs from our integrated plantation operations. The cost of harvesting was much lower in the second quarter compared to the first quarter, and the average selling price increased 3.8% to $107 per cubic metre ("$m^3$"). As a result, we recorded a gross profit margin of $40 per m^3 at our integrated plantation operations, which exceeded both our guidance of $20 to $23 per m^3 and our first quarter result of $28 per m^3. As we continue to ramp up our integrated plantation operations this year, we will be on track to begin large-scale replanting in Hunan in 2009.

At our purchased and planted plantations, we recorded a consolidated 7.1% increase in log prices (excluding currency appreciation) compared to a year ago.

We are also very pleased to have entered into another long-term master agreement to acquire 200,000 hectares of trees at a cost not to exceed RMB350 per m^3 (approximately US$51 per m^3) in Fujian Province – located along the south-eastern coastal area, and under China's 11th Five-year Plan, designated among the top three provinces to supply wood fibre to the market. Fujian is a province where we have been operating since 2001. This strategic acquisition will further strengthen our position as a leading national supplier of quality wood fibre.

While we remain focused on creating shareholder value, Sino-Forest will seize opportunities to work with the State Forestry Administration in doubling fast-growing, high-yielding plantations from 7 million hectares to 13 million hectares by 2015 and the country's intention to privatize the operation of several million hectares of state-owned, secondary natural forest in various regions across China.

Allen T.Y. Chan
Chairman and Chief Executive Officer

August 12, 2008

Management's Discussion and Analysis

August 12, 2008

Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of Sino-Forest Corporation's operations for the six months ended June 30, 2008. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles ("GAAP"). This MD&A should be read in conjunction with Sino-Forest's unaudited 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 for the year ended December 31, 2007 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 forward-looking statements within the meaning 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 and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on 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, evaluation of our provision for income and related taxes and PRC economic, political and social conditions and government policy, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

Overview of Business

About Sino-Forest

We are a leading, foreign-owned, commercial forestry plantation operator in the People's Republic of China ("PRC"). As at June 30, 2008, we had approximately 327,000 hectares of forestry plantations located in southern, south-western and eastern China.

We began operations in 1994 as was of the first few foreign and privately-managed companies involved in forest products in China. Our principal businesses include the ownership and management of forestry plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments - **Wood Fibre Continuing Operations** are the major revenue contributor, while our **Manufacturing & Other Continuing Operations** enable us to add value to our fibre by producing downstream products.

Revenue from Wood Fibre Continuing Operations (hereinafter "Wood Fibre Operations") is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantation business models in seven provinces and regions across China.

Other Fibre

- *Wood logs* – we source logs from PRC suppliers and sell them in the domestic market; and
- *Imported wood products* – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing and Other Continuing Operations (hereinafter "Manufacturing and Other Operations") include:

- particleboard manufactured in Gaoyao, Guangdong Province;
- engineered wood flooring produced in Suzhou, Jiangsu Province and sold through over 200 stores nationwide in the PRC;
- oriented strand board manufactured in Muling City, Heilongjiang Province;
- finger joint board, block board and particleboard produced in Dongkou, Huaihua, Xiangxi and Yuanling in Hunan Province; and
- greenery & nursery operations based in Suzhou, Jiangsu Province.

Our Vision and Strategy

Our vision is to become the leading commercial forestry plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC.

Our strategy is to build on our competitive strengths and our business opportunities in the PRC in order to become a leading plantation developer and wood resource supplier in the PRC with established operations in or close to PRC regional markets, providing wood fibre to downstream consumers in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements for executing our strategy:

- expand our geographical locations, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufacturing products;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;
- improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing; and
- strengthen management processes and information systems to support the growth of our multi-faceted businesses.

Other Key Factors Affecting Our Business

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Market prices and demand for standing timber, wood logs and wood products have been, and in the future are expected to be, subject to cyclical fluctuations. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration materials and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes. The market for wood products is sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior decoration activity and the demand for wood chips in the pulp and paper markets. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- interest rates;
- government regulations and policies;
- population growth and changing demographics; and
- seasonal weather cycles (e.g. dry or hot summers, wet or cold winters) and other factors affecting tree growth.

Cyclical changes in the forest products industry, including changes in demand and pricing for our products and the other factors described above, could have a material adverse effect on our business, financial condition and results of operations.

Our decisions and abilities to develop and operate future forestry plantations are subject to various factors and uncertainties. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

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

We rely on our relationships with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on a number of large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

We are heavily dependent on the expertise of our senior management in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes and relationships cultivated by them with our major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. Violations of PRC laws or regulations, including PRC environmental policies and programs that apply to our forestry plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business.

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

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

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

Significant Accounting Policies and Interpretation

Cost of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (4) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

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

EBITDA

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

Significant Business Activities

Significant activities that have occurred during the six months ended June 30, 2008 and to the date of this report were as follows:

Updated Valuation of Forest Plantation Assets in China

In March 2008, the Company announced that it had received the updated, independent valuation of its commercial plantation assets as well as a prospective valuation of its proposed plantation development plans in China. Using a discounted cash flow methodology, Poyry Forest Industry Ltd ("Poyry") estimates that the existing forest plantation (single rotation only) as at December 31, 2007 had a value of approximately $1.2 billion and on a perpetual rotation basis, a value of approximately $3.2 billion. A copy of such valuation is available on SEDAR at www.sedar.com.

Sino-Forest Donates US$2 million to Sichuan Earthquake Relief Effort

In June 2008, the Company announced plans to donate US$2 million in support of the relief and reconstruction efforts in China's Sichuan province following the devastating earthquake which hit the region on May 12, 2008

Sino-Forest Corporation Announces and Closes Convertible Senior Notes Offering

In July 2008, the Company announced and closed an offering for US$300 million convertible senior notes (the "Notes") in the international markets. The Notes shall bear interest at a rate of 5.0% per annum, payable semi-annually and shall mature on August 1, 2013. The Notes will be convertible into common shares of the Company at a conversion price of US$20.29 (Cdn$20.32) per share, equivalent to a conversion rate of 49.2974 shares per US$1,000 principal amount of notes, subject to customary adjustments. The Company intends to use the net proceeds of the offering as to approximately $230 million, to acquire commercial plantation forests in the Fujian Province of the PRC; approximately $15 million to lease land and plant with Jatropha trees, and the balance of the net proceeds will be employed for general corporate purposes.

In August 2008, the Company announced the full exercise of the over-allotment option and subsequent closing of this transaction. Pursuant to the over-allotment option, the Company sold an additional US$45 million convertible senior notes.

Selected Consolidated Financial Information

Second Quarter and Year-to-Date Financial Information

The following table sets forth the selected unaudited financial information for the three months and six months period ended June 30, 2008 and 2007 and our financial position as at June 30, 2008 and December 31, 2007:

(in thousands, except earnings per share and common shares outstanding)	**Three months ended June 30** 2008 $	[Restated] 2007 $	**Six months ended June 30** 2008 $	[Restated] 2007 $
Operating Results				
Revenue (1)	**187,125**	128,764	**323,262**	241,541
Cost of sales (1)	**119,878**	86,636	**209,136**	167,322
Gross profit (2)	**67,247**	42,128	**114,126**	74,219
Net income from continuing operations	**44,533**	22,980	**60,147**	34,686
Net income	**43,401**	21,910	**57,928**	33,420
EBITDA (3)	**106,247**	61,697	**179,858**	108,648
Net earnings from continuing operations per share (4)				
Basic	**0.24**	0.14	**0.33**	0.22
Diluted	**0.24**	0.14	**0.33**	0.22
Net earnings per share (4)				
Basic	**0.24**	0.13	**0.32**	0.22
Diluted	**0.24**	0.13	**0.31**	0.21

	As at June 30, 2008	As at December 31, 2007
	$	$
Financial Position		
Current assets	**475,851**	527,028
Non-current assets	**1,558,659**	1,310,469
Total assets	**2,034,510**	1,837,497
Current liabilities (including current portion of long-term debt)	**235,260**	197,003
Long-term debt (net of current portion)	**442,926**	441,985
Total shareholders' equity (net assets)	**1,346,126**	1,187,298
Cash dividends declared per share	**Nil**	Nil
Common shares outstanding	**182,697,961**	182,592,961

Results of Operations – YTD 2008 vs YTD 2007

The following table sets forth the breakdown of our total revenue for the six months ended June 30, 2008 and 2007:

	2008		2007	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**228,261**	**70.6**	121,824	50.4
Other Fibre	**68,195**	**21.1**	104,927	43.5
Manufacturing and Other Operations	**26,806**	**8.3**	14,790	6.1
Total Revenue	**323,262**	**100.0**	241,541	100.0

Revenue increased 33.8% from $241.5 million in the first half of 2007 to $323.3 million in the first half of 2008. The increase was due primarily to higher revenue from sale of plantation fibre and manufacturing operations, partially offset by a decline in sales of other fibre, specifically imported wood products.

For the six months ended June 30, 2008 and 2007, plantation fibre sales were as follows:

		2008			2007	
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**23,303**	**5,749**	**133,976**	26,627	4,448	118,431
Integrated plantations	**7,463**	**12,523**	**93,461**	—	—	—
Heyuan Pine Undertaking	—	—	—	880	1,667	1,467
Planted plantations	**392**	**2,102**	**824**	987	1,951	1,926
Total	**31,158**	**7,326**	**228,261**	28,494	4,275	121,824

Plantation fibre revenue increased 87.4% to $228.3 million year-to-date 2008. The increase was mainly due to the sale of logs harvested from 7,463 hectares of integrated plantations in 2008 compared to none in 2007.

The total volume of fibre sold during year-to-date 2008 was approximately 3.2 million cubic metres, with approximately 2.3 million m^3 from purchased and planted plantations, and approximately 0.9 million m^3 from integrated plantations. In the same period last year, we sold a total of 2.4 million m^3 (including Heyuan Pine Undertaking) from purchased and planted plantations, and no trees from our integrated plantations.

The average yield of harvested logs sold under the integrated plantation was 120 m^3 per hectare and it commanded an average selling price of $105 per m^3. Gross margin for logs sold under the integrated plantation operations was 32% or $33 per m^3.

The average yield of standing timber sold under the purchased and planted plantations was 95 m^3 per hectare compared to 84 m^3 per hectare same quarter last year and obtained an average selling price of $60 per m^3 compared to $51 per m^3 – an increase of 17.6% (10.8% from the appreciation of the Renminbi to US dollars).

Gross profit increased 53.8% from $74.2 million in the first half of 2007 to $114.1 million in the first half of 2008. Gross profit margin, or gross profit percentage of total revenue, increased from 30.7% in the first half of 2007 to 35.3% in the first half of 2008. The increase was due primarily to relatively more revenue from standing timber which commanded higher margin.

Selling, general and administration expenses increased 28.0% from $16.6 million in the first half of 2007 to $21.3 million in the first half of 2008, primarily due to additional staff compliment.

Net income increased 73.3% from $33.4 million in the first half of 2007 to $57.9 million in the first half of 2008. Diluted earnings per share increased 48.9% from $0.21 to $0.31.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows:

Six months ended June 30, *(in millions)*	**2008** **$**	[Restated] 2007 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations [(5)]	**159.9**	88.2
Net change in working capital [(6)]	**(27.6)**	(23.2)
Total	**132.3**	65.0
Cash flows from operating activities of discontinued operations	—	4.1
Cash flows used in investing activities	**(252.9)**	(158.9)
Cash flows (used in) from financing activities	**(6.5)**	383.5
Effect of exchange rate changes on cash and cash equivalents	**2.5**	2.6
Net (decrease) increase in cash and cash equivalents	**(124.6)**	296.3

Cash Flows from Operating Activities of Continuing Operations

Net cash provided by operations increased from $65.0 million to $132.3 million in 2008. The increase was primarily due to the increase in cash provided by operations.

Cash Flows Used in Investing Activities

In 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing facilities. Our cash outlays for our forestry plantations amounted to $157.4 million in 2007 and $199.0 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $2.9 million in 2007 and $18.5 million in 2008. An increase in non-pledged short-term deposits in 2008 amounted to $10.4 million compared to a decrease of $1.4 million in 2007. In addition, we have paid $1.9 million for business acquisition and $23.1 million for other assets in 2008.

Cash Flows (Used In) From Financing Activities

In 2008, cash flows used in financing activities consisted of the proceeds from the issuance of shares of $0.3 million, offset by an increase in pledged short-term deposits of $2.7 million and the payment on derivative financial instrument of $2.1 million, and a decrease in bank indebtedness of $1.9 million. In 2007, cash flows from financing activities consisted of primarily net proceeds from issuance of shares of $384.8 million and a decrease in pledged short-term deposits of $2.1 million, offset by a decrease in bank indebtedness of $2.4 million and the payment on derivative financial instrument of $0.9 million.

Results of Operations – Q2 2008 vs Q2 2007

Revenue

The following table sets forth the breakdown of our total revenue for the second quarters ended June 30, 2008 and 2007:

	2008		2007	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**125,591**	**67.1**	70,508	54.8
Other Fibre	**44,008**	**23.5**	49,151	38.2
Manufacturing and Other Operations	**17,526**	**9.4**	9,105	7.0
Total Revenue	**187,125**	**100.0**	128,764	100.0

Total revenue increased 45.3% to $187.1 million in the second quarter of 2008 due primarily to higher sales of plantation fibre, specifically integrated plantations and manufactured and other products, offset by a decrease in the sales of other fibre, specifically imported wood products.

Wood Fibre Operations Revenue

Plantation Fibre

For the second quarters ended June 30, 2008 and 2007, plantation fibre sales were as follows:

		2008			2007	
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**14,128**	**5,927**	**83,732**	15,477	4,461	69,036
Integrated plantations	**3,209**	**12,811**	**41,112**	—	—	—
Planted plantations	**328**	**2,277**	**747**	726	2,028	1,472
Total	**17,665**	**7,110**	**125,591**	16,203	4,352	70,508

Plantation fibre revenue increased 78.1% to $125.6 million in the second quarter 2008. The increase was mainly due to the sale of logs harvested from 3,209 hectares of integrated plantations in 2008 compared to none in 2007.

The total volume of fibre sold during the second quarter was approximately 1.8 million cubic metres, with approximately 1.4 million m^3 from purchased and planted plantations, and approximately 0.4 million m^3 from integrated plantations. In the same quarter last year, we sold a total of 1.4 million m^3 from purchased and planted plantations, and no trees from our integrated plantations.

The average yield of harvested logs sold under the integrated plantation was 120 m^3 per hectare and it commanded an average selling price of $107 per m^3. Gross margin for logs sold under the integrated plantation operations was 37% or $40 per m^3.

The average yield of standing timber sold under the purchased and planted plantations was 96 m^3 per hectare compared to 84 m^3 per hectare same quarter last year and obtained an average selling price of $61 per m^3 compared to $52 per m^3 – an increase of 17.3% (including 10.2% appreciation Renminbi versus US dollars).

Plantation fibre sales comprised 67.1% of total revenue in 2008, compared to 54.8% in 2007.

Other Fibre

Revenue from sales of imported wood products decreased 10.7%, from $48.0 million in 2007 to $42.9 million in 2008. This decrease was primarily due to lower average selling price as a result of a change of product mix from expensive wood logs to lower cost but higher margin wood logs.

Revenue from sales of wood logs decreased 2.2% to $1.1 million in 2008 due to limited harvesting of secondary natural forest as our local partner in Inner Mongolia decided to wait for further details on the tariffs to be imposed by the Russian government.

Other fibre sales comprised 23.5% of total revenue in 2008, compared to 38.2% of total revenue in 2007.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 92.5% from $9.1 million in 2007 to $17.5 million in 2008 mainly due to higher revenue from sales of engineering wood flooring and relatively new processing facilities in Hunan province.

Cost of Sales

Cost of sales increased 38.4%, from $86.6 million in 2007 to $119.9 million in 2008, due primarily to higher sales volumes of plantation fibre and manufacturing products.

Wood Fibre Operations Cost of Sales

Plantation fibre cost of sales increased 101.9%, from $29.4 million in 2007 to $59.4 million in 2008. The increase reflected primarily the 85.1% increase in cost of sales per hectare of standing timber from $1,817 per hectare in 2007 to $3,364 per hectare in 2008 because we sold logs harvested from our plantations in Hunan and Yunnan which had a higher cost.

Imported wood products cost of sales decreased 12.3%, from $46.7 million in 2007 to $40.9 million in 2008, primarily reflecting the decrease in the sales volumes of our imported log trading business.

Wood logs cost of sales decreased 19.5%, from $1.1 million in 2007 to $0.9 million in 2008, as a result of no sales of logs from Inner Mongolia.

Manufacturing and Other Operations Cost of Sales

The cost of sales of manufacturing and other operations increased 97.9% from $9.4 million in 2007 to $18.6 million in 2008, primarily due to an increase in sales volume and cost of production.

Gross Profit

Gross profit increased 59.6%, from $42.1 million in 2007 to $67.2 million in 2008. Gross profit margin (gross profit as a percentage of total revenue) on average increased from 32.7% in 2007 to 35.9% in 2008 mainly due to the higher proportion of sales of plantation fibre which has a higher gross profit margin compared to other fibre.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of purchased and planted plantations increased from 58.2% in 2007 to 60.3% in 2008 due to higher selling prices. The gross profit margin for sales of logs under the integrated plantation operations was 37.1%.

Gross profit margin from sales of imported wood products increased from 2.7% in 2007 to 4.5% in 2008.

Gross profit margin from sales of wood logs increased from 6.8% in 2007 to 23.4% in 2008 as a result of more sales of logs from North-East China which commanded a higher margin when compared to sales of logs from Inner Mongolia.

Manufacturing and Other Operations Gross Loss

Gross loss margin from our manufacturing and other operations increased from 3.4% in 2007 to 6.3% in 2008, primarily due to increased cost of production of our manufacturing plants. Management is not satisfied with the current results realized by the Manufacturing segment. We continue to review and monitor the operations on a quarterly basis for improvements. In the event that these improvements are not realized, further potential write downs to reflect the impairment in value may be required.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 1.1%, from $9.9 million in 2007 to $10.0 million in 2008, due primarily to additional staff compliment.

Depreciation and Amortization

Depreciation and amortization increased 1.4%, from $1.1 million in 2007 to $1.1 million in 2008, due to the increased capital assets, partially offset by the write-down of certain manufacturing facilities during the fourth quarter of 2007.

Income from Operations

Income from operations increased 80.1%, from $31.2 million in 2007 to $56.2 million in 2008, due to the factors explained above. Our income from operations as a percentage of revenue increased from 24.2% in 2007 to 30.0% in 2008.

Interest Expense

Interest expense decreased 11.8%, from $11.2 million in 2007 to $9.9 million in 2008, due primarily to lower bank indebtedness and lower interest rate on our floating rate debt.

Interest Income

Our interest income decreased 40.4%, from $3.6 million in 2007 to $2.2 million in 2008, due primarily to lower cash and cash equivalents and short-term deposits.

Exchange Losses

Exchange losses increased 140.9% from a gain of $1.9 million in 2007 to a loss of $0.8 million in 2008 due to weakening of the U.S. dollar against the Hong Kong dollar and Renminbi.

Loss on Changes in Fair Value of Financial Instruments

During the quarter, the Company recorded a gain in the amount of approximately $1.2 million related to changes in fair value of financial instruments, including a gain of $1.4 million on the foreign currency swap, partially offset by a loss of $0.2 million on the embedded conversion option of the convertible bonds issued by Omnicorp.

Other Income

Other income increased 172.4% from $0.3 million in 2007 to $0.9 million in 2008 was primarily due to the accretion of convertible bonds of Omnicorp Limited during the second quarter of 2008.

Provision for Income Taxes

In 2008, the provision for income taxes was $5.2 million compared to $3.6 million in 2007; the increase was primarily due to the adoption of a new accounting policy for uncertainty in income tax and higher income for the period.

Net Income from Continuing Operations

As a result of the foregoing, net income from continuing operations for 2008 increased 93.8%, from $23.0 million in 2007 to $44.5 million in 2008. Overall net profit margin from continuing operations increased from 17.8% in 2007 to 23.8% in 2008.

Issued and Outstanding Share Capital

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 182,697,961 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 186,541,414 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,843,453 outstanding stock options.

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 obtain new forestry plantations either in the form of standing timber or logs, to develop our existing forestry plantations, for imported logs trading, for working capital requirements, to service our short-term and long-term borrowings and to invest in and develop our manufacturing facilities.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows:

Three months ended June 30, *(in millions)*	**2008** **$**	2007 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations (5)	**96.8**	52.4
Net change in working capital (6)	**3.4**	(33.7)
Total	**100.2**	18.7
Cash flows from operating activities of discontinued operations	—	0.1
Cash flows used in investing activities	**(130.9)**	(78.8)
Cash flows from financing activities	**3.5**	382.5
Effect of exchange rate changes on cash and cash equivalents	**1.1**	2.4
Net (decrease) increase in cash and cash equivalents	**(26.1)**	324.9

Cash Flows from Operating Activities of Continuing Operations

Net cash provided by operations increased from $18.7 million to $100.2 million in Q2 2008. The increase was primarily due to the increase in cash provided by working capital mainly resulting from the increase in accounts payable for imported wood products.

Cash Flows Used in Investing Activities

In 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing facilities. Our cash outlays for our forestry plantations amounted to $80.1 million in 2007 and $115.4 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $1.9 million in 2007 and $8.5 million in 2008.

An increase in non-pledged short-term deposits in 2008 amounted to $6.4 million compared to a decrease of $3.1 million in 2007. In addition, we have paid $0.7 million for other assets in 2008.

Cash Flows From Financing Activities

In 2008, cash flows from financing activities consisted of an increase in bank indebtedness of $4.0 million and issuance of shares of $0.3 million and offset by an increase in pledged short-term deposits of $0.8 million. In 2007, cash flows from financing activities consisted of primarily net proceeds from issuance of shares of $384.8 million and a decrease in pledged short-term deposits of $1.1 million, offset by a decrease in bank indebtedness of $3.3 million.

Financing Arrangements and Contractual Obligations

As of June 30, 2008, we had secured and unsecured short-term borrowings of $55.7 million, consisting of $37.6 million of short-term bank loans and $18.1 million of trust receipt loans. We had long-term debt of $442.9 million. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of June 30, 2008, we had $158.0 million credit facilities with banks in Hong Kong and the PRC to fund working capital requirements of which $76.5 million was being utilized. Interest is payable on these borrowings at a weighted average rate of 6.7% per annum, and the borrowings are either repayable on demand or due in less than one year. As of June 30, 2008, the credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $9.6 million and certain bank deposits of $3.1 million.

Other Contractual Obligations

As of June 30, 2008, we had other contractual obligations relating to: (1) approximately $12.0 million in respect of capital contributions to our Wholly Foreign Owned Enterprise ("WFOE"); (2) $49.1 million of capital commitments with respect to buildings, timber holdings, and plant and machinery; (3) $18.7 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $69.2 million; and (5) $442.9 million long-term non-convertible guaranteed senior notes, syndicated and bank loans.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of June 30, 2008:

	Payment Due by Period				
	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	$'000	$'000	$'000	$'000	$'000
Long-term debt (7)	**442,926**	—	**148,381**	**294,545**	—
Capital contributions	**11,980**	**11,980**	—	—	—
Capital commitments (8)	**49,092**	**49,092**	—	—	—
Purchase commitments	**18,743**	**18,743**	—	—	—
Operating leases (9)	**69,197**	**15,533**	**5,170**	**4,390**	**44,104**
Total Contractual Cash Obligations	**591,938**	**95,348**	**153,551**	**298,935**	**44,104**

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 65,805 hectares of plantation trees for $272.5 million as at June 30, 2008.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88.1 million as at June 30, 2008.

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre for twelve years in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at June 30, 2008.

Under the master agreement entered in December 10, 2007 to acquire 150,000 hectares of plantation trees for five years in Guangxi, the Company has acquired 30,719 hectares of standing timber for $116.9 million as at June 30, 2008.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of June 30, 2008, we had provided guarantees of approximately $130.7 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.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the second quarters ended June 30, 2008 and 2007:

	Three months ended June 30				**Six months ended June 30**			
	2008		2007		**2008**		2007	
(in millions)	**Hectares**	**$**	Hectares	$	**Hectares**	**$**	Hectares	$
Tree acquisition	**14,165**	**111.0**	15,928	76.4	**41,871**	**188.9**	30,344	150.0
Re-planting and maintenance of plantations		**4.2**		6.4		**8.6**		9.8
Panel manufacturing and others		**8.5**		1.9		**18.5**		2.9
Total		**123.7**		84.7		**216.0**		162.7

Aging of Accounts Receivable

We recognize revenue from sales of standing timber when the buyer has signed the sales contract. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber up to 18 months to log and haul the timber from the plantations, and generally grant buyers a credit period of up to nine months from the date of the sales contract. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. In addition, we perform credit evaluation on customers as necessary and have monitoring processes intended to mitigate credit risk and maintain appropriate provisions for potential credit losses. We believe these measures mitigate our credit risks in our sales of standing timber. We generally grant our customers in our trading activities credit terms of 30 to 120 days with respect to domestic sales of imported logs and wood-based products. As a result, we may have large outstanding balances of accounts receivable with respect to sales of wood-based products and standing timber. The following table sets forth an aging analysis of our accounts receivable for 2008 and 2007:

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
As at June 30, 2008	**157,406**	**98,777**	**31,650**	**10,108**	**12,061**	**4,763**	**47**
At December 31, 2007	105,329	81,980	6,006	13,360	3,704	279	—

Off-Balance Sheet Arrangements

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of June 30, 2008. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

Transactions with Related Parties

Pursuant to the respective service agreements, Sino-Forest pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the quarter ended June 30, 2008 amounted to $150,000 [June 30, 2007 – $151,000] were recorded at exchange amount as agreed upon by the related parties.

In addition, as at June 30, 2008, we had an aggregate amount of $nil [December 31, 2007 - $3,950,000] owed to these related companies.

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 is a summary of our selected quarterly financial information for each of the eight quarters ended June 30, 2008:

	[Restated]	[Restated]	[Restated] Earnings Per Share (4)	
	Revenue	Net Income	Basic	Diluted
(in thousands, except per share amounts)	$	$	$	$
2008				
June 30	**187,125**	**43,401**	**0.24**	**0.24**
March 31	136,137	14,527	0.08	0.08
2007				
December 31	310,850	55,470	0.30	0.30
September 30	161,475	63,383	0.35	0.35
June 30	128,764	21,910	0.13	0.13
March 31	112,777	11,510	0.08	0.08
2006				
December 31	233,261	55,000	0.40	0.39
September 30	150,818	40,014	0.29	0.29

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting policies requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in Note 1 to the consolidated financial statements for the year ended December 31, 2007. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber Holdings

Timber holdings represented 67.3% of the Company's consolidated total assets as at June 30, 2008. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carry amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

The Company believes that accounting estimates related to timber holding 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 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 the Company's weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated income statement and the reported timber holdings amount in the Company's consolidated balance sheet.

To assist with its impairment assessments, the Company engages an outside consultant to help derive cash flow estimates and to estimate the fair value of its existing timber holdings using a discounted cash flow valuation model. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, Sino-Forest could potentially experience future impairment charges and such charges could be material.

Capital Assets

The Company evaluates the recoverability of the carrying value of its capital assets whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing capital asset. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on capital assets are measured as the amount by which the carrying value of the asset exceeds its fair value.

The Company believes that estimates related to capital assets 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 the impact of improvement plans on current operations, other new business opportunities, particleboard market demand and pricing, forecasted production volumes and cost of production assumptions on current and future business; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

Revenue Recognition

Standing Timber

Sino-Forest sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations. Standing timber revenue represents a significant portion of the Company's consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of the Company's contractual arrangements with its customers. To date, substantially all of the Company's standing timber revenue has been recognized when the Company and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, the Company 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 timber on the specified plantation area and 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 the Company has 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 timber 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 revenue is recognized.

Provision for Tax Related Liabilities

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to company income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to foreign enterprise income tax. This also applies to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips. The wood chips and commission operations discontinued during 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for paying relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether in the future the PRC tax authorities may be successful in establishing the BVI Subsidiaries engaged in business activities in the PRC through authorized intermediaries are directly subject to foreign enterprise income tax. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at June 30, 2008 is the balance of the provision for these tax related liabilities amounting to $96,703,000 [December 31, 2007 – $80,165,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

Contingencies for Tax Related Liabilities

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates. Income tax and other taxes 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 in which the Company operates, changes in tax laws 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. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for a period from three to five years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

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

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

Change in Accounting Policies

On January 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standards.

Section 3862 Financial Instruments — Disclosure, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks, and Section 3863 Financial Instruments — Presentation, describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments — Disclosure and Presentation. Additional disclosure has been provided in Note 15 to the Company's unaudited interim consolidated financial statements.

Section 1535 Capital Disclosures, establishes standards for disclosing information about the Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital as discussed further in Note 16 to the Company's unaudited interim consolidated financial statements.

Section 3031 Inventories, which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. Additional disclosure has been provided in Note 3 to the Company's unaudited interim consolidated financial statements.

The above noted new standards have no material impact on the classification and measurement of the Company's interim consolidated financial statements.

Future Accounting Standards

The CICA has issued the following Handbook Section, which applies commencing with the Company's 2009 fiscal year.

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to fiscal years beginning on or after January 1, 2009. The Company has evaluated the new section and determined that adoption of these requirements will have no impact on the Company's consolidated financial statements.

The reader is referred to Note 2 in the accompanying consolidated financial statements for the six months ended June 30, 2008 for further details regarding the adoption of these standards.

International Financial Reporting Standards

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. The Company expects the transition to IFRS to impact financial reporting, business processes and information systems.

We commenced our IFRS conversion project in 2008. Our project consists of four phases: diagnostic, design and planning, solution development and implementation. The Company engaged external advisors to assist with the diagnostic phase, which involves a high level review of the major differences between current Canadian GAAP and IFRS. It is expected that this work will be completed during the later part of 2008. Subsequently, we will initiate the design and planning phase that will involve establishing issue-specific work teams to focus on generating options and making recommendations in the identified risk areas. During the design and planning phase, we will establish a staff communications plan, begin to develop our staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

Risk and Uncertainties

There are no significant changes to market risks in general as described in the 2007 annual information form of the Company and the July 17, 2008 Offering Memorandum, available on SEDAR at www.sedar.com.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Senior Vice President and Chief Financial Officer ("CFO") have designed the Company's disclosure controls and procedures to provide reasonable assurance that all relevant information required to be disclosed is gathered and reported on a timely basis so that appropriate decisions can be made regarding public disclosure.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP focusing in particular on controls over information. Management is responsible for establishing and maintaining adequate internal controls over financial reporting. A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute assurance that the objectives of the control system are met. Because of their inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected on a timely basis.

The design of internal controls over financial reporting was assessed as of December 31, 2007. The Company identified certain material weaknesses and the need for improvement of controls and procedures in areas such as the segregation of duties and information systems which are subject to general control deficiencies including lack of effective controls over spreadsheets.

There has been no change in the design of the Company's internal control over financial reporting during the three months ended June 30, 2008, that would materially affect or is reasonably likely to materially affect Sino-Forest's internal control over financial reporting. During 2008, management will take steps to address these deficiencies and will continue to monitor and mitigate these weaknesses.

(1) The results have been revised to reflect the classification of wood chips and commission operations as discontinued operations.

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

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

EBITDA is calculated as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2008	2007	**2008**	2007
	$'000	$'000	**$'000**	$'000
Income from continuing operations	**56,195**	31,200	**90,751**	55,383
Plus: depreciation	**1,071**	1,056	**2,072**	2,199
depletion of timber holdings	**48,981**	29,441	**87,035**	51,066
	106,247	61,697	**179,858**	108,648

(4) Net Income per share is calculated using the weighted average number of common shares outstanding during each period.

(5) Represents net income as adjusted for depletion of timber holdings, interest earned from Mandra, depreciation and amortization, amortization of deferred financing costs, stock-based compensation, write-down and loss on disposal of capital assets, gain on disposal of other assets, changes in fair value of financial instrument and other assets, exchange gains and others.

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

(7) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.

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

(9) These represent mainly leases of plantation land.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

[Expressed in thousands of United States dollars, except for earnings per share information] [Unaudited]	**Three months ended June 30**	[Restated see notes 2 & 18]	**Six months ended June 30**	[Restated see notes 2 & 18]
	2008	2007	**2008**	2007
	$	$	**$**	$
Revenue	**187,125**	128,764	**323,262**	241,541
Costs and expenses				
Cost of sales	**119,878**	86,636	**209,136**	167,322
Selling, general and administration	**9,981**	9,872	**21,303**	16,637
Depreciation and amortization	**1,071**	1,056	**2,072**	2,199
	130,930	97,564	**232,511**	186,158
Income from operations before the undernoted	**56,195**	31,200	**90,751**	55,383
Interest expense	**(9,850)**	(11,171)	**(20,421)**	(22,285)
Interest income	**2,158**	3,618	**4,753**	5,085
Exchange (losses) gains	**(788)**	1,926	**(3,627)**	1,459
Gains (losses) on changes in fair value of financial instruments	**1,194**	642	**(3,341)**	328
Other income	**869**	319	**1,551**	616
Income before income taxes	**49,778**	26,534	**69,666**	40,586
Provision for income taxes	**(5,245)**	(3,554)	**(9,519)**	(5,900)
Net income from continuing operations	**44,533**	22,980	**60,147**	34,686
Net loss from discontinued operations *[note 18]*	**(1,132)**	(1,070)	**(2,219)**	(1,266)
Net income for the period	**43,401**	21,910	**57,928**	33,420
Earnings per share *[note 13]*				
Basic	**0.24**	0.13	**0.32**	0.22
Diluted	**0.24**	0.13	**0.31**	0.21
Earnings per share from continuing operations				
Basic	**0.24**	0.14	**0.33**	0.22
Diluted	**0.24**	0.14	**0.33**	0.22
Loss per share from discontinued operations				
Basic	**(0.01)**	(0.01)	**(0.01)**	(0.01)
Diluted	**(0.01)**	(0.01)	**(0.01)**	(0.01)
Retained earnings				
Retained earnings, beginning of period, as previously presented	**555,491**	400,201	**540,964**	397,380
Cumulative impact of accounting changes relating to financial instruments	—	—	—	(8,689)
Retained earnings, beginning of period	**555,491**	400,201	**540,964**	388,691
Net income for the period	**43,401**	21,910	**57,928**	33,420
Retained earnings, end of period	**598,892**	422,111	**598,892**	422,111

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended June 30	[Restated see notes 2 & 18]	Six months ended June 30	[Restated see notes 2 & 18]
[Expressed in thousands of United States dollars]	**2008**	2007	**2008**	2007
[Unaudited]	**$**	$	**$**	$
Net income for the period	**43,401**	21,910	**57,928**	33,420
Other comprehensive income:				
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	**(99)**	—	**(1,048)**	—
Unrealized gains on foreign currency translation of self-sustaining operations	**36,737**	14,037	**99,483**	23,127
Other comprehensive income	**36,638**	14,037	**98,435**	23,127
Comprehensive income	**80,039**	35,947	**156,363**	56,547

See accompanying notes

CONSOLIDATED BALANCE SHEETS

[Expressed in thousands of United States dollars] [Unaudited]	**As at June 30, 2008 $**	As at December 31, 2007 $
ASSETS		
Current		
Cash and cash equivalents	**204,113**	328,690
Short-term deposits *[note 4(b)]*	**37,011**	22,163
Accounts receivable	**157,406**	105,329
Inventories *[note 3]*	**45,795**	46,661
Prepaid expenses and other	**31,526**	24,185
Total current assets	**475,851**	527,028
Timber holdings	**1,369,700**	1,174,153
Capital assets, net *[note 5]*	**100,343**	78,608
Other assets *[note 6]*	**88,616**	57,708
	2,034,510	1,837,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 4]*	**55,690**	55,383
Accounts payable and accrued liabilities *[note 12]*	**140,615**	107,989
Income taxes payable	**2,473**	1,615
Liabilities of discontinued operations *[note 18]*	**36,482**	32,016
Total current liabilities	**235,260**	197,003
Long-term debt *[note 8]*	**442,926**	441,985
Derivative financial instrument *[note 8(a)]*	**10,198**	11,211
Total liabilities	**688,384**	650,199
Commitments and Contingencies *[notes 19 and 20]*		
Shareholders' equity		
Share capital *[note 9]*	**537,522**	537,141
Contributed surplus *[note 10]*	**5,990**	3,906
Accumulated other comprehensive income *[note 11]*	**203,722**	105,287
Retained earnings	**598,892**	540,964
Total shareholders' equity	**1,346,126**	1,187,298
	2,034,510	1,837,497

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in thousands of United States dollars] [Unaudited]	**Three months ended June 30** [Restated see notes 2 & 18] **2008** **$**	2007 $	**Six months ended June 30** [Restated see notes 2 & 18] **2008** **$**	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income for the period	**43,401**	21,910	**57,928**	33,420
Net loss from discontinued operations	**1,132**	1,070	**2,219**	1,266
Add (deduct) items not affecting cash				
Depletion of timber holdings included in cost of sales	**48,981**	29,441	**87,035**	51,066
Loss (gain) on changes in fair value of financial instruments	**(1,194)**	(642)	**3,341**	(328)
Unrealized exchange losses	**1,794**	(1,308)	**4,292**	(1,155)
Stock-based compensation	**1,043**	474	**2,176**	929
Depreciation and amortization	**1,071**	1,056	**2,072**	2,199
Interest income from Mandra	**(300)**	—	**(600)**	—
Other	**892**	361	**1,421**	808
	96,820	52,362	**159,884**	88,205
Net change in non-cash working capital balances *[note 14]*	**3,434**	(33,665)	**(27,608)**	(23,208)
Cash flows from operating activities of continuing operations	**100,254**	18,697	**132,276**	64,997
Cash flows from operating activities of discontinued operations	—	71	—	4,109
CASH FLOWS USED IN INVESTING ACTIVITIES				
Additions to timber holdings	**(115,366)**	(80,103)	**(199,003)**	(157,376)
Increase in other assets	**(688)**	—	**(23,099)**	—
Additions to capital assets	**(8,464)**	(1,859)	**(18,500)**	(2,890)
Decrease (increase) in non-pledged short-term deposits	**(6,406)**	3,113	**(10,353)**	1,352
Business acquisition *[note 7]*	**—**	—	**(1,928)**	—
Proceeds from disposal of capital assets	**—**	—	**1**	—
Cash flows used in investing activities	**(130,924)**	(78,849)	**(252,882)**	(158,914)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES				
(Decrease) increase in bank indebtedness	**3,965**	(3,325)	**(1,937)**	(2,409)
(Increase) decrease in pledged short-term deposits	**(781)**	1,057	**(2,719)**	2,111
Issuance of shares, net of issue costs	**289**	384,779	**289**	384,779
Payment on derivative financial instrument	**—**	—	**(2,100)**	(930)
Cash flows (used in) from financing activities	**3,473**	382,511	**(6,467)**	383,551
Effect of exchange rate changes on cash and cash equivalents	**1,088**	2,465	**2,496**	2,596
Net (decrease) increase in cash and cash equivalents	**(26,109)**	324,895	**(124,577)**	296,339
Cash and cash equivalents, beginning of period	**230,222**	124,331	**328,690**	152,887
Cash and cash equivalents, end of period	**204,113**	449,226	**204,113**	449,226
Supplemental cash flow information				
Cash payment for interest charged to income	**3,884**	4,744	**20,342**	21,402
Interest received	**1,422**	3,406	**4,017**	4,981

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

1. BASIS OF PRESENTATION

The interim consolidated financial statements are unaudited and follow the accounting policies as outlined in Note 1 of the Notes to the consolidated financial statements for the year ended December 31, 2007 with the exceptions of certain changes in accounting policies as mentioned in Note 2 below. These interim consolidated financial statements do not conform in all respects to the requirements of Canadian generally accepted accounting principles for annual financial statements and should therefore be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2007.

The quarterly results are not necessarily indicative of results to be expected for the entire year. Revenue for the second quarter of the year represents approximately from 20% to 25% of the entire year. 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.

2. CHANGES IN AND ADOPTION OF ACCOUNTING POLICIES

Changes in accounting policy

On January 1, 2008, the Company adopted the following new Canadian Institute of Chartered Accountants (“CICA”) accounting standards.

Section 3862 Financial Instruments — Disclosure, describes the required disclosures related to the significance of financial instruments on the Company’s financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks and Section 3863 Financial Instruments — Presentation, describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments — Disclosure and Presentation. Additional disclosure has been provided in Note 15 to the Company’s unaudited interim consolidated financial statements.

Section 1535 Capital Disclosures, establishes standards for disclosing information about a Company’s capital and how it is managed to enable users of financial statements to evaluate the Company’s objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital as discussed further in Note 16 to the Company’s unaudited interim consolidated financial statements.

Section 3031 Inventories, which replaced Section 3030 Inventories, establishes standards on the definition of ‘cost’ to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. Additional disclosure has been provided in Note 3 to the Company’s unaudited interim consolidated financial statements.

The above noted new standards have no material impact on the classification and measurement in the Company’s interim consolidated financial statements.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new accounting policy for uncertainty in income taxes. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated. Under its new policy, the Company evaluates a tax position using a two step process.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

Step 1 – Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50 percent ("more-likely-than-not") that the tax position taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 – Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The impact of this change in accounting policy was a non-cash charge of $28,094,000 to the Company's opening retained earnings as of January 1, 2006 with an offset to current liabilities in fiscal 2006. The impact of this change in accounting policy was an increase in the provision for income taxes of $4,432,000 with an offset to current liabilities as at June 30, 2007, and a decrease in basic and diluted earnings per share by $0.03 for the six months ended June 30, 2007.

Future Accounting Standards

The CICA has issued the following Handbook Section, which applies commencing with the Company's 2009 fiscal year.

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to fiscal years beginning on or after January 1, 2009. The Company has evaluated the new section and determined that adoption of these requirements will have no impact on the Company's consolidated financial statements.

3. INVENTORIES

Raw materials, timber logs and nursery are valued at the lower of cost, determined on an weighted average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories consist of the following:

	June 30, 2008 $	December 31, 2007 $
Raw materials	**4,814**	1,271
Work in progress	**11,548**	15,172
Finished goods	**3,604**	5,471
Timber logs	**19,447**	20,826
Nursery	**6,382**	3,921
	45,795	46,661

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

The amount of inventory recognized as an expense and included in cost of sales for the three months and six months period ended June 30, 2008 was $70,897,000 [three months ended June 30, 2007 – $57,195,000] and $122,101,000 [six months ended June 30, 2007 – $116,256,000], respectively. The amount charged to the income statement and included in selling, general and administration expenses for the write down of inventory for valuation issues for the six months ended June 30, 2008 was $947,000 [June 30, 2007 – $177,000].

4. BANK INDEBTEDNESS

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $157,989,000 [December 31, 2007 – $133,908,000]. These credit facilities bear interest at weighted average rate of 6.7% per annum as at June 30, 2008 [December 31, 2007 – 6.2%] and are repayable on demand or due in less than one year.

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at June 30, 2008 of $9,626,000 [December 31, 2007 – $11,445,000]; and

[b] certain short-term deposits at June 30, 2008 of $3,076,000 [December 31, 2007 – $260,000].

Total interest expense for the three months and six months period ended June 30, 2008 amounted to $799,000 [three months ended June 30, 2007 – $1,371,000] and $1,798,000 [six months ended June 30, 2007 – $2,644,000, respectively].

5. CAPITAL ASSETS

Capital assets consist of the following:

		June 30, 2008		December 31, 2007
	Cost	**Accumulated depreciation and amor-tization**	Cost	Accumulated depreciation and amor-tization
	$	**$**	$	$
Machinery and equipment	64,303	5,039	59,155	3,581
Buildings	32,930	2,636	15,694	2,160
Land-use rights	6,254	969	5,816	842
Office furniture and equipment	2,561	1,258	2,203	1,060
Vehicles	5,801	1,604	4,692	1,309
	111,849	11,506	87,560	8,952
Less: accumulated depreciation and amortization	(11,506)		(8,952)	
Net book value	100,343		78,608	

As at June 30, 2008, buildings, machinery and equipment of $35,265,000 [December 31, 2007 – $25,841,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

6. OTHER ASSETS

Other assets consist of the following:

	June 30, 2008 $	December 31, 2007 $
Investment in Mandra Holdings [a]	**2**	2
Subordinated loan and interest receivable [a]	**18,767**	18,167
Prepaid plantation costs	**56,791**	23,565
Investment in Omnicorp and Greenheart [b]	**3,312**	4,354
Convertible bond [b]	**1,433**	919
Derivative financial instrument [b]	**894**	3,149
Deposit for purchase of logs [c]	**5,700**	5,700
Other	**1,717**	1,852
	88,616	57,708

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project"). Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Forestry Holdings Limited ("Mandra Holdings") at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of its $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. As at June 30, 2008, included in the balance of the subordinated loan and interest receivable is accrued interest of $3,767,000 [December 31, 2007 – $3,167,000]. The Company's maximum exposure to loss from Mandra is limited to the Company's investment in and subordinated loan and related interest receivable.

[b] In July 2007, the Company signed a master sale and purchase agreement with Greenheart Resources Holdings Limited ("Greenheart"), a natural forest concession owner and operator in Suriname, South America to secure 34,285 cubic metres of logs from Suriname for $175 per cubic metre up to January 31, 2009. In addition, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 Omnicorp common shares, convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp which matures on November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000) resulting in a gain of $3,369,000 being recorded in other income in fiscal year 2007. In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp common shares.

The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. This derivative asset was adjusted to its fair value of $894,000 using the Black Scholes model as at June 30, 2008 resulting in a charge of $2,265,000 [June 30, 2007 – $nil] recorded in loss on changes in fair value of financial instruments during the six months ended June 30, 2008.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) on the completion date. This discount, together with the stated interest on the convertible bonds, is being accreted using the effective interest rate method over its remaining term. For the three months and six months period ended June 30, 2008, the Company recorded accretion of $226,000 and $512,000 in other income, respectively.

The following assumptions were used to estimate the fair value of the share purchase options:

	June 30, 2008	December 31, 2007
Risk-free interest rate	**2.42%**	3.26%
Expected option life (in years)	**1.36**	1.85
Dividend yield	**0.0%**	0.0%
Volatility	**120.41%**	111.76%

[c] The amount represents a refundable deposit of $10.0 million out of which $4.3 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million cubic metres of wood fibre to the Company. The deposit will be refunded within five years after the first anniversary of signing the contract in July 2006.

7. BUSINESS ACQUISITION

On January 31, 2008, the Company acquired 100% equity interest in a limited company incorporated in the PRC for cash, which is principally engaged in the greenery and nursery operations.

In accordance with the purchase price method of accounting, the purchase price paid has been allocated to the assets acquired and liabilities assumed based on estimated fair values on the closing date. The Company is continuing to evaluate the assets acquired and liabilities assumed, and there may be adjustments to the estimated purchase date fair values. The preliminary purchase price allocation based on estimated fair values of assets acquired and liabilities assumed are as follows:

	$
Cash and bank balances	**132**
Accounts receivable	**989**
Other receivables	**458**
Inventories	**751**
Capital assets	**318**
License [a]	**636**
Accounts payable and accrued liabilities	**(1,224)**
Purchase price paid in cash	**2,060**

[a] The purchase price in excess of the net tangible assets acquired of $636,000 was allocated to the identified intangible asset being the license. The license enables the Company to tender for greenery projects in the PRC. The fair value of the license was based on the related discounted cash flows. The license is not amortized as it does not have definite useful life.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

8. LONG-TERM DEBT

Long-term debt consist of the following:

	June 30, 2008	December 31, 2007
	$	$
Senior notes [a]	**300,000**	300,000
Syndicated loans [b]	**150,000**	150,000
Unamortized deferred financing costs	**(7,074)**	(8,015)
	442,926	441,985

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

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

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. Management estimates that a loss of $10,198,000 [December 31, 2007 – $11,211,000], being the fair value of the contract, would be realized if the contract was terminated on June 30, 2008. The change in fair value of $1,086,000 has been recorded in gains (losses) on changes in fair value of financial instrument.

Total interest expenses on the notes for the three months and six months period ended June 30, 2008 were $7,165,000 [three months ended June 30, 2007 – $7,139,000] and $14,329,000 [six months ended June 30, 2007 – $14,317,000], respectively .

[b] On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 0.8% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and rank at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, except for obligations mandatorily preferred by law applying to companies generally. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility was fully drawn down in 2006. Principal of $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

Total interest expenses on the syndicated loans for the three months and six months period ended June 30, 2008 were $1,886,000 [three months ended June 30, 2007 – $2,661,000] and $4,294,000 [six months ended June 30, 2007 – $5,324,000], respectively .

[c] Under the terms of the above debt agreements, the Company must meet certain financial and non-financial covenants including limitation on dividend and other payment restrictions affecting the Company and the restricted subsidiaries (as defined in the debt agreements).

9. SHARE CAPITAL

Share capital consists of the following:

	Six months ended June 30, 2008		Twelve months ended December 31, 2007	
	Number of Common Shares	**Common Share Capital $**	Number of Common Shares	Common Share Capital $
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of period	**182,592,961**	**537,141**	137,999,548	143,511
Issue of shares	**—**	**—**	41,255,191	379,142
Exercise of options	**105,000**	**289**	3,338,222	10,770
Transfer from contributed surplus *[note 10]*	**—**	**92**	—	3,718
Balance, end of period	**182,697,961**	**537,522**	182,592,961	537,141

10. CONTRIBUTED SURPLUS

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

	Six months ended June 30, 2008 $	Twelve months ended December 31, 2007 $
Balance, beginning of period	**3,906**	4,726
Stock-based compensation	**2,176**	2,898
Transfer to share capital *[note 9]*	**(92)**	(3,718)
Balance, end of period	**5,990**	3,906

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

Six months ended June 30,	**2008** **$**	2007 $
Balance, beginning of period	**105,287**	32,590
Other comprehensive income	**98,435**	23,127
Balance, end of period	**203,722**	55,717

Accumulated other comprehensive income comprises of the following amounts:

	June 30, 2008 **$**	December 31, 2007 $
Unrealized gains on translation of financial statements of self-sustaining foreign operations	**205,508**	106,025
Unrealized loss on financial assets designated as available-for-sale	**(1,786)**	(738)
Balance, end of period	**203,722**	105,287

12. PROVISION FOR TAX RELATED LIABILITIES

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to company income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to foreign enterprise income tax. This also applies to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips. The wood chips and commission operations discontinued during 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for paying relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether in the future the PRC tax authorities may be successful in establishing the BVI Subsidiaries engaged in business activities in the PRC through authorized intermediaries are directly subject to foreign enterprise income tax. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at June 30, 2008 is the balance of the provision for these tax related liabilities amounting to $96,703,000 [December 31, 2007 – $80,165,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

13. EARNINGS PER SHARE

The following table sets forth the number of shares used in computation of basic and diluted earnings per share:

	Three months ended June 30		Six months ended June 30	
	2008	2007	**2008**	2007
Weighted average shares for basic earnings per share	**182,638,000**	164,970,000	**182,615,000**	151,559,000
Dilutive stock options	**1,788,000**	4,151,000	**1,804,000**	3,869,000
Adjusted weighted average shares for diluted earnings per share	**184,426,000**	169,121,000	**184,419,000**	155,428,000

14. STATEMENTS OF CASH FLOWS

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

	Three months ended June 30	[Restated]	Six months ended June 30	[Restated]
	2008	2007	**2008**	2007
	$	$	**$**	**$**
Cash provided by (used for):				
Accounts receivable	**(20,605)**	(19,933)	**(43,240)**	5,160
Inventories	**5,375**	(3,939)	**1,970**	(9,513)
Prepaid expenses and other	**(3,700)**	(17,703)	**(6,222)**	(22,960)
Accounts payable and accrued liabilities [a]	**22,009**	7,903	**19,072**	4,116
Income taxes payable	**355**	7	**812**	(11)
	3,434	(33,665)	**(27,608)**	(23,208)

[a] As at June 30, 2008, the Company had an aggregate amount of $10,795,000 [December 31, 2007 – $12,318,000] and $7,622,000 [December 31, 2007 – $nil] payable in respect of timber holdings and other assets, respectively, acquired during the year which was included in accounts payable and accrued liabilities.

15. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	June 30, 2008	December 31, 2007
	$	$
Held for trading [a]	**241,124**	350,853
Loans and receivables [b]	**177,606**	123,496
Available for sale assets [c]	**3,314**	4,356
Other financial liabilities [d]	**579,010**	557,208
Derivative (foreign currency swap) [e]	**10,198**	11,211
Embedded derivative [f]	**894**	3,149

[a] Cash and cash equivalents and short-term deposits, measured at fair value.
[b] Accounts receivable, subordinated loans and convertible bond are measured at amortized cost.
[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.
[d] Bank indebtedness, accounts payable and accrued liabilities, excluding provision for tax related liabilities, and long-term debts are measured at amortized cost.
[e] Foreign currency swap contract is measured at fair value.
[f] Conversion option embedded in convertible bonds is measured at fair value.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of syndicated loans approximates its carrying value. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value, quoted market prices and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discount rates which reflect varying degrees of risk.

The fair value of the non-convertible guaranteed senior notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts of the senior notes as at June 30, 2008 were $307,500,000 and $300,000,000, respectively [December 31, 2007 – $316,000,000 and $300,000,000, respectively].

Foreign currency swap contract and convertible bonds

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to meet interest payments at $27.4 million per annum over the next 2 years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

The Company has $5,731,000 (equivalent to HK$44,697,000) in convertible bonds issued by Omnicorp which mature on November 9, 2009. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The mark to market value of these financial instruments for the quarter ended June 30, 2008 was an unrealized loss of $2,265,000 which has been charged to the income statement.

Risks arising from financial instruments and risk management

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates, the prices of wood-based products and standing timber, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. For the six months ended June 30, 2008 and 2007, 82.5% and 60.1% of the sales were received in Renminbi respectively and 17.5% and 39.9% of the sales were received in U.S. dollars and Hong Kong dollars respectively. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. It is expected in the future that substantially all of the sales will be received in

Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. A fluctuation of +/-1%, provided as an indicative range in currency movement, would, everything else being equal, have an effect on net income after tax for the six months ended June 30, 2008 of approximately $1.3 million.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of June 30, 2008, the Company had Renminbi denominated bank accounts of RMB473.8 million (equivalent to $69.1 million) [December 31, 2007 – RMB454.6 million, equivalent to $62.0 million], U.S. dollar denominated bank accounts of $163.7 million [December 31, 2007 – $275.2 million], Canadian dollar denominated bank accounts of Cdn.$6.2 million (equivalent to $6.2 million) [December 31, 2007 – Cdn.$10.1million, equivalent to $10.2 million], Hong Kong dollar denominated bank accounts of HK$2.4 million (equivalent to $0.3 million) [December 31, 2007 – HK$13.6 million, equivalent to $1.7 million] and Euro denominated bank accounts of €1.2 million (equivalent to $1.9 million) [December 31, 2007 – €1.2 million, equivalent to $1.7 million]. The Company also had U.S. dollar and Renminbi denominated accounts receivable of $29.9 million [December 31, 2007 – $16.3 million] and RMB874.7 million (equivalent to $127.5 million) [December 31, 2007 – RMB652.2 million, equivalent to $89.0 million] respectively.

The Company mainly incurred U.S. dollar denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

Credit Risk

The Company is exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at June 30, 2008 included $69,364,000 due from three customers [December 31, 2007 – $40,132,000 due from three customers] representing 44.1% [2007 – 38.1%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company. As at June 30, 2008, $16,871,000 [December 31, 2007 – $3,983,000] or 10.7% [December 31, 2007 – 3.8%] of accounts receivable, were more than 90 days, which is consistent with historical ageing profiles. The Company has no allowance for doubtful accounts for the six months ended June 30, 2008.

The Company is exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents in instruments that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents a significant credit risk.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at June 30, 2008, the Company was holding cash and cash equivalents of $204.1 million and had unutilized lines of credit of $81.5 million. The Company has determined that continued cash flow from operations in 2008 together with the cash and cash equivalents from previous equity financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

The contractual maturies of the Company's financial liabilities were presented in the Company's consolidated financial statements for the year ended December 31, 2007.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness and syndicated notes. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at June 30, 2008, $167.3 million or 33.6% of the Company's total debt is subject to variable in interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $0.8 million. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk. The Company minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the sales of standing timber and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber and wood-based products have a significant effect on the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales of standing timber and wood-based products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

16. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital and to safeguard the Company's ability to continue to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes bank indebtedness of $55,690,000, long-term debt of $442,926,000 and shareholders' equity of $1,346,126,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the period.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities, senior notes and syndicated loans and exceeds the minimum requirements during the period. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at June 30, 2008, the Company has retained earnings of $599 million in the PRC which may be restricted.

17. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

[a] the plantation fibre segment engages in the sale of standing timber and harvested logs;

[b] the other fibre segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operation's products and other.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

By Industry Segment

	Three months ended June 30, 2008				
	Plantation Fibre $	**Other Fibre** $	**Manufacturing** $	**Corporate** $	**Total** $
Revenue					
Sale of standing timber and harvested logs	**125,591**	—	—	—	**125,591**
Sale of imported wood products	—	**42,879**	—	—	**42,879**
Sale of wood logs	—	**1,129**	—	—	**1,129**
Sale of manufacturing operation's products and other	—	—	**17,526**	—	**17,526**
	125,591	**44,008**	**17,526**	—	**187,125**
Income (loss) from continuing operations before interest, other income, exchange (losses) gains and changes in fair value of financial instruments	**64,441**	**1,690**	**(5,806)**	**(4,130)**	**56,195**
Net loss from discontinued operations	—	**(1,132)**	—	—	**(1,132)**
Interest income	**301**	**93**	**563**	**1,201**	**2,158**
Interest expense	**160**	**359**	**277**	**9,054**	**9,850**
Depreciation and amortization	**62**	**10**	**952**	**47**	**1,071**
Provision for income taxes	**4,714**	**331**	**181**	**19**	**5,245**
Identifiable assets	**1,568,271**	**83,453**	**231,187**	**151,599**	**2,034,510**
Depletion of timber holdings included in cost of sales	**48,111**	—	**870**	—	**48,981**
Additions to timber holdings and capital assets	**115,395**	**59**	**8,104**	**118**	**123,676**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

	Three months ended June 30, 2007				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	70,508	—	—	—	70,508
Sale of imported wood products	—	47,997	—	—	47,997
Sale of wood logs	—	1,154	—	—	1,154
Sale of manufacturing operation's products and other	—	—	9,105	—	9,105
	70,508	49,151	9,105	—	128,764
Income (loss) from continuing operations before interest, other income, exchange (losses) gains and changes in fair value of financial instruments	40,367	405	(3,982)	(5,590)	31,200
Net loss from discontinued operations [restated]	—	(1,070)	—	—	(1,070)
Interest income	57	38	152	3,371	3,618
Interest expense	65	1,092	212	9,802	11,171
Depreciation and amortization	48	—	963	45	1,056
Provision for income taxes [restated]	3,518	7	5	24	3,554
Identifiable assets	979,038	84,884	175,089	410,630	1,649,641
Depletion of timber holdings included in cost of sales	29,441	—	—	—	29,441
Additions to timber holdings and capital assets	83,148	—	1,479	46	84,673

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

	Six months ended June 30, 2008				
	Plantation Fibre $	**Other Fibre $**	**Manufacturing $**	**Corporate $**	**Total $**
Revenue					
Sale of standing timber	**228,261**	—	—	—	**228,261**
Sale of imported wood products	—	**66,943**	—	—	**66,943**
Sale of wood logs	—	**1,252**	—	—	**1,252**
Sale of manufacturing operation's products and other	—	—	**26,806**	—	**26,806**
	228,261	**68,195**	**26,806**	—	**323,262**
Income (loss) from continuing operations before interest, other income, exchange (losses) gains and changes in fair value of financial instruments	**109,574**	**2,060**	**(10,996)**	**(9,887)**	**90,751**
Net loss from discontinued operations	—	**(2,219)**	—	—	**(2,219)**
Interest income	**467**	**159**	**1,068**	**3,059**	**4,753**
Interest expense	**311**	**846**	**636**	**18,628**	**20,421**
Depreciation and amortization	**125**	**21**	**1,836**	**90**	**2,072**
Provision for income taxes	**8,564**	**448**	**433**	**74**	**9,519**
Identifiable assets	**1,568,271**	**83,453**	**231,187**	**151,599**	**2,034,510**
Depletion of timber holdings included in cost of sales	**85,269**	—	**1,766**	—	**87,035**
Additions to timber holdings and capital assets	**197,759**	**64**	**18,014**	**143**	**215,980**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

	Six months ended June 30, 2007				
	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	121,824	—	—	—	121,824
Sale of imported wood products	—	103,045	—	—	103,045
Sale of wood logs	—	1,882	—	—	1,882
Sale of manufacturing operation's products and other	—	—	14,790	—	14,790
	121,824	104,927	14,790	—	241,541
Income (loss) from continuing operations before interest, other income, exchange (losses) gains and changes in fair value of financial instruments	69,014	1,753	(5,987)	(9,397)	55,383
Net loss from discontinued operations [restated]	—	(1,266)	—	—	(1,266)
Interest income	141	60	239	4,645	5,085
Interest expense	159	2,127	355	19,644	22,285
Depreciation and amortization	103	5	2,007	84	2,199
Provision for income taxes [restated]	5,785	81	10	24	5,900
Identifiable assets	979,038	84,884	175,089	410,630	1,649,641
Depletion of timber holdings included in cost of sales	51,066	—	—	—	51,066
Additions to timber holdings and capital assets	160,118	11	2,435	108	162,672

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the six months ended June 30, 2008, sales to customers in the PRC and other countries amounted to approximately $185,802,000 [June 30, 2007 – $128,159,000] and $ 1,323,000 [June 30, 2007 – $605,000], respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

18. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission operations ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations. As a result, the Consolidated Statement of Income and Retained Earnings, have been reclassified from statements previously presented.

	Three months ended June 30		**Six months ended June 30**	
		[Restated]		[Restated]
	2008	2007	**2008**	2007
	$	$	**$**	$
Revenue	—	—	—	7,172
Cost of sales	—	—	—	(5,849)
Income from operations	—	—	—	1,323
Income before income taxes	—	—	—	1,323
Provision for income tax	**(1,132)**	(1,070)	**(2,219)**	(2,589)
Net loss from discontinued operations	**(1,132)**	(1,070)	**(2,219)**	(1,266)

Liabilities on the Consolidated Balance Sheets include the following amounts for discontinued operations:

	June 30, 2008	December 31, 2007
	$	$
Liabilities of discontinued operations		
Accounts payable and accrued liabilities *[note 12]*	**36,482**	32,016
	36,482	32,016

19. COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

As at June 30, 2008, the Company has capital commitments in respect of capital contributions to our WFOEs of $11,980,000 [December 31, 2007 – $18,600,000].

[b] Capital commitments

As at June 30, 2008, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $49,092,000 [December 31, 2007 – $16,523,000].

[c] Purchase commitments

As at June 30, 2008, the Company has purchase commitments mainly regarding logs of $18,743,000 [December 31, 2007 – $21,470,000].

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.] [Unaudited]

[d] Operating leases

Commitments under operating leases for land and buildings are as follows:

	$
2009	15,533
2010	2,875
2011	2,295
2012	2,338
2013	2,052
2014 and thereafter	44,104
	69,197

[e] Wood fibre

Under the master agreements entered into in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 65,805 hectares of plantation trees for $272,520,000 as at June 30, 2008.

Under the master agreement entered into in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88,071,000 as at June 30, 2008.

Under the master agreement entered into in July 2006 to secure at least 1.5 million m^3 of wood fibre for twelve years in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at June 30, 2008.

Under the master agreement entered into in December 10, 2007 to acquire 150,000 hectares of plantation trees for 5 years in Guangxi, the Company has acquired 30,719 hectares of standing timber for $116,916,000 as at June 30, 2008.

20. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates. Income tax and other taxes 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 in which the Company operates, changes in tax laws 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. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to a period from three to five years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble the amount of the tax underpaid.

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

Management evaluates the provision for tax related liabilities on quarterly basis or as necessary and believe adequate provision for tax related liabilities has been recognized in the financial statements.

21. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the three months ended June 30, 2008 amounted to $150,000 [June 30, 2007 – $151,000] were recorded at exchange amount as agreed upon by the related parties.

[b] In addition, as at June 30, 2008, the Company had an aggregate amount of $nil [December 31, 2007 – $3,950,000] owed to these related companies

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the consolidated financial statements for the six months period ended June 30, 2008.

23. SUBSEQUENT EVENT

On July 17, 2008, the Company signed a purchase agreement (the “Purchase Agreement”) to issue convertible senior notes (the “Notes”) for gross proceeds of up to $300,000,000 (or up to $345,000,000 if the Initial Purchasers, as defined in the Purchase Agreement, exercise their overallotment option to purchase additional Notes in full). The Notes will bear interest at a rate of 5.0% per annum payable in semi annual installments and will mature on August 1, 2013. The Notes are guaranteed by several subsidiaries of the Company as defined in the Purchase Agreement. The Notes may be converted into common shares of the Company at an initial conversion rate of 49.2974 common shares per $1,000 principal amount of Notes.

On August 5, 2008, the Initial Purchasers exercised the full over-allotment option. The Initial Purchasers’ underwriting expenses payable in connection with this offering will be approximately $10 million. The net proceeds will be used for the acquisition of commercial plantation forests, lease land and plant trees and general corporate purposes.

On August 11, 2008, the Company entered into a master agreement to acquire 200,000 hectares of plantation trees for 10 years in the Fujian province at a cost not to exceed RMB350 per m^3. In addition, the Company has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years.