# FORM 51-102F3
# MATERIAL CHANGE REPORT

## ITEM 1 Name and Address of Company

Sino-Forest Corporation (the **"Company"**)
90 Burnhamthorpe Road West
Suite 1208
Mississauga, ON L5B 3C3

## ITEM 2 Date of Material Change

June 24, 2009

## ITEM 3 News Release

A press release was disseminated on June 24, 2009 through Canada Newswire.

## ITEM 4 Summary of Material Change

On June 24, 2009, the Company announced that it has commenced an exchange offer whereby the Company has offered to exchange, subject to certain conditions, any and all of its outstanding US$300,000,000 9.125% guaranteed senior notes due 2011 (the "**2004 Senior Notes**") currently held by holders (i) in the United States, that are "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act of 1933 (the "**US Securities Act**") and (ii) outside the United States, that are persons other than "U.S. persons" as defined in Rule 902 and in compliance with Regulation S under the US Securities Act for up to US$300,000,000 10.25% new guaranteed senior notes due 2014. Concurrently under a separate consent solicitation statement, the Company is also seeking for consents from all holders of 2004 Senior Notes to amend certain of the provisions of the indenture governing the 2004 Senior Notes.

## ITEM 5 Full Description of Material Change

See: (i) the press release dated June 24, 2009, attached hereto as Schedule "A"; (ii) a copy of the exchange offer memorandum dated June 24, 2009 delivered to holders of 2004 Senior Notes, attached hereto as Schedule "B"; and (iii) a copy of the consent solicitation statement dated June 24, 2009 delivered to holders of 2004 Senior Notes, attached hereto as Schedule "C".

## ITEM 6 Reliance on subsection 7.1(2) of National Instrument 51-102

N/A

## ITEM 7 Omitted Information

N/A

**ITEM 8** **Executive Officer**

Dave Horsley
Senior Vice President and Chief Financial Officer
Telephone: 905.281.8889
Fax: 905.281.3338

**ITEM 9** **Date of Report**

June 25, 2009

## SCHEDULE "A"

See attached.

**NOT FOR DISTRIBUTION TO U.S. NEWS WIRE SERVICES OR FOR DISSEMINATION IN THE U.S.**
**NOT FOR DISTRIBUTION TO ANY PERSON LOCATED OR RESIDENT IN THE REPUBLIC OF ITALY**

**This news release is not an offer for sale of securities in the United States. The securities have not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and may not be sold in the United States absent registration or an exemption from registration under the Securities Act. The Company does not intend to register any part of the offering in the United States or to conduct a public offering of securities in the United States.**

**Nothing in this announcement constitutes an offer of securities for sale in any jurisdiction where it is unlawful to do so.**

Sino-Forest Corporation

**FOR IMMEDIATE RELEASE**

# SINO-FOREST ANNOUNCES BOND EXCHANGE OFFER

**TORONTO, CANADA, June 24, 2009** – Sino-Forest Corporation (TSX: TRE) today announced that it has commenced an exchange offer whereby Sino-Forest has offered to exchange, subject to certain conditions, any and all of its outstanding US$300,000,000 9.125% guaranteed senior notes due 2011 (the "2004 Senior Notes") currently held by holders (i) in the United States, that are "qualified institutional buyers" as defined in Rule 144A under the U.S. Securities Act of 1933 (the "US Securities Act") and (ii) outside the United States, that are persons other than "U.S. persons" as defined in Rule 902 and in compliance with Regulation S under the US Securities Act for up to US$300,000,000 10.25% new guaranteed senior notes due 2014 (the "Exchange Notes"). The purpose of the exchange offer is to extend the maturity profile of Sino-Forest's long-term debt, as well as to relax certain restrictive covenants.

The exchange will involve $1,000 worth of Exchange Notes being issued by Sino-Forest for $1,000 worth of 2004 Senior Notes in accordance with the procedures outlined in an exchange offer memorandum dated June 24, 2009. The Exchange Notes shall bear interest at a rate of 10.25% per annum, payable semi-annually and shall mature five years from the date of issuance. The Exchange Notes will rank pari passu with any 2004 Senior Notes that are not tendered pursuant to the exchange offer. Certain of Sino-Forest's subsidiaries will guarantee the obligations under the Exchange Notes and the capital stock of certain of Sino-Forest's subsidiaries will be pledged as collateral for Sino-Forest's obligations under the Exchange Notes.

The exchange offer expires at 11:59 p.m., New York City time, on July 22, 2009. 2004 Senior Notes tendered by 5:00 p.m., New York City time, on July 8, 2009 will receive an early tender payment of US$20 per US$1,000 principal amount of validly tendered and accepted 2004 Senior Notes.

Concurrently under a separate consent solicitation statement, Sino-Forest is also seeking for consents from all holders of 2004 Senior Notes to amend certain of the provisions of the indenture governing the 2004 Senior Notes. These amendments, if approved and effected, would result in the 2004 Senior Notes having substantially the same terms as the Exchange Notes, in particular with respect to restrictive covenants related to incurrence of indebtedness and the making of restricted payments. The amended 2004 Senior Notes, however, would continue to have the same maturity date, principal amount, interest rate, security and redemption rights. The consummation of the exchange offer and the consent solicitation are not conditioned upon each other. However, if both transactions are consummated and effected, 2004 Senior Notes that are not tendered and accepted pursuant to the Exchange Offer will be subject to such amendments pursuant to the consent solicitation. Each eligible holder of 2004 Senior Notes that consents to the proposed amendments will receive, if accepted by Sino-Forest, a consent payment of US$10 per US$1,000 principal amount of 2004 Senior Notes.

**NOT FOR DISTRIBUTION TO U.S. NEWS WIRE SERVICES OR FOR DISSEMINATION IN THE U.S.**
**NOT FOR DISTRIBUTION TO ANY PERSON LOCATED OR RESIDENT IN THE REPUBLIC OF ITALY**

Sino-Forest has engaged Credit Suisse Securities (USA) LLC as dealer manager and solicitation agent. For more information about the exchange offer and the consent solicitation, please contact:

Dealer Manager and Solicitation Agent: Credit Suisse Securities (USA) LLC

**Credit Suisse contacts**

| **Hong Kong** | **London** | **New York** |
|---|---|---|
| Debt Syndicate Group | Liability Management Group | Liability Management Group |
| Tel: +852 2101 7233 | Tel: +44 20 7883 6748 | Tel: 800-820-1653 / |
| | E: liability.management@credit-suisse.com | 212-538-1862 |

The Exchange Offering Memorandum being delivered to eligible holders of the 2004 Senior Notes and the Consent Solicitation Statement being delivered to all holders of 2004 Senior Notes will be available on SEDAR at www.sedar.com.

**About Sino-Forest Corporation**

Sino-Forest Corporation (the "Company") is a leading commercial forest plantation operator in China. Its principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. The Company's common shares have traded on the Toronto Stock Exchange under the symbol TRE since 1995.

FOR FURTHER INFORMATION PLEASE CONTACT:

**SINO-FOREST CORPORATION**

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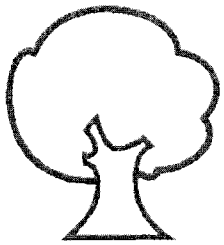
Please note: This press release contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of the Company and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but not limited to, changes in China and international economies; changes in currency exchange rates; changes in worldwide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products and changes in wood and timber costs.

The Exchange Offer is subject to offer and distribution restrictions in, among other countries, the United States, the Republic of Italy, Belgium, Canada, the European Economic Area, France, Germany, Hong Kong, Switzerland, the United Kingdom and Singapore.

This announcement does not constitute an offer or an invitation to participate in the Exchange Offer in any jurisdiction in or from which, or to any person to whom, it is unlawful to make such offer or invitation under applicable laws. The distribution of this announcement in certain jurisdictions may be restricted by law. Persons into whose possession this announcement comes are required by each of the Company and the Dealer Manager and Solicitation Agent to inform themselves about, and to observe, any such restrictions.

## SCHEDULE "B"

See attached.



# Sino-Forest Corporation

**(a company existing under the laws of Canada with limited liability)**

## EXCHANGE OFFER MEMORANDUM

## Credit Suisse

**June 24, 2009**

CONFIDENTIAL EXCHANGE OFFER MEMORANDUM

# Sino-Forest Corporation

(a company existing under the laws of Canada with limited liability)

**Offers to Exchange 10.25% Guaranteed Senior Notes due 2014**
**for Any and All Outstanding**
**US$300,000,000 9.125% Guaranteed Senior Notes Due 2011 of Sino-Forest Corporation**

**THE EXCHANGE OFFER WILL EXPIRE AT 11:59 P.M., NEW YORK CITY TIME, ON JULY 22, 2009, UNLESS EXTENDED BY US (SUCH DATE AND TIME, AS IT MAY BE EXTENDED, THE "EXPIRATION DATE"). IN ORDER TO BE ELIGIBLE TO RECEIVE THE EARLY TENDER PAYMENT (AS DEFINED BELOW), YOU MUST TENDER YOUR 2004 SENIOR NOTES PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON JULY 8, 2009, UNLESS EXTENDED BY US (SUCH DATE AND TIME, AS IT MAY BE EXTENDED, THE "EARLY TENDER DEADLINE"). TENDERS MAY BE WITHDRAWN PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON JULY 8, 2009 (THE "WITHDRAWAL DATE"), BUT NOT THEREAFTER.**

Sino-Forest Corporation ("Sino-Forest", "we" or the "Company") is offering to eligible holders, upon the terms and subject to the conditions set forth in this Exchange Offer Memorandum and the accompanying Letter of Transmittal, to exchange any and all outstanding Sino-Forest 9.125% Guaranteed Senior Notes due 2011 (the "2004 Senior Notes") for a like principal amount of newly issued Sino-Forest 10.25% Guaranteed Senior Notes due 2014 (the "Exchange Notes"), which offer we refer to as the "Exchange Offer." The Early Tender Payment in connection with the Exchange Offer is US$20.00 per US$1,000 principal amount of validly tendered and accepted 2004 Senior Notes.

The Exchange Notes will be guaranteed by certain Subsidiary Guarantors on a senior basis. Please see "Description of the Exchange Notes—The Subsidiary Guarantees." Sino-Forest has also agreed, for the benefit of holders of the Exchange Notes, to pledge or cause the initial Subsidiary Guarantor Pledgors (as defined below) to pledge, as the case may be, the Capital Stock (as defined below) of the initial Subsidiary Guarantors on a first priority basis in order to secure the obligations of Sino-Forest under the Exchange Notes. Please see "Description of the Exchange Notes—Security." There will be no registration rights relating to the Exchange Notes.

We intend to make an application to the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing of the Exchange Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. Admission of the Exchange Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of us or the Exchange Notes.

The Exchange Offer and the issuance of the Exchange Notes have not been and will not be registered with the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act") or any other securities laws.

The Exchange Offer will only be made, and the Exchange Notes are only being offered and will only be issued, to holders of 2004 Senior Notes (i) in the United States, that are "qualified institutional buyers" as defined in Rule 144A under the Securities Act and (ii) outside the United States, that are persons other than "U.S. persons," as defined in Rule 902 and in compliance with Regulation S under the Securities Act. **We refer to the holders of 2004 Senior Notes who have certified to us that they are eligible to participate in the exchange offer pursuant to at least one of the foregoing conditions as "eligible holders."** References in this Exchange Offer Memorandum to "holders" are to "eligible holders" unless stated or the context requires otherwise. Only eligible holders are authorized to receive or review this Exchange Offer Memorandum or to participate in the Exchange Offer. For a description of restrictions on resale or transfer of the Exchange Notes, see "Transfer Restrictions."

None of Sino-Forest, the Information and Exchange Agent, the trustee under the Indenture or the Dealer Manager (as defined below) makes any recommendation as to whether holders of 2004 Senior Notes should exchange their 2004 Senior Notes in the Exchange Offer.

**Investing in the Exchange Notes involves risks. See "Risk Factors" beginning on page 19.**

## Dealer Manager:

# Credit Suisse

The date of this Exchange Offer Memorandum is June 24, 2009.

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The Exchange Offer described herein is not being made to, and any offers to exchange will not be accepted from, or on behalf of, holders of the 2004 Senior Notes in any jurisdiction in which the making of such Exchange Offer would not be in compliance with the laws or regulations of such jurisdiction. See "Offer Restrictions".

The Exchange Notes have not been and will not be registered under the Securities Act, and the Exchange Notes are being offered and will be issued only to (i) "qualified institutional buyers", as that term is defined in Rule 144A under the Securities Act, in a private transaction in reliance upon an exemption from the registration requirements of the Securities Act or to (ii) persons other than "US persons", as that term is defined in Rule 902 under the Securities Act, in offshore transactions in reliance upon Regulation S. **The holders of 2004 Senior Notes who have certified to us that they are eligible to participate in the Exchange Offer pursuant to at least one of the foregoing conditions are referred to as "eligible holders". Only eligible holders are authorized to receive or review this Exchange Offer Memorandum (the "Memorandum") or to participate in the Exchange Offer. The Exchange Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable securities laws, pursuant to registration or exemption therefrom. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. See "Transfer Restrictions".**

The Exchange Offer and the Exchange Notes have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Exchange Offer or the accuracy or adequacy of this Memorandum. Any representation to the contrary is a criminal offence in the United States. No action is being taken to permit a public offering of the Exchange Notes in any jurisdiction where action would be required for such purposes.

This Memorandum may not be distributed or made available in the Republic of Italy and persons resident and/or located in the Republic of Italy may not participate in the Exchange Offer. In addition, the distribution of this Memorandum in Belgium, Canada, the European Economic Area, France, Germany, Hong Kong, Switzerland, the United Kingdom and Singapore is restricted by the laws of those jurisdictions.

This Memorandum contains important information which should be read carefully before any decision is made to participate in the Exchange Offer. Eligible holders must make their own decision as to whether to tender their 2004 Senior Notes in exchange for Exchange Notes and, if so, the principal amount of 2004 Senior Notes to tender. If eligible holders of 2004 Senior Notes are in any doubt as to the action they should take, they are recommended to seek their own financial advice, including in respect of any tax consequences, immediately from their stockbroker, bank manager, accountant or other independent financial advisor. Any individual or company whose 2004 Senior Notes are held on its behalf by a broker, dealer, bank, custodian, trust company or other nominee must contact such entity if they wish to accept the Exchange Offer in respect of such 2004 Senior Notes and, if so, the principal amount of 2004 Senior Notes they wish to tender. Neither we nor Credit Suisse Securities (USA) LLC (the "Dealer Manager") nor Global Bondholder Services Corporation (the "Information and Exchange Agent") makes any recommendation as to whether or not eligible holders of 2004 Senior Notes should tender or refrain from tendering all or any portion of such holders' 2004 Senior Notes, and no one has been authorized by any of them to make any such recommendation. No person has been authorized to give any information or to make any representations other than those contained in this Memorandum, and, if given or made, such information or representations must not be relied upon as having been authorized by us, the Dealer Manager, or the Information and Exchange Agent.

We have submitted this Memorandum to eligible holders of the 2004 Senior Notes for them to consider whether to exchange their 2004 Senior Notes. We have not authorized its use for any other purpose. This Memorandum may not be copied or reproduced in whole or in part. This Memorandum may

not be distributed, nor may its contents be disclosed, except to the eligible holders of 2004 Senior Notes to whom it is provided. By accepting delivery of this Memorandum, eligible holders agree to all of the restrictions referred to above.

This Memorandum is based on information provided by us and by other sources that we believe are reliable. This Memorandum summarizes certain documents and other information, and we refer eligible holders to them for a more complete understanding of the summary contained in this Memorandum. The Dealer Manager has not independently verified any of the information contained in this Memorandum and cannot assure eligible holders that this information is accurate, truthful or complete. In making a decision regarding the Exchange Offer, eligible holders must rely on their own examination of the Company and the terms of the Exchange Offer and the Exchange Notes, including the merits and risks involved.

In making a decision of whether or not to participate in the Exchange Offer, eligible holders should rely on the information contained in this Memorandum. We have not, and the Dealer Manager has not, authorized any person to provide eligible holders with additional, different or inconsistent information, except as contemplated in the preceding paragraph. If anyone provides eligible holders with additional, different or inconsistent information, eligible holders should not rely on it. Eligible holders should assume that the information contained in this Memorandum is accurate only as of its date.

We are not making any representation to any participant in the Exchange Offer regarding the legality of an investment in the Exchange Notes by the participant under any legal investment or similar laws or regulations. Eligible holders should not consider any information in this Memorandum to be legal, business or tax advice. Eligible holders should consult their own attorney, business advisor and tax advisor for legal, business and tax advice regarding acquiring the Exchange Notes. Eligible holders of the 2004 Senior Notes should be aware that the purchase of the 2004 Senior Notes in the Exchange Offer is not conditioned upon any minimum principal amount of the 2004 Senior Notes being tendered for exchange, but is subject to certain conditions set forth under "The Exchange Offer—Conditions to the Exchange Offer". We reserve the right to reject any 2004 Senior Notes in whole or in part for any reason. In addition, subject as provided herein, we may, in our sole discretion, amend, terminate or withdraw the Exchange Offer at any time prior to Expiration Date and may, in our sole discretion, waive each and any of the conditions to the Exchange Offer.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATION OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our, the "Company", the "Issuer" and words of similar import, we are referring to Sino-Forest Corporation itself, or to Sino-Forest Corporation and its consolidated subsidiaries, as the context requires.

All references in this Memorandum to "US dollars" and "US$" are to United States dollars; all references to "Canadian dollars" and "Cdn.$" are to Canadian dollars; all references to "H.K. dollars" and "HK$" are to Hong Kong dollars; all references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China, or the "PRC"; and all references to "€" or "Euro" are to Euros. Solely for the convenience of the reader, this Memorandum contains translations of certain Canadian dollar, H.K. dollar and Renminbi amounts into US dollars. All such translations have been made at the rate indicated thereof, being the noon buying rate in The City of New York for cable transfers in Canadian dollars, Renminbi or Euro, as applicable, as certified for customs purposes by the Federal Reserve Bank of New York on the date indicated thereof. On June 23, 2009, the noon buying rate for cable transfers in Renminbi was RMB6.8348 to US$1.00. See "Exchange Rates." All translations in this Memorandum are provided solely for your convenience, and no representation is made that the Canadian dollar, H.K. dollar or Renminbi amounts stated herein could have been, or could be, converted into US dollars at such rates or at any other rate.

References to "the People's Republic of China" or to the "PRC" , for purposes of this Memorandum, do not include the Hong Kong Special Administrative Region, or Hong Kong, the Macau Special Administrative Region, or Taiwan.

"PRC government" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

A hectare is a metric unit of area equal to 10,000 square meters or approximately 2.471 acres.

"Cooperative joint venture" or "CJV" means a Sino-foreign cooperative joint venture enterprise with limited liability established in the PRC under the relevant PRC laws and regulations which provides, among other things, that the distribution of profit or loss and the control of the joint venture company is entirely based on the joint venture contract and not on the joint venture parties' contributions to the registered capital of the joint venture.

"Wholly foreign-owned enterprise" or "WFOE" means an enterprise established in the PRC in accordance with the relevant PRC laws, with capital provided solely by foreign investors. Such enterprises do not include branches and offices established in the PRC by foreign enterprises and other economic entities.

Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

## OFFER RESTRICTIONS

*This Memorandum does not constitute an offer or an invitation to participate in the Exchange Offer in any jurisdiction in or from which, or to any person to whom, it is unlawful to make such offer or invitation under applicable laws. The distribution of this Memorandum in certain jurisdictions may be restricted by law. Persons into whose possession this Memorandum comes are required by each of us, the Dealer Manager and the Exchange Agent to inform themselves about, and to observe, any such restrictions.*

*Only eligible holders are authorized to receive or review this Memorandum or to participate in the Exchange Offer. No action has been or will be taken in any jurisdiction by us, the Dealer Manager or the Exchange Agent that would constitute a public offering of the Exchange Notes. See also "Transfer Restrictions".*

### United States

The Exchange Offer will be made, and the Exchange Notes are being offered and will be issued, only to holders of 2004 Senior Notes (i) that are "qualified institutional buyers", as that term is defined in Rule 144A, in a private transaction in reliance on Rule 144A under the Securities Act or (ii) that are persons other than "US persons", as that term is defined in Rule 902 under the Securities Act, in offshore transactions in reliance upon Regulation S.

### Belgium

The Exchange Offer is not being made, directly or indirectly, to the public in Belgium. Neither the Exchange Offer nor this Memorandum have been notified to the Belgian Banking, Finance and Insurance Commission (*Commission bancaire, financière et des assurances*) pursuant to Article 18 of the Belgian law of April 22, 2003 on the public offering of securities (the "Law on Public Offerings") nor has this Memorandum been, nor will it be, approved by the Belgian Banking, Finance and Insurance Commission pursuant to Article 14 of the Law on Public Offerings. Accordingly, the Exchange Offer may not be advertised and both this Memorandum and any other information circular, brochure or similar document relating to the Exchange Offer may be distributed, directly or indirectly, in Belgium only to qualified investors referred to in Article 6, paragraph 3 of the Belgian law of April 1, 2007 on public acquisition offers, acting for their own account.

### Canada

The Exchange Notes have not been and will not be qualified for sale under the securities laws of any province or territory of Canada and may not be offered, sold or delivered within any province or territory in Canada or to any holder of 2004 Senior Notes resident in, or subject to the laws of, any province or territory in Canada (the "Canadian Noteholders") except to Canadian Noteholders who are "accredited investors" (as such term is defined in the securities legislation of such province or territory) or whose 2004 Senior Notes being tendered to the Exchange Offer are equal to or greater than Cdn.$150,000 in value.

By its acceptance of any Exchange Note, each Canadian Noteholder will be deemed to have acknowledged and represented to and agreed with us and Law Debenture Trust Company of New York, as trustee, that it will not transfer, sell, or otherwise dispose of Exchange Notes in, or to a resident of, Canada, or through a Canadian stock exchange or over-the-counter trading market operating in Canada, until the date that is four months and one day following the closing of this Exchange Offer, unless such transfer, sale, or other disposition is made to a person that is an accredited investor within the meaning of applicable Canadian securities laws or unless the principal amount of Exchange Notes transferred, sold or otherwise disposed of is in a principal amount that is not less than Cdn.$150,000.

Exchange Notes will not be issued to a Canadian Noteholder unless we are satisfied that the acceptance of the Exchange Offer by the Canadian Noteholder is in compliance with applicable securities laws.

*Resale Restrictions*

The distribution of the Exchange Notes in the provinces or territories of Canada is being made on a private placement basis only and is exempt from our requirement to prepare and file a prospectus with the relevant regulatory authorities. Accordingly, any resale of the Exchange Notes must be made in accordance with applicable Canadian provincial or territorial securities laws, which may require resales to be made in accordance with prospectus and dealer registration requirements or exemptions from the prospectus and registration requirements. These resale restrictions may under certain circumstances apply to resales of the Exchange Notes outside of Canada. Canadian Noteholders are advised to seek legal advice prior to any resale of the Exchange Notes and should refer to "Transfer Restrictions—Canadian Restrictions" in this Memorandum.

In addition to any other legend, the certificates evidencing the Exchange Notes issued to Canadian Noteholders will contain the following restrictive legend:

UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE [THE DATE WHICH IS 4 MONTHS AND A DAY AFTER THE DISTRIBUTION DATE]

Canadian Noteholders are advised that we are not required and do not intend to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Exchange Notes to the public in any province or territory of Canada in connection with this Exchange Offer.

*Rights of Action for Damages or Rescission, or both*

Securities legislation in certain of the provinces and territories of Canada provide certain purchasers of securities pursuant to an offering memorandum (such as this Memorandum) with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where the offering memorandum and any amendment thereto contains a "misrepresentation", as defined in the applicable Canadian securities legislation. A "misrepresentation" is generally defined in the applicable Canadian securities legislation to mean an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

The applicable Canadian securities legislation may contain limitations and statutory defences on which we may rely where a remedy for damages or rescission, or both, is sought. The enforceability of these rights may be limited.

The rights of action discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law.

**European Economic Area**

With respect to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), there has been no offer of Exchange Notes to the public in any Relevant Member State in any manner requiring the publication of a prospectus. Exchange Notes in the Exchange Offer may only be offered in any Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last fiscal year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of Exchange Notes to the public" in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Exchange Notes to be offered in order to enable an investor to decide to purchase or subscribe for the Exchange Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

**France**

The Exchange Offer is not being made, directly or indirectly, to the public in France and only qualified investors ("*Investisseurs Qualifiés*") as defined in and in accordance with Articles L.411-1, L.411-2 and D.411-1 and D.411-3 of the French *Code Monétaire et Financier* are eligible to participate in the Exchange Offer. The Memorandum and any other offering material relating to the Exchange Offer have not been and shall not be distributed to the public in France. This Memorandum has not been submitted to the clearance of the *Authorité des marchés financiers*.

**Germany**

The Exchange Notes which are subject to this Memorandum may only be acquired and distributed within Germany in accordance with the German Securities Offering Circular Act (*Wertpapierprospektgesetz*) as well as any other laws and regulations applicable in the Federal Republic of Germany governing the issue, offering, distribution and sale of securities. The offering is not intended to constitute a public offer, public advertisement or similar offer within the meaning of section 2 no. 4 of the German Securities Offering Circular Act. No offering circular within the aforementioned act has been or will be prepared, published or otherwise provided. Neither this Memorandum nor any other offering circular with respect to the Exchange Notes has been submitted for approval or notified to the Federal Supervisory Authority (*Bundesanstalt fur Finanzdienstleistungsaufsicht—BaFin*).

**Hong Kong**

The Exchange Notes have not been offered or sold and will not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Exchange Notes (including this Memorandum) has been issued or been in the possession of the Dealer Manager for the purposes of issue, and will not be issued or be in the possession of the Dealer Manager for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Exchange Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Exchange Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

**Italy**

The Exchange Offer is not being made in the Republic of Italy. The Exchange Offer and this Memorandum have not been submitted to the clearance procedures of the *Commissione Nazionale per le*

*Societ e la Borsa* ("CONSOB") pursuant to Italian laws and regulations. Accordingly, holders of the 2004 Senior Notes are hereby notified that, to the extent such holders are persons resident and/or located in the Republic of Italy, the Exchange Offer is not available to them and they may not offer to exchange 2004 Senior Notes pursuant to the Exchange Offer nor may the Exchange Notes be offered, sold or delivered in the Republic of Italy and, as such, any request or instruction to tender 2004 Senior Notes received from or on behalf of such persons shall be ineffective and void, and neither this Memorandum nor any other offering material relating to the Exchange Offer, the 2004 Senior Notes or the Exchange Notes may be distributed or made available in the Republic of Italy.

**Singapore**

This Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Exchange Notes may not be circulated or distributed, nor may the Exchange Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to existing holders of 2004 Senior Notes pursuant to Section 273(1)(cf) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") or (ii) otherwise pursuant to, and in accordance with, the conditions of an exemption under any provision of Subdivision (4) of Division 1 of Part XIII of the SFA.

**Switzerland**

This Memorandum does not constitute a public offering prospectus as that term is understood pursuant to Article 652a or 1156 of the Swiss Federal Code of Obligations. The Exchange Notes will not be publicly offered in Switzerland. The Exchange Notes will be offered in Switzerland and this Memorandum and any other offering circular relating to the Exchange Notes will be distributed or otherwise made available in Switzerland, on a private placement basis only. No application has been made, and no application will be made, for a listing of the Exchange Notes on the SWX Swiss Exchange, and consequently, the information presented in this Memorandum does not necessarily comply with the information standards set out in the relevant listing rules. The Exchange Notes have not been registered, and are not going to be registered, with the Swiss Federal Banking Commission as foreign investment funds, and the investor protection afforded to acquirers of investments fund certificates does not extend to acquirers of the Exchange Notes. Investors are advised to contact their legal, financial or tax advisers to obtain an independent assessment of the financial and tax consequences of an investment in the Exchange Notes.

**United Kingdom**

The communication of this Memorandum is not being made and this Memorandum has not been approved by an authorized person for the purposes of section 21 of the Financial Services and Markets Act 2000. This Memorandum is only for circulation to persons within the United Kingdom falling within the definition of Investment Professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")) or within Article 43 of the Order, or other persons to whom it may lawfully be communicated in accordance with the Order.

**General**

The Dealer Manager and the Exchange Agent (and their respective directors, employees or affiliates) make no representations or recommendations whatsoever regarding this Memorandum or the Exchange Offer. The Exchange Agent is our agent and owes no duty to any holder of 2004 Senior Notes. Neither we, the Dealer Manager nor the Exchange Agent makes any recommendation as to whether or not holders should participate in the Exchange Offer.

The Exchange Offer does not constitute an offer to buy or the solicitation of an offer to sell the 2004 Senior Notes and/or the Exchange Notes in any circumstances in which such offer or solicitation is unlawful. In those jurisdictions where the securities or other laws require the Exchange Offer to be made by a licensed broker or dealer and the Dealer Manager or any of its affiliates is such a licensed broker or dealer in that jurisdiction, the Exchange Offer shall be deemed to be made on our behalf by the Dealer Manager or affiliate (as the case may be) in such jurisdiction.

## FORWARD-LOOKING STATEMENTS

This Memorandum includes forward-looking statements. All statements other than statements of historical fact contained in this Memorandum, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- political, social and economic considerations in the PRC;
- restrictions on foreign currency convertibility and remittance abroad;
- exchange rate fluctuations and changes in interest rates;
- developing legal system in the PRC;
- regulations and restrictions;
- change in policies, laws or regulations in the PRC;
- export tariffs imposed by the governments of timber exportation countries, including Russia;
- governmental approval processes;
- our ability to expand and manage our tree plantations;
- our business and operating strategies;
- our capital expenditure and forestry development plans;
- the amount and nature of, and potential for, future development of our business and new projects;
- our ability to acquire rights to additional standing timber;
- our ability to meet our expected plantation yields;

- our ability to rely on authorized intermediaries, key customers, suppliers and third party service providers;
- our ability to operate our production facilities on a profitable basis;
- our evaluation of our provision for income and related taxes;
- the cyclical nature of the forest products industry, price fluctuations for wood products and logs, and the demand and supply of logs;
- various business opportunities that we may pursue;
- changes in competitive conditions and our ability to compete under these conditions;
- other operating risks and factors referenced in this Memorandum; and
- other factors beyond our control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this Memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this Memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Memorandum might not occur.

## AVAILABLE INFORMATION

During any period in which we are not subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will furnish, upon request, to each holder of our Exchange Notes, or any prospective purchaser designated by any such holder, information satisfying the requirements of Rule 144A(d)(4)(i) under the Securities Act to permit compliance with Rule 144A in connection with resales of our Exchange Notes for so long as any such Exchange Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act. So long as any of the Exchange Notes remains outstanding, we will provide to the Trustee for forwarding to the holders of the Exchange Notes our quarterly and annual financial statements.

## ENFORCEMENT OF CIVIL LIABILITIES

We are organized under the federal laws of Canada. All of our directors and officers and certain of the experts named herein reside outside the United States and all or a substantial portion of their assets and substantially all of our assets are located outside the United States. Therefore, it may not be possible for you to effect service of process within the United States against such persons or us or to enforce in the United States judgments rendered against them or us. In addition, you should not assume that the courts of Canada (i) would enforce judgments of US courts obtained in actions against us or such persons predicated upon the civil liability provisions of the US federal securities laws or other laws of the United States, or (ii) would enforce, in original actions, claims against us or such persons predicated upon the US federal securities laws.

## PRESENTATION OF FINANCIAL INFORMATION

We prepare our financial statements on a consolidated basis in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"), which differ in certain material respects from generally accepted accounting principles in the United States ("US GAAP"). Our auditors conduct their audit of our financial statements in accordance with auditing standards generally accepted in Canada.

Our reporting currency is the US dollar.

## IMPORTANT DATES

Please take note of the following important dates and times in connection with the Exchange Offer. These dates and times assume no extension of the Early Tender Deadline, Withdrawal Date, or the Expiration Date. Each of the times and dates in the table below is indicative only and may be subject to change. References to times in the timetable are to New York City time.

Eligible holders of the 2004 Senior Notes wishing to participate in the Exchange Offer are also required to comply with the respective requirements and deadlines imposed by each of DTC, Euroclear and Clearstream, Luxembourg for the submission of electronic instructions. See "The Exchange Offer—Procedures for Tendering 2004 Senior Notes".

| Date | Time/Calendar Date | Event |
|---|---|---|
| Commencement Date | June 24, 2009 | The date on which the Exchange Offer are announced. |
| Early Tender Deadline | 5:00 p.m., New York City time, on July 8, 2009, unless extended or terminated by us | The deadline for eligible holders to validly tender 2004 Senior Notes in order to qualify for delivery on the Settlement Date of the Total Exchange Consideration, which includes the applicable Early Tender Payment. |
| Withdrawal Date | 5:00 p.m., New York City time, on July 8, 2009 | The deadline for eligible holders to validly withdraw tenders of 2004 Senior Notes. |
| Expiration Date | 11:59 p.m., New York City time, on July 22, 2009, unless we extend or terminate the Exchange Offer | The deadline for eligible holders to validly tender 2004 Senior Notes in order to qualify for delivery on the Settlement Date of the applicable exchange amount of Exchange Notes. |
| Settlement Date | The third New York business day after the Expiration Date (expected to be July 27, 2009) | The Exchange Notes will be issued in exchange for any 2004 Senior Notes validly tendered and not validly withdrawn prior to the Withdrawal Date, and accepted in the Exchange Offers. |

## SUMMARY

*This summary does not contain all the information that may be important to you in deciding whether to participate in the Exchange Offer. You should read the entire Memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto (incorporated by reference in this Memorandum), before making such decision.*

### The Company

**Overview**

We are a leading commercial forest plantation operator in the PRC. Our principal businesses include ownership and management of forest plantation trees, sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2008 and for the three-month period ended March 31, 2009, total revenue was US$901.3 million and US$177.2 million, respectively.

Our vision is to become the leading commercial forest 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. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using sophisticated research and development and plantation management practices. Our plantations are strategically located in close proximity to main manufacturing hubs and large consumer markets. As of March 31, 2009, we had approximately 410,000 hectares of tree plantations under management located in eight provinces of the PRC. In addition, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Jiangxi and Fujian that give us the right to acquire, subject to contractual conditions and other factors, up to approximately 855,000 to 1,005,000 additional hectares of tree plantations.

Pursuant to our strategy of migrating to an integrated plantations model, as well as securing access to future purchases of tree plantations, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, and Fujian Provinces since September 2006, which have provided us with access to an additional 400,000, 200,000, 150,000, and 200,000 hectares of standing timber, respectively. In June 2009, we entered into a new long-term master agreement in the Jiangxi province which provides for wood fibre purchases sourced from an area of between 150,000 and 300,000 hectares of plantation trees. As of March 31, 2009, we have acquired approximately 245,000 hectares under these agreements.

Our business operations are comprised of two core business segments. Our wood fibre operations are our major revenue contributor, while our manufacturing and other operations enable us to add value to our fibre by producing downstream products.

Wood Fibre Operations Segment

Our wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated tree plantations, selling wood logs sourced from PRC suppliers and selling wood products imported from outside the PRC. The wood fibre operations accounted for 93.0% and 93.5% of our total revenue for the year ended December 31, 2008 and the three-month period ended March 31, 2009, respectively.

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased tree plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture wood fibre growth during the course of our ownership and take advantage of potentially selling the trees at higher wood fibre prices. Under our planted tree plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using

improved silviculture techniques and sell the trees as standing timber. Under our integrated tree plantation model, instead of selling the trees from purchased or planted tree plantations as standing timber, the trees are harvested and sold as logs or manufactured goods. We are currently in the early stages of implementing our integrated tree plantation model.

As of March 31, 2009, approximately 348,000 hectares (84.9%) of our plantations under management were purchased tree plantations and approximately 62,000 hectares (15.1%) were planted tree plantations. In the year ended December 31, 2008, we sold approximately 86,067 hectares (82.8%) of plantation fibre from our purchased plantations, 14,071 hectares (13.5%) from our integrated plantations, and 3,807 hectares (3.7%) from our planted plantations, for a total of 103,945 hectares. In the three-month period ended March 31, 2009, we sold approximately 13,773 hectares (89.0%) of plantation fibre from our purchased plantations and 1,705 hectares (11.0%) from our planted plantations, for a total of 15,478 hectares. In the three-month period ended March 31, 2009, we did not sell any wood fibre under our integrated plantation model.

Manufacturing and Other Operations Segment

Our manufacturing and other operations segment complements our wood fibre operations by maximizing usage and adding value to the upstream fibre. This segment represents our secondary source of revenue and consists of sales of wood-based products, such as melamine chipboard, engineered wood flooring, sawn timber, oriented strand board and finger-joint board manufactured at our own production plants. We currently operate manufacturing plants in Suzhou, Jiangsu Province, Muling City, Heilongjiang Province, Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province, and Lin Cang, Yunnan Province. We also operate a greenery and nursery business based in Suzhou, Jiangsu Province. For the year ended December 31, 2008 and the three-month period ended March 31, 2009, our manufacturing and other operations represented 7.0% and 6.5%, respectively, of our total revenue.

**Our Competitive Strengths**

We believe that we have the following strengths:

- **Leading commercial forest plantation operator in the PRC with our own sustainable and large-scale supply of forestry resources.** Our size allows us to benefit from economies of scale in our forestry operations and efficiently manage our tree plantations, and gives us the breadth to engage in extensive research and development activities. These factors give us a competitive advantage compared to smaller operators that have difficulties in efficiently managing their tree plantations. Going forward, we expect to maintain and expand our existing tree plantation resources under our long-term master agreements, delivering a sustainable supply of wood fibre to the market.
- **Strategically located plantations in eight provinces of the PRC.** We have developed our tree plantations in regions that offer favorable climate and soil conditions for eucalyptus, pine and Chinese fir plantations, convenient access to transportation routes and proximity to major population centers as well as industrial and consumer markets for wood panel, furniture, construction, interior decoration and pulp and paper.
- **Strong track record in obtaining and developing commercial tree plantations and ability to leverage our industry foresight.** We are one of the first foreign companies to do business in the PRC's forestry sector and have developed a strong track record in obtaining, developing and cultivating commercial tree plantations since 1995. We believe that our 14-year track record of developing fast-growing commercial tree plantations using advanced plantation management techniques provides us with a competitive advantage in the PRC, where the commercial tree plantation industry is comparatively undeveloped, with few large-scale commercial tree plantations currently using advanced plantation management practices.

- **Extensive forestry and management expertise with local knowledge in the PRC.** Our management team has extensive experience in the forestry industry. We have also recruited personnel with a great deal of experience in plantation management and research and development, who have implemented advanced plantation management practices at our tree plantation operations. Our plantation planning and management team has an in-depth understanding of local forestry markets and regulations, with a significant number of its members formerly employed with local forestry bureaus and/or state-owned plantation farms in various regions of the PRC.
- **Systematic application of advanced planting and silviculture techniques.** Our advanced planting and silviculture techniques allow us to improve efficiency in growing rotations, grow higher fibre output, achieve more uniform timber, lower our access and harvesting costs, minimize the impact on the environment and improve our plantations' resistance to disease and frost.
- **Strong research and development capability.** We have focused our tree plantation research and development efforts on increasing the yield of our plantations and improving the wood quality of the trees, particularly the standing wood volume per unit area. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, reduce cultivation costs, increase the quality and value of harvested wood output and maintain and enhance forest ecosystems and land productivity.
- **Expertise in sustainable plantation development.** Our sustainable tree plantation operations in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. We employ advanced forest management practices and adopt prudent environmental management at our tree plantations. We believe that we have gained recognition for our use of sustainable plantation development in the PRC, which we expect will help us obtain additional business opportunities.
- **Established relationships in the PRC.** Over the last 14 years we have established strong relationships with local forestry bureaus, plantation owners, plantation service providers and wood dealers in the PRC. We believe that these relationships have supported the development of our tree plantation business in the past and will continue to benefit us in expanding our forestry resources in the future.

**Our Business Opportunities**

We believe we are well-positioned to benefit from the following factors:

- **Strong and growing consumption of wood fibre from downstream producers.** We believe that, as an upstream provider of wood fibre for downstream producers, we are well-positioned to benefit from increased demand for, and a limited supply of, wood fibre in the PRC. Pöyry Forest Industry Pte. Ltd. ("Pöyry") estimates that domestic furniture production will grow approximately 11% per year between 2002 and 2010 and that consumption of paper and paperboard will exceed 60 million tons by 2010. PRC's leading consumer markets for wood fibre products are generally located in southern, south-western and eastern regions of the PRC in close proximity to our tree plantations. This allows us to efficiently meet the growing demand from these markets while saving on transportation costs and delivery times.
- **Growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries.** Wood shortage is a persistent phenomenon in the PRC. The shortfall between domestic wood consumption and supply in the PRC was historically met by imports, which comprised approximately 32 million cubic meters of logs in 2006, with approximately 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian government raised round wood export duties from 6.5% to 25% as of April 2008 and, according to RISI, Inc., an information provider for the global forestry industry ("RISI"), announced potential

future increases of such export duties to 80% in 2009. In light of the expected decrease in natural forest wood supply from within and outside of the PRC and the expected increase in demand for wood, we believe that sustainable tree plantations will play an increasingly important role in satisfying domestic demand in the future.

- **Recent changes in the forestry industry that favor sustainable plantations.** The wood processing industry has recently begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter logs into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of our planted tree plantations. We believe that these developments will benefit us by increasing demand for logs and standing timber from our tree plantations, as well as increasing demand for wood-based products from our manufacturing plants.

**Our Strategy**

Our strategy is to build on our competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC, with established operations in close proximity to PRC's key regional markets and ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. We believe the following key elements will allow us to successfully execute 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.** We will continue to invest in additional sustainable, short-rotation tree plantations in our current geographic locations and expand into other geographic locations. We intend to further increase our plantation area under management by investing in additional tree plantations.

- **Improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques.** We will seek to develop improvements in forestry technology using genetics, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields. In order to aid these efforts, we intend to continue to invest in our research and development resources, and collaborate with PRC and overseas academic institutions.

- **Practice sustainable and environmentally responsible forestry and manufacturing.** Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We intend to follow these management practices for any additional tree plantations acquired in the future. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our tree plantations.

- **Build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams.** Our downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify our revenue streams.

- **Strengthen management processes and information systems to support the growth of our multi-faceted businesses.** We plan to invest in additional personnel, management and technology in order to improve our management processes and information systems. As the area of our tree plantations continues to grow, we will have to develop additional systems and management personnel to achieve greater planning and operational control of our plantations. This will allow us to conduct

more frequent sampling checks of our timber resources, and would, in turn, allow us to better analyze planting statistics, including growth conditions and the quality of our tree plantations. These will also allow us to maintain more stringent controls over our tree plantation management processes.

- **Align our strategy with PRC government's plans.** We aim to align our strategy with the PRC government's plans to increase forest coverage and productivity and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets to promote a "new socialist countryside." With respect to the forestry industry, the State Forestry Administration plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. Under our long-term master agreements, our plantation model is migrating to focus on replanting and conversion of harvested plantation lands into fast-growing and high-yielding plantations.

**Our Corporate Information**

We were formed under the *Business Corporations Act* (Ontario) upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. Our common shares were listed and posted for trading on the TSX on October 12, 1995.

Our articles of amalgamation were amended by articles of amendment filed on July 20, 1995 and May 20, 1999 to effect certain changes in the provisions attaching to our share capital. On June 25, 2002, we filed articles of continuance to continue under the *Canada Business Corporations Act* (the "CBCA"). On June 22, 2004, we filed articles of amendment to reclassify our class A subordinate-voting shares as common shares on a one-for-one basis and to eliminate our authorized class B multiple-voting shares.

We have offices in Toronto, Canada, Hong Kong and the PRC. Our principal executive office is located at 3815-29, 38th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong Special Administrative Region, the PRC, and our telephone number is (852) 2877-0078. Our registered office is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, Canada L5B 3C3. Our telephone number at our registered office is (905) 281-8889.

**Purpose of the Exchange Offer**

The objective of the Exchange Offer is to extend the maturity profile of our long-term debt by exchanging our existing 2004 Senior Notes, which mature in 2011, for the Exchange Notes which have a maturity date of 2014, as well as to relax the restrictive covenants to which we are subject. See "Description of Material Differences Between the 2004 Senior Notes and the Exchange Notes." We are also conducting a consent solicitation for the 2004 Senior Notes to amend the covenants of such notes, and are seeking the consent of the lenders under the Syndicate Term Loan to amend the covenants thereof, to a level of restrictiveness which would be comparable to those in the Exchange Notes. See "Consent Solicitation for the 2004 Senior Notes" and "Description of Other Indebtedness—Syndicated Term Loan".

## SUMMARY OF THE EXCHANGE OFFER

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| Purpose of the Exchange Offer | The purpose of the Exchange Offer is to extend the maturity profile of our long-term debt by exchanging our existing 2004 Senior Notes, which mature in 2011, for the Exchange Notes which have a maturity date of 2014, as well as to relax the restrictive covenants to which we are subject. See "The Exchange Offer—Purpose of the Exchange Offer." |
| Eligibility to Participate in the Exchange Offer | We have not registered the Exchange Offer or the issuance of the Exchange Notes under the Securities Act or any other securities laws. Only holders of the 2004 Senior Notes who have completed and returned the eligibility certification confirming that they are either a "qualified institutional buyer", as that term is defined in Rule 144A under the Securities Act or a person that is not a "U.S. person", as that term is defined in Rule 902 under the Securities Act, in reliance on Regulation S under the Securities Act, are authorized to receive this Memorandum and to participate in the Exchange Offer. |
| The Exchange Offer | We are offering to exchange for each US$1,000 principal amount of 2004 Senior Notes validly tendered, US$1,000 principal amount of Exchange Notes which bear a new interest rate payable on the new interest payment dates and become due on the new maturity date. |
| Accrued Interest | Each eligible holder of the 2004 Senior Notes validly tendered for exchange and accepted and not validly withdrawn will receive a cash payment representing interest that has accrued from the most recent interest payment date of the 2004 Senior Notes to, but not including, the Settlement Date. |
| Denomination | The Exchange Notes will be issued in minimum denominations of US$2,000 and integral multiples of US$1,000 in excess thereof. If, under the terms of the Exchange Offer, any tendering eligible holder is entitled to receive the Exchange Notes in a principal amount that is less than US$2,000 or not an integral multiple of US$1,000 in excess of US$2,000, we will pay cash in lieu of the Exchange Notes or round downward the amount of the Exchange Notes to the nearest integral multiple of US$1,000 and pay the difference in cash, respectively. |
| Information | Any questions or requests for assistance or for additional copies of this Memorandum, the Tender and Letter of Transmittal or related documents may be directed to the Information and Exchange Agent at the telephone numbers provided on the back of this Memorandum. You also may contact the Dealer Manager (as defined below) at the telephone numbers set forth below on the back of this Memorandum. Beneficial owners may contact their custodian bank, depositary, broker, trust company or other nominee for assistance concerning the Exchange Offer. |
| Conditions | Consummation of the Exchange Offer is not conditioned upon any minimum principal amount of 2004 Senior Notes being tendered for exchange, but it is conditioned upon the satisfaction or waiver of the |

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| | conditions described under "The Exchange Offer—Conditions to the Exchange Offer." |
| Expiration Date . . . . . | 11:59 p.m., New York City time, on July 22, 2009, unless we extend or terminate the Exchange Offer. |
| Settlement Date . . . . . | The third New York business day after the Expiration Date (expected to be July 27, 2009). |
| Procedures for Tendering . . . | For an eligible holder to validly tender the 2004 Senior Notes pursuant to the Exchange Offer, a properly completed and duly executed Tender and Letter of Transmittal (or a manually executed facsimile thereof), with any required signature guarantee, or in the case of a book-entry transfer an Agent's Message (as defined below) in lieu of the Tender and Letter of Transmittal, and any other required documents, must be received by the Exchange Agent at its address set forth on the back cover of this Memorandum before the Early Tender Deadline (for such holder to be eligible to receive the Early Tender Payment) or the Expiration Date, as applicable. In addition, before the Early Tender Deadline (for such holder to be eligible to receive the Early Tender Payment) or the Expiration Date, as applicable, either (a) such holder's 2004 Senior Notes must be transferred pursuant to the procedures for book-entry transfer described below and a confirmation of such tender must be received by the Exchange Agent, including an Agent's Message if the tendering holder has not delivered a Tender and Letter of Transmittal, or (b) certificates for tendered 2004 Senior Notes must be received by the Exchange Agent at such address. To tender the 2004 Senior Notes that are held through DTC, DTC participants should transmit their acceptance through DTC's Automated Tender Offer Program ("ATOP"), and DTC will then verify the acceptance, execute a book-entry delivery to the Exchange Agent's account at DTC and send an Agent's Message to the Exchange Agent for its acceptance as described below under "—Book-Entry Transfer." Euroclear and Clearstream, Luxembourg are DTC participants and, if your 2004 Senior Notes are held through Euroclear or Clearstream, Luxembourg, you must comply with the procedures for the Exchange Offer established by Euroclear or Clearstream, Luxembourg, as applicable.<br><br>See "The Exchange Offer—Procedures for Consenting and Tendering." |
| Withdrawal Date . . . . . | Tenders of 2004 Senior Notes may be withdrawn at any time before 5:00 p.m., New York City time, July 8, 2009, but not thereafter (even if we extend the Early Tender Deadline or the Expiration Date). For withdrawal procedures, see "The Exchange Offer—Withdrawal of Tenders." |
| Exchange Agent and Information Agent . . . . . | Global Bondholder Services Corporation is serving as Exchange Agent and Information Agent in connection with the Exchange Offer. Global Bondholder Services Corporation's contact information appears on the back cover of this Memorandum. |

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| Dealer Manager | Credit Suisse Securities (USA) LLC is serving as the Dealer Manager in connection with the Exchange Offer. The Dealer Manager's contact information appears on the back cover of this Memorandum. |
| U.S. Federal Income Tax Consequences | The exchange of the 2004 Senior Notes for the Exchange Notes pursuant to the Exchange Offer should not be a taxable transaction for United States federal income tax purposes. For a discussion of certain United States federal income tax considerations to certain United States holders participating in the Exchange Offer and of the ownership and disposition of the Exchange Notes received pursuant to the Exchange Offer, see "Certain United States Federal Income Tax Consequences". |
| Consequences of Failure to Exchange | For a discussion of certain consequences in deciding whether to participate in the Exchange Offer, see "Risk Factors—Risks Related to the Exchange Offer—The Exchange Offer will result in reduced liquidity for the 2004 Senior Notes that are not exchanged, and any outstanding 2004 Senior Notes may have amended covenants" and "Risk Factors—Risks Related to the Exchange Offer." |
| Determination of Total Exchange Consideration | Eligible holders who validly tender the 2004 Senior Notes in the Exchange Offer on or prior to the Early Tender Deadline (and do not validly withdraw prior to the Withdrawal Date) will receive the Total Exchange Consideration, which means for each US$1,000 principal amount of 2004 Senior Notes tendered and accepted:<br>• US$1,000 principal amount of Exchange Notes, plus<br>• the Early Tender Payment.<br>Eligible holders who validly tender the 2004 Senior Notes in the Exchange Offer after the Early Tender Deadline, but prior to the Expiration Date, will receive the Partial Exchange Consideration, which means for each US$1,000 principal amount of 2004 Senior Notes tendered and accepted:<br>• US$1,000 principal amount of Exchange Notes.<br>In addition, each eligible holder whose 2004 Senior Notes are accepted for exchange will receive a cash payment representing interest that has accrued from the most recent interest payment date of the 2004 Senior Notes to, but not including, the Settlement Date. |
| Exchange Notes | Each Exchange Note issued in exchange for a 2004 Senior Note in the Exchange Offer will bear a new interest rate payable on the new interest payment dates and become due on the new maturity date. The Exchange Note will accrue interest from the Settlement Date of the Exchange Offer. |
| Early Tender Deadline | To receive the Early Tender Payment, eligible holders must validly tender and not withdraw their 2004 Senior Notes by 5:00 p.m., New York City time, on July 8, 2009, unless extended or terminated by us. |

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| Early Tender Payment . . . . . | US$20.00 per US$1,000 principal amount of validly tendered and accepted 2004 Senior Notes. |
| Concurrent Consent Solicitation . . . . . | Concurrently with the Exchange Offer, we are separately conducting a consent solicitation in connection with the 2004 Senior Notes. The proposed amendments to the 2004 Indenture and terms of the 2004 Senior Notes, if approved and effected, would result in the 2004 Senior Notes having substantially the same terms as the Exchange Notes, in particular with respect to restrictive covenants related to incurrence of indebtedness and the making of restricted payments. The amended 2004 Senior Notes, however, would continue to have the same maturity date, principal amount, interest, security and redemption rights. 2004 Senior Notes that are not tendered and accepted pursuant to the Exchange Offer will be subject to such amendments, if accepted and effected. See "Consent Solicitation for the 2004 Senior Notes".<br><br>This Exchange Offer is not conditioned upon the consummation of the Consent Solicitation, and the Consent Solicitation are not conditioned upon the consummation of this Exchange Offer. We cannot assure you that the Exchange Offer will be consummated on the terms described in this Memorandum or at all. |
| Concurrent Amendment to the Syndicated Term Loan . . . | Concurrently with the Exchange Offer, we are in the process of seeking the consent of the lenders under the Syndicated Term Loan to amend certain of its terms, so that, among other things the covenants therein are not substantially more restrictive than the restrictive covenants under the Exchange Notes, including the limitation on incurrence of indebtedness and on restricted payments. See "Description of Other Indebtedness—Syndicated Term Loan". |

## SUMMARY OF THE TERMS OF THE EXCHANGE NOTES

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| Issuer | Sino-Forest Corporation (the "Company"). |
| Exchange Notes | Guaranteed Senior Notes due July 28, 2014. |
| Offering Price | 100% of the principal amount of the 2004 Senior Notes |
| Maturity Date | July 28, 2014. |
| Interest | The Exchange Notes will bear interest from and including the Settlement Date at the rate of 10.25% per annum, payable semi-annually in arrears. |
| Interest Payment Dates | January 26 and July 26 of each year, commencing January 26, 2010. |
| Ranking of the Exchange Notes | The Exchange Notes are:<br>• general obligations of the Company;<br>• guaranteed by the Subsidiary Guarantors (as defined below) on a senior basis, subject to certain limitations described under the caption "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral" and "Description of the Exchange Notes—The Subsidiary Guarantees;"<br>• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Exchange Notes; and<br>• 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<br>• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.<br>Subject to certain limitations described under "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral," the Exchange Notes will:<br>• be entitled to a first priority lien on the Collateral (subject to any Permitted Liens) pledged by the Company and the Subsidiary Guarantor Pledgors; and<br>• rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Exchange Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law); and |
| Subsidiary Guarantees | Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Exchange Notes.<br>A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Exchange Notes—The Subsidiary Guarantees—Release of the Subsidiary Guarantees." |

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Sino-Panel Holdings Limited (BVI), Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Grandeur Winway Ltd. (BVI), Sinowin Investments Ltd. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio-Science Limited (formerly known as: Sino-Two Limited) (BVI), Sino-Forest Resources Inc. (BVI), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Forest Investments Limited (BVI), Sino-Wood (Guangxi) Limited (HK), Sino-Wood (Jiangxi) Limited (HK), Sino-Wood (Guangdong) Limited (HK), Sino-Wood (Fujian) Limited (HK), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Guangxi) Limited (BVI), Sino-Panel (Yunnan) Limited (BVI), Sino-Panel (North East China) Limited (BVI), Sino-Panel (Xiangxi) Limited (formerly known as: Rich Base Worldwide Limited) (BVI), Sino-Panel (Hunan) Limited (formerly known as Comtech Universal Limited) (BVI), SFR (China) Inc. (BVI), Sino-Panel (Suzhou) Limited (formerly known as: Pacific Harvest Holdings Limited) (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), Sino-Panel (Guangzhou) Limited (BVI), Sino-Panel (North Sea) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (formerly known as Sino-Panel (Jiayu) Ltd.) (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Amplemax Worldwide Limited (BVI), Ace Supreme International Limited (BVI), Express Point Holdings Limited (BVI), Glory Billion International Limited (BVI), Smart Sure Enterprises Limited (BVI) and Expert Bonus Investment Limited (BVI).

Not all of the Company's Restricted Subsidiaries will guarantee the Exchange Notes. Dynamic Profit Holdings Limited (BVI) and Sino-Capital Global Inc. (BVI) (the "Initial Non-Guarantor Subsidiaries"), which are among the Company's Subsidiaries that have guaranteed the 2004 Senior Notes and the Syndicated Term Loan, will not be Subsidiary Guarantors at the date of issue of the Exchange Notes. See "Risk Factors—Risks Related to the Exchange Notes—We are a holding company and payments with respect to the Exchange Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries."

Under certain circumstances, we will cause the Initial Non-Guarantor Subsidiaries to provide a guarantee of the Exchange Notes. See "Description of the Exchange Notes—The Subsidiary Guarantees."

Any future Restricted Subsidiary, as defined under "Description of the Exchange Notes—Certain Definitions" (other than subsidiaries organized under the laws of the PRC or another jurisdiction that prohibits such Restricted Subsidiary from guaranteeing the payment of the Exchange Notes) will provide a guarantee of the Exchange Notes immediately upon becoming a Restricted Subsidiary.

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| Ranking of Subsidiary Guarantees | The Subsidiary Guarantee of each Subsidiary Guarantor:<br>• is a general obligation of such Subsidiary Guarantor;<br>• is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;<br>• is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and<br>• ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).<br>In addition, the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:<br>• will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor; and<br>• will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to priority rights of such unsecured obligations pursuant to applicable law).<br>See "Risk Factors—Risks Related to the Subsidiary Guarantees and Collateral." |
| Security | Subject to the terms and conditions of the Intercreditor Agreement described under the caption "Description of the Exchange Notes—Intercreditor Agreement" below, the Company has agreed, for the benefit of the Holders of the Exchange Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors on a first priority basis (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Exchange Notes and the Indenture and of such initial Subsidiary Guarantor Pledgors under their respective Subsidiary Guarantee.<br>The initial Subsidiary Guarantor Pledgors will be Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Sinowood Limited (Cayman Islands), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Panel (Asia) Inc. (BVI) and Sino-Panel Holdings Limited (BVI).<br>The Collateral securing the Exchange Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted *Pari Passu* Secured Indebtedness which would be secured by the Collateral on a |

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| | *pari passu* basis with the Exchange Notes and the Subsidiary Guarantees. See "Description of the Exchange Notes—Security." |
| Intercreditor Agreement . . . . | The Collateral will be shared with any remaining holders of the 2004 Senior Notes as well as with the lenders under the Syndicated Term Loan. Any sharing of the Collateral will be governed by the terms of an intercreditor agreement. See "Description of the Exchange Notes—Intercreditor Agreement" |
| Optional Redemption . . . . . | At any time prior to the Maturity Date, the Company may at its option redeem the Exchange Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Exchange Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.<br><br>"Applicable Premium" means with respect to an Exchange Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Exchange Note and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount of such Exchange Note, plus all required remaining scheduled interest payments due on such Exchange Note (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Exchange Note on such redemption date.<br><br>At any time prior to July 26, 2011, the Company may redeem up to 35% of the principal amount of the Exchange Notes with the net cash proceeds of one or more sales of its common stock in an offering at a redemption price of 110.25% of the principal amount of the Exchange Notes, plus accrued and unpaid interest, if any, to the redemption date. |
| Repurchase of Exchange Notes Upon a Change of Control . . . . . | Within 30 days of the occurrence of a Change of Control Triggering Event, the Company must make an offer to repurchase all Exchange Notes then outstanding at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the redemption date. |
| Redemption for Taxation Reasons . . . . . | The Company may redeem the Exchange Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See "Description of the Exchange Notes—Optional Redemption—Redemption for Taxation Reasons". |
| Covenants . . . . . | The Exchange Notes, the Indenture governing the Exchange Notes and the Subsidiary Guarantees will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things:<br><br>• incur or guarantee additional indebtedness and issue disqualified or preferred stock; |

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| | • declare dividends on its capital stock or purchase or redeem capital stock;<br>• make investments or other specified restricted payments;<br>• issue or sell capital stock of restricted subsidiaries;<br>• guarantee indebtedness;<br>• sell assets;<br>• create any lien;<br>• enter into sale and leaseback transactions;<br>• enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;<br>• enter into transactions with certain equity holders or affiliates; or<br>• effect a consolidation or merger. |
| Transfer Restrictions . . . . . | The Exchange Notes will not be registered under the Securities Act, under any state securities laws of the United States or qualified for sale under any securities laws of any province or territory of Canada or any other jurisdiction and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions". |
| Form, Denomination and Registration . . . . . | The Exchange Notes will be issued only in fully registered form, without coupons, in denominations of US$2,000 of principal amount and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global Exchange Notes registered in the name of a nominee of The Depository Trust Company. |
| Book-Entry Only . . . . . | The Exchange Notes will be issued in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Exchange Notes—Book-Entry; Delivery and Form". |
| Trustee . . . . . | Law Debenture Trust Company of New York. |
| Principal Paying and Transfer Agent and Registrar . . . . . | Citibank, N.A. |
| Listing . . . . . | We intend to make an application to the SGX-ST for the listing of the Exchange Notes on the SGX-ST.<br><br>For so long as the Exchange Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Exchange Notes will be traded on the SGX-ST in a minimum board lot size of US$200,000. For so long as the Exchange Notes are listed on the SGX-ST and the rules of the SGX-ST require, we will appoint and maintain a paying agent in Singapore where the Exchange Notes may be presented or surrendered for payment or redemption and make an announcement of such exchange through the SGX-ST, in the event that any Global Exchange Note is exchanged for definitive Exchange Notes. In addition, in the |

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| | event that any Global Exchange Note is exchanged for definitive Exchange Notes, an announcement of such exchange will be made by or on behalf of us and such announcement will include all material information with respect to the delivery of the definitive Exchange Notes, including details of the paying agent in Singapore. |
| Governing Law . . . . . | The Exchange Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. |
| Risk Factors . . . . . | For a discussion of certain factors that should be considered in evaluating an investment in the Exchange Notes, see "Risk Factors". |

## SUMMARY FINANCIAL DATA

The summary financial data in this section has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2006, 2007 and 2008 and our unaudited consolidated financial statements as of and for the three-month periods ended March 31, 2008 and 2009 incorporated by reference in this Memorandum. The unaudited interim financial statements incorporated by reference in this Memorandum reflect all adjustments which are, in our opinion, necessary to provide a fair statement of the results for the interim period indicated. The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from US GAAP. The following summary financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited and unaudited consolidated financial statements and the related notes thereto incorporated by reference in this Memorandum and other information included elsewhere in this Memorandum. The results in the three-month periods ended March 31, 2008 and 2009 are not necessarily indicative of the results that may be expected for the full year, and our historical results in general do not necessarily indicate results expected for any future period.

| | As of and for the Year Ended December 31, | | | As of and for the Three-Month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[2],[3] | 2007[2],[3] | 2008[2],[3] | 2008[3] | 2009 |
| | (Restated) | | | | |
| | (US$ thousands, except per share amounts and margins) | | | | |
| **Consolidated Income Statement Data:** | | | | | |
| Revenue | 555,480 | 713,866 | 901,295 | 135,495 | 177,234 |
| Cost of sales | (380,508) | (470,825) | (536,557) | (88,421) | (110,398) |
| Selling, general and administrative expenses | (35,852) | (40,209) | (56,729) | (10,636) | (16,115) |
| Depreciation and amortization | (3,975) | (5,364) | (4,627) | (672) | (1,129) |
| Income from operations before other items[4] | 135,145 | 197,468 | 303,382 | 35,766 | 49,592 |
| Net income from continuing operations[2] | 92,212 | 142,431 | 216,393 | 17,243 | 27,922 |
| Net income/(loss) from discontinued operations[2] | 21,268 | 9,842 | 12,200 | (2,716) | (4,917) |
| Net income for the year/period | 113,480 | 152,273 | 228,593 | 14,527 | 23,005 |
| Basic earnings per share | 0.82 | 0.91 | 1.25 | 0.08 | 0.12 |
| Diluted earnings per share | 0.81 | 0.90 | 1.24 | 0.08 | 0.12 |
| **Other Consolidated Financial Data:** | | | | | |
| Gross profit[5] | 174,972 | 243,041 | 364,738 | 47,074 | 66,836 |
| Gross profit margin[6] | 31.5% | 34.0% | 40.5% | 34.7% | 37.7% |
| EBITDA[7] | 316,850 | 487,640 | 592,541 | 74,492 | 114,926 |
| **Balance Sheet Data:** | | | | | |
| Cash, cash equivalents and short-term deposits | 171,437 | 350,853 | 486,955 | 259,282 | 413,416 |
| Current assets | 333,609 | 527,028 | 783,869 | 473,406 | 670,718 |
| Non-current assets | 873,646 | 1,310,469 | 1,820,055 | 1,441,632 | 1,985,465 |
| Total assets | 1,207,255 | 1,837,497 | 2,603,924 | 1,915,038 | 2,656,183 |
| Current liabilities (including current portion of long-term debt) | 179,048 | 197,003 | 285,478 | 195,348 | 307,995 |
| Long-term debt (net of current portion) | 450,000 | 441,985 | 714,468 | 443,310 | 705,573 |
| Total liabilities | 629,048 | 650,199 | 1,005,160 | 650,283 | 1,013,568 |
| Total shareholders' equity | 578,207 | 1,187,298 | 1,598,764 | 1,264,755 | 1,642,615 |

| | As of and for the Year Ended December 31, | | | As of and for the Three-Month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[2],[3] | 2007[2],[3] | 2008[2],[3] | 2008[3] | 2009 |
| | (Restated) | | | | |
| | (US$ thousands, except per share amounts and margins) | | | | |
| **Cash Flow Statement Data:** | | | | | |
| Cash flows from operating activities of continuing operations | 264,203 | 482,501 | 483,125 | 33,997 | 167,585 |
| Cash flows (used in) investing activities | (423,036) | (692,322) | (704,009) | (121,966) | (243,445) |
| Cash flows from/(used in) financing activities | 176,200 | 376,912 | 331,807 | (9,654) | 5,648 |
| Net increase/(decrease) in cash and cash equivalents | 44,469 | 175,803 | 112,481 | (98,468) | (74,169) |

Notes:

(1) Results for the year ended December 31, 2006, have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes and the classification of wood chips and commission revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the year ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the year ended December 31, 2008 incorporated by reference in this Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Income Statement Items" for a detailed description of our revenue components.

(2) Our Gaoyao facility was disposed in the three-month period ended March 31, 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the three-month periods ended March 31, 2008 and 2009. The annual consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 were issued prior to such disposition and have not been restated to reflect the Gaoyao facility as a discontinued operation. An impairment charge of our capital assets of US$15.4 million and US$18.2 million for the years ended December 31, 2007 and 2008, respectively, will be reclassified as discontinued operations. The remaining results of operations of the Gaoyao facility are not significant to the Company's consolidated results. The selected data in this table for the years ended December 31, 2006, 2007 and 2008 have not been restated to reflect the Gaoyao facility as a discontinued operation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview".

(3) The following financial data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet as of March 31, 2008 have not been reclassified to reflect the Gaoyao facility as discontinued. See note 2 above.

(4) Income from operations before other items excludes interest income and expense, exchange gains/(losses), loss on changes in fair value of financial instruments and other income, impairment of capital assets, and amortization of deferred financing costs.

(5) 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.

(6) Gross profit margin is calculated by dividing gross profit by revenue. Gross profit margin 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. Because it is not a Canadian GAAP measure, gross profit margin may not be comparable to similar measures presented by other companies.

(7) EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and 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. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

A reconciliation from income from operations before the undernoted to EBITDA for the periods indicated is set out below:

| | For the Year Ended December 31, | | | For the Three-month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[2] | 2007[2] | 2008[2] | 2008 | 2009 |
| | (Restated) | | | | |
| | (US$ thousands) | | | | |
| Income from operations before other items | 135,145 | 197,468 | 303,382 | 35,766 | 49,592 |
| Add: | | | | | |
| Depreciation and amortization | 3,975 | 5,364 | 4,627 | 672 | 1,129 |
| Depletion of timber holdings included in cost of sales | 177,730 | 284,808 | 284,532 | 38,054 | 64,205 |
| EBITDA[3] | 316,850 | 487,640 | 592,541 | 74,492 | 114,926 |

Notes:

(1) See note (1) above.

(2) See note (3) above.

(3) See note (7) above.

## RISK FACTORS

*You should consider the risks described below carefully and all of the information contained in this Memorandum before deciding whether to participate in the Exchange Offer. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Any of the following risks could materially and adversely affect our business, financial condition and results of operations. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements."*

### Risks Related to Our Business

***The cyclical nature of the forest products industry and price fluctuations could adversely affect our results of operations***

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. 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, which have a significant effect on our business, results of operations and financial condition. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration materials and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes. The markets for wood products are sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior 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;
- changes in market prices of commodities;
- governmental regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters).

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.

***Expanding our tree plantations and manufacturing operations requires substantial future capital expenditures and we may be unable to obtain adequate financing to fund our capital and other requirements***

Expanding our tree plantations and manufacturing operations requires intensive capital investment. During the years ended December 31, 2006, 2007, 2008 and the three-month period ended March 31, 2009, we incurred approximately US$407.2 million, US$647.0 million, US$672.5 million and US$251.4 million in capital expenditures to acquire tree plantations. We have also recently expanded our manufacturing operations through investments in an engineered wood flooring plant in Jiangsu, an oriented strand board plant in Heilongjiang, finger-joint board and block board plants in Hunan and a sawn timber facility in Yunnan. We have financed our expansion of tree plantations and manufacturing operations primarily from

internal cash flows and debt and equity financing and, if we require additional debt or equity financing for future capital expenditures, we can give no assurance that such financing will be available in the future on attractive terms or at all.

In addition, we have substantial indebtedness currently outstanding, including US$300 million 2004 Senior Notes, a US$150 million loan facility with several financial institutions (the "Syndicated Term Loan") and US$345 million 5% convertible senior notes due 2013 that were issued in July and August 2008 (the "2008 Convertible Notes"), the terms of which restrict our ability to raise additional debt financing. Such restrictions could affect our ability to raise financing in the future. If we are not able to obtain financing for expanding our tree plantations and/or manufacturing operations and/or other capital requirements, our business, financial condition and results of operations may be materially and adversely affected.

***Our decision and ability to develop and operate future tree plantations is subject to various factors and uncertainties, and no assurance can be given that we will actually develop and operate the amount of tree plantations with respect to which we have certain contractual rights.***

Our ability to further expand and develop our tree plantations and successfully implement our tree plantation models depends, among other things, on our ability to purchase trees with respect to which we have certain contractual rights and to lease the underlying plantation land on which the trees are located or to find other suitable plantation land. Under the purchase agreements for most of our purchased tree plantations, we have a right to purchase trees and a pre-emptive right to lease the underlying plantation land for a maximum period of up to 30 to 50 years, subject to negotiation of the definitive land use right transfer agreement, obtaining the requisite governmental approval and completing the requisite registration procedures. Our decision and ability to purchase the trees and exercise our contractual rights with respect to our tree plantations will depend on, among other factors, our business strategy and the availability of future financing, our ability to negotiate a final price, whether the area is desirable for tree plantations and the availability of tree plantations for expansion.

Should we be unable to purchase the trees, exercise our right to acquire the underlying plantation land use rights or obtain and complete the requisite governmental approval and registration procedures, or should we be unable to locate available and suitable plantation land for expansion, our business, financial condition and results of operations could be materially and adversely affected.

***Our integrated tree plantation model has a short operating history and may not be successful***

We commenced set-up and operations of our integrated tree plantation model in the fourth quarter of 2006, which consists of selling trees from our plantations as logs or using the wood fibre for producing value-added wood products at our own manufacturing facilities. The integrated tree plantation model is in an early business stage and has a short operating history. We may be unable to continue to acquire standing timber under the long-term acquisition agreements due to factors such as (i) risks of disagreement with counterparties and/or original plantation rights holders in the provinces regarding entering into specific agreements for the implementation of our plantation acquisition plan, (ii) the failure of any such counterparty to obtain any requisite consents from the original plantation rights holders, and (iii) risks of the counterparties failing to coordinate with us to obtain the requisite governmental approvals and complete the related registration procedures. In addition, we may not have the ability to allocate proper management resources and attention to the implementation of the integrated tree plantation model as well as coordinate the integration of our tree plantations with our downstream manufacturing activities. Furthermore, although results of operations and gross profit margins generated by sales of logs pursuant to the integrated tree plantation model in the year ended December 31, 2008 exceeded management's guidance, such results are not necessarily indicative of results that may be achievable in the future. We may be subject to operational and execution risks of integrating our upstream plantation activities to our downstream manufacturing operations, among other things.

*Our expansion in new regions may pose certain implementation risks*

We commenced operations in Hunan and Yunnan Provinces for the first time in the fourth quarter of 2006 and the first quarter of 2007, respectively. We are exposed to certain risks relating to our ability to successfully operate our plantations in those regions, primarily because we have no operating history in Hunan and Yunnan Provinces, and also because we do not have extensive experience interacting with local governments, business counterparties and original plantation rights holders in these provinces. These risks are similar to the risks we face with respect to our integrated tree plantation model. See "Our integrated tree plantation model has a short operating history and may not be successful".

*We are subject to risks presented by fluctuations in exchange rates*

We publish our financial statements and incur substantially all of our indebtedness in US dollars, while substantially all of our revenue is denominated in Renminbi.

Since 1994, the conversion of Renminbi into US dollars has been based on rates set by the People's Bank of China, which are set daily based on the previous day's PRC interbank foreign exchange market rate and current exchange rates on the world financial markets. The relative value and rate of exchange of the Renminbi against the US dollar is affected by, among other things, changes in the PRC's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the Renminbi against the US dollar of more than 17.6% since the July 21, 2005 change in exchange rate policy. The PRC government may decide to adopt an even more flexible currency policy in the future, which could result in a further and more significant appreciation or depreciation of the Renminbi against the US dollar.

Renminbi devaluation and exchange rate fluctuations may adversely affect our results of operations and financial condition and may result in foreign exchange losses because we have substantial foreign currency-denominated indebtedness, expenses and other requirements, while most of our revenues are denominated in Renminbi. In addition, we may not be able to increase the Renminbi prices of our domestic sales to offset fully any depreciation of the Renminbi due to political, competitive or social factors. To the extent the Renminbi appreciates against the US dollar or other currencies, it will make it more expensive for us to finance the expansion of our plantations in the PRC through equity or non-Renminbi borrowings.

As at March 31, 2009, our total long-term debt was US$718.1 million, all of which was denominated in US dollars. Except for the US dollar semi-annual interest payments due under the 2004 Senior Notes, we do not currently hedge exchange rate fluctuations between the Renminbi and other currencies.

Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the US dollar, Canadian dollar, Euro and H.K. dollar, or in the US dollar against the Renminbi, the Canadian dollar, the Euro or the H.K. dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into US dollars, Canadian dollars or otherwise, of our revenue and net income.

*The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of our control*

Our business, financial condition and results of operations depend to a significant extent on our ability to harvest trees or engage in trading activities at adequate levels. The following factors, which are outside

of our control, may affect the prices of logs and wood-based products, and our ability to harvest the trees on our tree plantations or engage in our trading activities:

- unfavorable local and global weather conditions, such as prolonged drought, flooding, hailstorms, windstorms, typhoons, frost and winter freezing; and
- the occurrence of natural disasters, such as damage by fire, insect infestation, crop pests, and earthquakes.

In recent years, certain areas of the PRC have been adversely affected by severe flooding. In addition, the southern coastal areas of the PRC suffer a number of typhoons each season, which lasts from June to September and occasionally results in significant damage. Further, there have been several incidences of forest fires in Guangdong Province. Dry weather conditions brought by the El Niño weather pattern in 1998 adversely affected certain areas of the world. In 1996, damage brought about by frost adversely affected the yield of eucalyptus plantations on higher altitude inland plantations in the PRC. In February 2008, snow and freezing rain storms damaged plantations in certain provinces. Similar conditions may well recur in the future. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our tree plantations are located, or otherwise disrupt our trading activities, which may adversely affect our business, financial condition and results of operations.

***We may not be able to meet our expectations for the yields of our tree plantations***

The success of our business depends upon the productivity of our tree plantations and our ability to realize yields at estimated levels. We estimate that the current average standing timber yield for our eucalyptus trees ranges from approximately 100 to 150 cubic meters per hectare per six-year cycle. Tree plantation yields depend on a number of factors, many of which may be beyond our control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. Our ability to maintain our yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that we may obtain in the future.

Our ability to improve or maintain our yields will depend on the factors described above as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus tree plantations. As a result, we cannot provide any assurance that we will be able to realize the historical or future yields we expected. If we cannot achieve yields at expected levels, our business, financial condition and results of operations would be materially and adversely affected.

***We may not be able to effectively manage our tree plantations if we do not hire additional employees and improve our management systems and internal controls***

As of March 31, 2009, we had 2,845 permanent employees based in Canada, Hong Kong and the PRC to manage our operations. We also engage third parties to perform the day-to-day operations of our tree plantations. However, as we expand the area of our tree plantations, we will have to hire additional management employees, strengthen our management processes and develop a plantation resources information system in order to effectively manage our tree plantations. There is no assurance that we will be able to recruit qualified management employees, strengthen our management processes or develop such an information system in a timely manner, or at all. We also believe that it is necessary to strengthen our internal control and corporate governance as we continue to build our business. Should we fail to take the measures described in this paragraph, we may not be able to implement our expansion strategy or to manage our growth effectively and our business, financial condition and results of operations could be materially and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Disclosure Controls and Procedures and Internal Controls over Financial Reporting."

*The forest products industry is highly competitive*

The forest products industry is highly competitive in terms of price and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. Lumber and log markets in the PRC are subject to competition from worldwide suppliers. In our tree plantations and standing timber and wood-based products trading activities, we are subject to increasing competition from other large domestic and foreign-owned tree plantations operators in the PRC, as well as wood dealers and local forestry companies, all of which provide logs and wood-based products for sale in the PRC. We also compete with a number of overseas forestry companies selling wood logs and wood-based products in the PRC.

Our manufacturing plants face competition from other large domestic and foreign-owned wood panel manufacturers in the PRC, as well as manufacturers in other countries selling into the PRC. In this regard, other manufacturers of wood panels are currently constructing new mills in the PRC that will substantially increase the production capacity of wood panels in the PRC. We may not be able to compete effectively against these and other potential competitors. If we are not able to compete effectively in our different business lines, or if competition significantly increases, our business, financial condition and results of operations could be materially and adversely affected.

*We rely on our relationships with local plantation landowners and/or plantation land use rights holders*

The conversion of the legal structure of all four of our CJVs into WFOEs was completed in the fourth quarter of 2007 and negotiations with local farmers, collective organizations or other land use rights holders for entering into new plantation land use agreements are in progress. There can be no assurance that through the WFOEs we will be able to secure all the plantation land use rights that we would expect them to secure, or secure such rights on satisfactory terms, from the farmers, collective organizations or other land use rights holders, or that we will be able to enter into any plantation land use agreements with relevant farmers, collective organizations or other land use rights holders to maintain the use of the tree plantations originally operated by our former CJVs or to obtain additional tree plantations.

In addition, we rely on our relationships with local plantation landowners and/or plantation land use rights holders to enter into any plantation land use agreements on commercially acceptable terms for our purchased tree plantations. We cannot give any assurance that we will be able to enter into any such agreements on commercially acceptable terms.

*The loss of business from a major customer could reduce our sales and harm our business and prospects*

A few large customers account for a significant percentage of our total revenue. During the years ended December 31, 2006, 2007 and 2008, our five largest customers accounted for approximately 57.5%, 58.7% and 55.6%, respectively, of our total revenue. For the same periods, our largest customer accounted for approximately 12.9%, 15.8% and 13.9%, respectively, of our total revenue. These major customers are all wood dealers and our authorized intermediaries ("AIs") who sell logs and wood-based products to end-user customers of these products. As a result, we expect that, for the foreseeable future, sales to a limited number of customers will continue to account, alone or in the aggregate, for a significant percentage of our total revenue. Dependence on a limited number of customers exposes us to the risk that a reduction of business volume from any one customer could have a material adverse effect on our business, financial condition and results of operations.

*Disruptions in our supply of raw timber could adversely affect our business, financial condition and results of operations*

A few large suppliers account for a significant percentage of our timber supply. For the years ended December 31, 2006, 2007 and 2008, our five largest timber suppliers accounted for approximately 44.2%, 54.8% and 45.5%, respectively, of our total costs of sales. For the same periods, our largest supplier of

timber accounted for approximately 12.6%, 32.2% and 16.5%, respectively, of our total costs of sales. These major suppliers are all wood dealers and our AIs. We have not entered into any long-term supply contract for the supply of raw timber. Dependence on a limited number of suppliers exposes us to the risk that any significant interruption in the supply of raw timber could have a material adverse effect on our business, financial condition and results of operations.

***We depend on services provided by third party service providers***

We rely to a significant extent on third party service providers for day-to-day operation of our tree plantations. The operations performed by third party service providers include: site preparation, planting, plantation management, fertilization and harvesting. We occasionally experience seasonal labor shortages in May and September as farmers become fully engaged in the planting and harvesting of rice. If we are unable to obtain services from these third party service providers, at economical rates or at all, or if any of the services they provide are inadequately performed, our business, financial condition and results of operations would be materially adversely affected.

***If we lose any of our key personnel, our operations and business may suffer***

We are heavily dependent upon our senior management in relation to their expertise in the forestry industry and research and development in forest plantation management practices and wood-based products manufacturing production processes, and the relationships cultivated by them with our major customers and others. We have no long-term contracts with any of our senior management. We do, however, have key person life insurance policies covering any of our employees, including senior management. The departure, or otherwise loss of service, of any of our senior management could materially and adversely affect our business, financial condition and results of operations.

***We may face difficulties during the transitional stages of our expansion; we may experience difficulties in managing future growth and potential acquisitions***

Our organic growth, as well as growth arising from acquisitions, could place a significant strain on our managerial, operational and financial resources. Our ability to manage our future growth will depend on our ability to continue to implement and improve operational, financial and management information systems on a timely basis and to train, motivate and manage an enlarged workforce and our ability to integrate our existing workforce with that of any businesses that we may acquire. Failure to effectively manage our expansion may lead to increased costs, a decline in sales and reduced profitability.

We may also seek to achieve our growth targets through acquisitions of local businesses providing access to new markets and/or creating synergies with our existing business. We may not be able to identify appropriate targets, complete the acquisitions on satisfactory terms (particularly as to price) or efficiently integrate the acquired companies or activities and achieve the expected benefits in terms of cost and synergies, which could adversely affect our business, financial condition and results of operations. There can be no assurance that we will be able to achieve our growth objectives.

***Our manufacturing plants are in an early stage of development and have a short operating history. The manufacturing plants may not be profitable or successful***

Our manufacturing plants are subject to the risks inherent in establishing a new business, including competitive pressures. Our ability to conduct and expand our manufacturing plants will depend upon our ability to, among other things:

- produce and develop high quality wood-based products that will be acceptable to customers;

- recruit and retain technical and management personnel with requisite expertise and experience in the wood-based products manufacturing industry; and
- raise working capital and fund capital expenditures for the expansion of the manufacturing plants.

We have reassessed our manufacturing development plan and in accordance with such plan, we have: (i) completed the second phase expansion of an engineered wood flooring plant in Jiangsu in 2007, with a total production capacity of 6.5 million square meters, (ii) developed an oriented strand board plant in Heilongjiang with a production capacity of 12,000 cubic meters, (iii) developed finger-joint board and block board processing facilities in Hunan Province with a total annual production capacity of 150,000 cubic meters, and (iv) established the Yunnan sawn timber facility with an estimated annual production capacity of 18,000 cubic meters. We can give no assurance that these facilities will operate at their planned operating capacity.

***Our insurance coverage may be insufficient to cover losses***

Consistent with PRC forestry industry practice, we have a policy of obtaining external insurance coverage for key insurable risks relating to our tree plantations and the operation of our manufacturing facilities. As a general matter, most of our insurance policies include a coverage limit that applies either per claim or per claim and per year, in particular for the purchased tree plantations. See "Business—Insurance".

We insure our planted and purchased tree plantations in various locations in the PRC against certain accident and disaster related losses such as fires, lightning, explosion, flooding and windstorm. We do not, however, insure our plantations against losses from all natural and other disasters, such as pest and disease, and we do not carry business interruption insurance. As a result, our insurance coverage may be insufficient to cover losses that we may incur on our tree plantations. If we were to suffer an uninsured loss or a loss in excess of our insurance coverage to the tree plantations, our business, financial condition and results of operations could be materially and adversely affected. We also maintain property all risk and public liability insurance policies for our manufacturing facilities. We maintain a level of fire insurance in amounts that we consider to be appropriate for such risks. Such insurance is subject to deductibles that we consider reasonable and not excessive given the current insurance market environment. The occurrence of a loss at our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet our indemnification obligations, could materially and adversely affect our business, financial condition and results of operations.

***Our manufacturing plants are subject to operational risks for which we may not be adequately insured***

The operation of manufacturing plants involves many risks and hazards, including the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment, labor disturbances, natural disasters, environmental hazards, and industrial accidents. In addition, the costs of repairing or replacing our production equipment and the associated downtime of the affected production line may not be totally reimbursed, or the level of insurance may not be adequate. The occurrence of material operational problems could have a material adverse effect on our business, financial condition and results of operations.

***We may be liable for income and related taxes to our business and operations, particularly our BVI Subsidiaries, in amounts greater than the amounts that we have estimated and for which we have provisioned***

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 AIs that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC, are subject to enterprise income tax. This also

applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 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 remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. 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 March 31, 2009 is the balance of the tax provision for the tax related contingency amounting to US$95,876,000 (compared to US$89,909,000 as at December 31, 2008) provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current year and in the three previous years.

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 judgments made by management. A change in the facts and these estimates and judgment could have a material impact on our tax expense. We have operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates and 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 we operate, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which we operate. 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 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.

***Increases in the export tax on logs in Russia may result in decreased demand for logs imported from Russia***

The Russian government significantly increased the export tariffs on logs from 6.5% in early 2007 to 20% and 25% in July 2007 and April 2008, respectively, with a further planned increase to 80% in January 2009 according to RISI. Although the Russian government announced in November 2008 that it would delay the log export tariff increase proposed for January 2009 by nine to twelve months, the earlier increases nevertheless had an impact on our revenue from sales of imported wood products, which decreased by 7.3% in the year ended December 31, 2008 compared to the year ended December 31, 2007. Although taxes levied will be passed on to our customers, we anticipate that demand for logs that we import from Russia will continue to decrease as a result of increased prices, which could have a material adverse effect on our results of operations.

***We will be obliged to adopt new accounting standards under IFRS for the years beginning on or after January 1, 2011, which could materially impact our financial statements***

We prepare our financial statements in accordance with Canadian GAAP. All companies that are Canadian reporting issuers will have to use the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for their financial reporting for the years beginning on or after January 1, 2011. As such issuers are required to produce comparative consolidated financial statements, the transition to IFRS will have to be reflected in their balance sheets as at January 1, 2010, in order to provide comparable balance sheet, income statement and statement of cash flows data for financial years 2011 and 2010. Applying these standards to our financial statements may have a considerable impact on a number of important areas. The preparation of our financial statements in accordance with IFRS could result in significantly different results from those obtained from financial statements prepared in accordance with Canadian GAAP. In particular, the valuation of our assets, especially our plantations, may be substantially affected by the application of IFRS to our financial statements. We have completed a detailed IFRS diagnostic analysis to assess the full impact of these new standards on our financial statements during the latter part of 2008.

***Our tree plantations and wood-based products trading activities are subject to extensive PRC laws and regulations***

We are subject to regulation under a variety of PRC national and local laws and regulations, including, among others, the PRC Forestry Law and its Implementation Regulations, the Forest Tree and Forestry Land Ownership and Use Rights Registration Administrative Measures, the Environmental Protection Law of the PRC and the Administrative Measures on Foreign Investment Forestation of Guangdong Province. Violations of any of the wide range of PRC laws and regulations that we may be subject to, including PRC environmental policies and programs that apply to our tree plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business. We engage in the following activities that are subject to regulation:

- tree plantation activities, including planting, plantation use and maintenance, logging and transportation of logs;
- marketing, sale and trading of standing timber, logs and wood-based products; and
- timber processing and manufacturing and sale of wood panels.

For further details on these regulations and risks relating to them, see "—Risks Related to the PRC."

***Any outbreak of severe communicable diseases may materially affect our operations and business***

Several places in the world, including Mexico and the US, are currently experiencing an outbreak of influenza A (H1N1), a communicable disease that is potentially lethal. Influenza A (H1N1), together with other contagious diseases such as severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect our operations at one or more of our facilities. We cannot predict at this time the impact that the current or any future outbreak could have on our business and results of operations.

**Risks Related to the PRC**

***PRC economic, political and social conditions as well as government policies could adversely affect our business***

All of our tree plantations are located in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of

development, economic growth rate, government control of foreign exchange, allocation of resources and balance of payment position.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades the PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy. Some of these measures will benefit the overall PRC economy, but may have a negative effect on us.

Our business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies affecting the forestry industry and downstream industries;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import restrictions.

In addition, the level of demand in the PRC for forestry products depends heavily on economic growth. According to the National Bureau of Statistics of China, between 1994 and 2008, the PRC's GDP, based on current prices, increased from approximately RMB4.88 billion to approximately RMB30.1 trillion. The annual per capita GDP, based on current prices, also rose between 1994 and 2007, from RMB4,044 to RMB19,473. This growth, however, has been uneven both geographically and among various sectors of the economy. From time to time, the central government of the PRC has taken corrective measures and actions to stabilize the country's economy and any possible social unrest, and has implemented various measures in strengthening and improving macroeconomic regulation. We cannot assure that such growth will be sustained in the future.

More recently, the global financial system has experienced significant difficulties and disruptions since the second half of 2007, leading to reduced liquidity, greater volatility, widening credit spreads and a lack of price transparency in the United States and global credit and financial markets. The difficulties in global credit and financial markets have also resulted in widening global economic downturn. There are indications that the current financial crisis and economic downturn may persist or worsen. The slowdown experienced in the economies of the United States, the European Union and certain Asian countries with which the PRC has significant trade relationships may adversely affect economic growth in the PRC. There are indications that economic growth in the PRC has already started to slow significantly with GDP growth for the PRC declining from 13% in 2007 to 9% in 2008. In particular, demand may decrease or slow for wood fibre and wood products from our downstream customers in the PRC real estate, construction and interior decoration industries, as well as overseas demand for exports of Chinese-made wood furniture. Such a decrease and/or slowdown in demand for wood and wood products could in turn put downward pressure on log prices in the PRC.

While various governments, including that of the PRC, have announced efforts to increase liquidity in the financial markets and stimulus packages to slow or reverse the economic downturn, there can be no assurance that these measures will be successful. If the PRC economy continues to grow at a slower rate, or experiences a recession, and growth in demand for forestry products also continues to slow down or decrease, our business, financial condition and results of operations would be adversely affected.

***Our operations are subject to the uncertainty of the PRC legal system***

The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new, interpretation of many laws, regulations and rules has not always been uniform, and enforcement of these laws and regulations involve significant uncertainties, which may limit or otherwise adversely affect legal protections available to us. Moreover, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of any violation by it of these policies or rules until some time after such violation. In addition, litigation in the PRC may be protracted and may result in substantial costs and diversion of resources and management attention. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

Furthermore, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the executive authorities. This may result in the outcome of dispute resolutions not being as consistent or predictable compared to more developed jurisdictions. In addition, it may be difficult to obtain a swift and equitable enforcement of laws in the PRC, or the enforcement of judgments by a court of another jurisdiction.

At present, the legal framework for the tree plantation industry in the PRC is at an early stage of development. For example, the laws and regulations relating to the ownership, licensing and rights over forestry areas are not well developed. Because these laws and regulations may not be comprehensive, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws, regulations and legal requirements involve some uncertainty. Such uncertainty may make it difficult for us to enforce our plantation land use rights and other rights. As the PRC legal system develops together with the PRC forestry industry, we cannot be certain that changes in such laws and regulations, or in their interpretation or enforcement, will not have a material adverse effect on our business, financial condition and results of operations.

The reform of the collectively owned plantation rights system has been ongoing in the PRC in recent years in order to enhance the rural land contract relationship and ensure that farmers have proper legal plantation rights. Farmers and rural collective organizations are currently permitted to transfer their plantation rights to third parties pursuant to existing PRC laws and regulations by means of bidding, public auction or competitive negotiation, as recognized by certain local practices. We cannot assure that the PRC government will not promulgate new rules and regulations that may be more detailed and complex than existing ones for regulating the transfer of plantation rights. Such rules may restrict or delay the acquisition of any new plantation rights from original plantation rights holders. Moreover, we cannot assure that the enforcement of such rules and regulations will not have a material adverse effect on our business, financial condition and results of operations.

***Restrictions on foreign currency exchange may limit our ability to obtain foreign currency or to utilize our revenue effectively***

We receive most of our revenues in Renminbi. As a result, any restrictions on currency exchange may limit our ability to use revenue generated in Renminbi to:

- purchase timber imported from other countries;
- fund other business activities outside the PRC, such as the purchase of equipment for our manufacturing plants;

- service and repay our indebtedness, including but not limited to the 2004 Senior Notes and the 2008 Convertible Notes; and
- pay out dividends to our shareholders.

Our subsidiaries in the PRC do not require prior approval from the State Administration for Foreign Exchange ("SAFE") before undertaking current account foreign exchange transactions. Current account transactions refer to those international revenue and expenditure dealings that occur on a current basis, including revenues and expenditures in trade and labour services, and the declaration of and payment of dividends out of after tax retained earnings. Foreign exchange for current account transactions may be obtained by producing commercial documents evidencing such transactions, provided that the transactions must be processed through banks in the PRC licensed to engage in foreign exchange.

Foreign exchange transactions under the capital account, however, will be subject to the registration requirements and approval of SAFE. Capital account transactions refer to international revenues and expenditures, that, being inflows and outflows of capital, produce increases or reductions in debt and equity, including direct investment, various types of borrowings and investment in securities. In addition, for either current or capital account transactions, our WFOEs must purchase foreign currency from one of the PRC banks licensed to conduct foreign exchange.

We cannot assure that sufficient amounts of foreign currency will always be available to enable us to meet our foreign currency obligations, whether to service or repay indebtedness not denominated in Renminbi, including the Exchange Notes, the 2004 Senior Notes and the 2008 Convertible Notes, or to remit profits out of the PRC. In addition, our subsidiaries incorporated in the PRC may not be able to obtain sufficient foreign currency to pay us dividends, repay intercompany loans or to satisfy their other foreign currency requirements. Our capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at March 31, 2009, we had retained earnings of US$792.6 million in the PRC which may be restricted. Since foreign exchange transactions under the capital account are still subject to limitations and require approval from SAFE, this could affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. We also cannot provide assurance that the PRC government will not impose further restrictions on the convertibility of the Renminbi.

***Certain PRC regulations governing PRC companies are less developed than those applicable to companies incorporated in more developed countries***

A significant portion of our investments are in the form of WFOEs established in the PRC, which are subject to PRC laws and regulations applicable to foreign investment companies, and other applicable laws and regulations in the PRC. These laws and regulations may not afford investors the same legal protections available to them in the United States, Canada or elsewhere, and may be less developed than those applicable to companies incorporated in the United States, Canada and other developed countries or regions.

***Operational licenses and permits***

Currently, PRC laws and regulations require tree plantation companies to obtain licenses and permits to operate tree plantations, harvest logs on the tree plantations and transport the logs out of the forest areas. The tree plantation companies must apply to the relevant Administration for Industry and Commerce of the PRC for the business license, and must apply to the local forestry bureaus for the logging permits and transportation permits for plantations that are to be harvested. We currently have the relevant business licenses for our subsidiary companies in the PRC to engage in forestry activities and have received the requisite logging permits and transportation permits for our completed logging and transportation activities. In this regard, the PRC State Council reviews and approves the annual logging quota every five years. This annual logging quota is allocated by the local forestry bureaus within their administrative

regions. For foreign invested plantations, the logging quota is allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. There is no assurance that we will continue to maintain the business licenses and obtain the relevant permits for our future logging and transportation activities, or that the PRC government will not enact laws and regulations that would add requirements for tree plantation companies to conduct these activities in the PRC.

Further, PRC laws and regulations require manufacturers to obtain licenses and permits to operate timber manufacturing plants. The timber manufacturing companies must apply to the relevant Administration for Industry and Commerce of the PRC for a business license, and those established in the forestry areas must apply for the Timber Operation (Processing) Permit required by the relevant forestry regulatory authorities in the PRC. We currently have the requisite business licenses for our subsidiary companies in the PRC to engage in timber manufacturing activities. However, there is no assurance that we will continue to maintain the business licenses or the Timber Operation (Processing) Permits for our manufacturing plants, or that the PRC government will not pass laws and regulations that would place additional requirements on companies conducting these activities in the PRC.

***Environmental regulations***

Laws and regulations protecting the environment have generally become stricter in the PRC in recent years and could become more stringent in the future. On December 26, 1989, the Standing Committee of the National People's Congress of the PRC adopted the Environmental Protection Law of the PRC. This law contains, and future legislation with respect to protection of the environment, whether relating to forests, protected animal species, or water conservation, could contain, restrictions on tree planting, timber harvesting, and other forest practices. Our tree plantations and manufacturing plants will also be subject to environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect our business, financial condition and results of operations.

***Implementation and Issuance of new form Plantation Rights Certificate***

Since 2000, the PRC has been improving its system of registering plantation land ownership, plantation land use rights and plantation ownership and use rights and of issuing certificates to the persons having such plantation rights (the "Plantation Rights Certificates"). In April 2000, the PRC State Forestry Administration issued a notice, which provided that a new form of Plantation Rights Certificate was to be used from the date of the notice. The PRC government is in the process of gradually implementing the issuance of the new form of certificates on a nationwide scale. However, the registration and issuance of the new form plantation rights certificates by the PRC State Forestry Administration have not been fully implemented in a timely manner in certain parts of the PRC. We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased tree plantations and planted tree plantations currently under our management, and we are in the process of applying for the plantation rights certificates for those plantations for which we have not obtained such certificates.

We can give no assurance when the official Plantation Rights Certificates will be issued by the relevant local PRC governments to all the purchased tree plantations and planted tree plantations acquired and under our management and cultivation. Until official new form Plantation Rights Certificates are issued, there can be no assurance that our rights to our tree plantations will not be subject to dispute or challenge. If such certificates are not issued, or are not issued in a timely manner, or if our rights to any of our tree plantation lands are subject to dispute or challenge, our business, financial condition and results of operations could be materially adversely affected.

***Agricultural Taxes and Other Related Forestry Fees***

Prior to February 2006, agricultural taxes on forestry companies were levied by the PRC government and generally amounted to approximately 8% of the selling prices or government standardized prices, depending upon the entity and the province in which it operates. The agricultural taxes and other forestry-related fees are levied at the time trees are harvested or sold. In certain provinces where our tree plantations are located, the agricultural taxes have been exempted or reduced. On February 17, 2006, the agricultural taxes were abolished by the PRC State Council. The forestry-related fees include reforestation and maintenance fees, which are generally charged at 10% to 20% of sales, but the fees actually charged vary from place to place. There is also a forest protection fee of RMB5 per cubic meter of wood harvested. No assurance can be given that other forestry-related tax will not be levied and such forestry-related fees will not be increased in the future. According to a notice issued by the Ministry of Finance, the National Development and Reform Commission and the State Forestry Administration on August 4, 2003, the forestry protection fee has been cancelled. However, the cancellation of the forestry protection fee has not yet been fully implemented in the provinces where our tree plantations are located.

**Risks Related to the Exchange Notes**

***We are a holding company and payments with respect to the Exchange Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries***

We are primarily a holding company that operates through subsidiaries. The Exchange Notes are guaranteed by the Subsidiary Guarantors, which are also primarily holding companies that operate through subsidiaries. However, the Exchange Notes will not be guaranteed at their issue date by the Initial Non-Guarantor Subsidiaries, specifically Dynamic Profit Holdings Limited (BVI) and Sino-Capital Global Inc. (BVI), which are our subsidiaries that have guaranteed the 2004 Senior Notes with an aggregate outstanding principal amount of US$300 million and the Syndicated Term Loan with an aggregate outstanding principal amount of US$150 million. See "Description of Other Indebtedness." Certain Initial Non-Guarantor Subsidiaries, such as Sino-Capital Global Inc. (BVI), have significant assets. In addition, the Exchange Notes will not be guaranteed by any of our current or future subsidiaries organized under the laws of the PRC ("PRC Subsidiaries") and future subsidiaries organized under the laws of other jurisdictions that would not allow them to provide such guarantee (the "Foreign Subsidiaries"), which are our operating subsidiaries. As a result, (i) our obligations under the Exchange Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries, our current or future PRC Subsidiaries and our future Foreign Subsidiaries (collectively, the "Non-Guarantor Subsidiaries") and (ii) all claims of creditors of our Non-Guarantor Subsidiaries, including trade creditors, lenders and all other creditors, and rights of holders of preferred shares of such entities (if any) will have priority as to the assets of such entities over claims of ours or the Subsidiary Guarantors and those of creditors of ours or the Subsidiary Guarantors, including the holders of the Exchange Notes. We and our subsidiaries may incur significant additional secured or unsecured indebtedness in the future. In addition, under the terms of the Exchange Notes, our ability and our Restricted Subsidiaries' ability to incur new indebtedness has been increased in comparison to our ability and our Restricted Subsidiaries' ability to incur new indebtedness under the terms of the 2004 Senior Notes.

***Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of inter-company loans or advances to us and our subsidiaries***

As a holding company, we depend upon the receipt of dividends and the repayment of intercompany loans or advances from our subsidiaries and affiliates, including the PRC Subsidiaries, to satisfy our debt obligations. The ability of our direct and indirect subsidiaries to pay dividends and repay intercompany loans or advances to their shareholders (including us) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in debt instruments of such subsidiaries. Covenants in the debt instruments of our certain direct and indirect subsidiaries limit their ability to pay dividends. In addition, if any of the subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares may not be available to us to make payments on our debt obligations. These restrictions could reduce the amounts that we receive from our subsidiaries, which could restrict our ability to meet our payment under our debt obligations. Our ability to utilize cash resources that we have received from subsidiaries to finance the needs of other subsidiaries, to a significant extent, is subject to the same restrictions.

In addition, PRC regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in the PRC are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. Furthermore, under prevailing PRC income tax laws, there is a 10% withholding tax imposed on dividend payments received by foreign investors in the PRC Subsidiaries. If the foreign investor is a qualified Hong Kong resident, such withholding tax rate may be lowered to 5% pursuant to a double tax treaty between Hong Kong and the PRC.

In practice, the PRC Subsidiaries may declare dividends once a year. We currently conduct some of our operations in the PRC through our WFOEs. Under their articles of association adopted in accordance with PRC regulations, the WFOEs are only allowed to declare dividends once a year although such dividends may be distributed multiple times each year. As a result of such limitations, there could be timing limitations on payments from the PRC Subsidiaries to meet our payment under the debt obligations and there could be restrictions on payments required to pay off our debt obligations at maturity or upon conversion or for repurchase or redemption.

Furthermore, in practice, the market interest rate that the PRC Subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The PRC Subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a qualified Hong Kong resident) withholding tax as well as a 5% business tax on our behalf on the interest paid under any shareholders' loans. Prior to payment of interest and principal on such shareholder loan, the PRC Subsidiaries must present evidence of payment of the required withholding tax on the interest payable under any such shareholder loan and evidence of registration with SAFE as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, there can be no assurance that we will have sufficient cash flow from dividends or payments on inter-company loans or advances from our subsidiaries to satisfy our debt obligations. As at March 31, 2009, we had retained earnings of US$792.6 million in the PRC which may be restricted.

***We have substantial indebtedness and may incur substantial additional indebtedness in the future, which adversely affects our financial health and ability to generate sufficient cash to satisfy our outstanding and future debt obligations***

We have a substantial amount of indebtedness. As of March 31, 2009, our total short and long term debt was approximately US$799.5 million.

Our substantial indebtedness could have important consequences. For example, it could:

- limit our ability to satisfy our obligations under existing debt;
- limit our ability to make dividends or other distributions to our shareholders;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the forestry industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In particular, the Syndicated Term Loan and the indenture relating to the 2004 Senior Notes include restrictive covenants limiting our ability to incur additional debt. Although certain of the restrictive covenants in the 2004 Senior Notes will be amended if the concurrent consent solicitation we are conducting in connection with the 2004 Senior Notes is successful, the debt covenants in the indenture relating to the Exchange Notes will also include provisions proscribing us from incurring new debt, except under certain circumstances, unless we meet a specified financial ratio. Further, the indenture governing the 2008 Convertible Notes provides, in certain cases, restrictions against some of our subsidiaries providing additional guarantees.

In the future, we may from time to time incur substantial additional indebtedness. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow should be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, certain of our financing arrangements impose operating and financial restrictions on our business. These provisions require us to, among other things, maintain a debt to equity ratio, a capital asset coverage ratio, an EBITDA to interest expense ratio, a current ratio, and a debt to timber holdings ratio, above certain specified levels. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure that we will be able to meet these ratios. These provisions may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, significantly increase research and development expenditures, or withstand a continuing or future downturn in our business. Any of these could materially and adversely affect our ability to satisfy our debt obligations.

***If we are unable to comply with the restrictions and covenants in our debt agreements, there could be a default under the terms of these agreements, which could cause payment of our debt to be accelerated***

If we are unable to comply with the restrictions and covenants in our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements contain cross-acceleration or cross-default provisions. As a result, a default under one debt agreement may cause the acceleration of debt, or result in a default under the other debt agreements. If any of these events occur, we cannot assure that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure that we would be on terms that are favourable or acceptable to us.

***If we are unable to comply with the restrictions and covenants in our debt agreements or the indenture relating to the Exchange Notes, there could be a default under the terms of these agreements or such indenture, which could cause payment of our debt to be accelerated***

If we are unable to comply with the restrictions and covenants in the indenture relating to the Exchange Notes or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indenture relating to the Exchange Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of debt, including the Exchange Notes, or result in a default under our other debt agreements, including the indenture relating to the Exchange Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

***Our operations are restricted by the terms of the Exchange Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk***

The indenture relating to the Exchange Notes includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our restricted subsidiaries, to:

- incur additional debt;
- make restricted payments;
- pay dividends or distributions on our capital stock, repurchase our capital stock, pay existing indebtedness, make intracompany loans or advances or sell or transfer property or assets;
- sell capital stock;
- guarantee indebtedness;
- enter into transactions with affiliates;
- create liens on our assets to secure debt;
- enter into sale and leaseback transactions;
- sell assets;
- make investments;

- merge or consolidate with another company; and
- engage in a different business activity.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control and we may have to curtail some of our operations and growth plans to maintain compliance.

***You may be unable to enforce your rights under the bankruptcy laws of the United States or other relevant jurisdictions***

We are incorporated under the laws of Canada and our principal assets are located in the PRC. Under bankruptcy laws in the United States, courts typically have jurisdiction over a debtor's property, wherever located, including property situated in other countries. However, courts outside of the United States may not recognize the United States bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Canadian debtor with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable outside of the United States.

In addition, because we are incorporated under the laws of Canada, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Canadian bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law or those of other relevant jurisdictions. The rights of the Trustee and the holders of the Exchange Notes to enforce remedies are likely to be significantly impaired by the restructuring provisions of applicable Canadian federal bankruptcy, insolvency and other restructuring legislation if the benefit of such legislation is sought with respect to us. For example, both the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada) contain provisions enabling "an insolvent person" to obtain a stay of proceeding against its creditors and others to prepare and file a proposal of plan of arrangement for consideration by all or some of its creditors to be voted on by the various classes of its creditors affected thereby. Such a restructuring proposal, if accepted by the requisite majorities of each affected class of creditors and if approved by the relevant Canadian court, would be binding on persons who may not otherwise be willing to accept it. Moreover, this legislation permits the insolvent debtor to retain possession and administration of its property, even though it may be in default under the applicable debt instrument.

The powers of the court under the *Bankruptcy and Insolvency Act* (Canada) and particularly under the *Companies' Creditors Arrangement Act* (Canada) have been exercised broadly to protect a restructuring entity from actions taken by creditors and other parties. Accordingly, it is impossible to predict if payments under the Exchange Notes would be made following commencement of or during such a proceeding, whether or when the Trustee and the holders could exercise their rights under the Indenture or whether and to what extent holders of the Exchange Notes would be compensated for any delays in payments, if any, of principal and interest. Furthermore, the Subsidiary Guarantors are incorporated in Hong Kong, the British Virgin Islands or the Cayman Islands and the insolvency laws of these jurisdictions may also differ significantly from the laws of Canada, the United States or other jurisdictions with which the holders of the Exchange Notes are familiar.

***We may be unable to raise the funds to pay interest on the Exchange Notes or to purchase the Exchange Notes upon a change of control triggering event or at maturity***

The Exchange Notes initially bear interest semi-annually at a rate of 10.25%. If a change of control triggering event occurs, we are required to make an offer to each holder to purchase, for cash, all or a portion of our Exchange Notes at such holder's option. We are obligated to pay the principal amount of the Exchange Notes outstanding at the maturity date. We may not have sufficient funds for any required repurchase of the Exchange Notes or required payment of principal or interest, and we may have to

refinance other indebtedness or otherwise secure funds in order to make payments under the Exchange Notes. We are required to make an offer to repurchase the 2004 Senior Notes and the 2008 Convertible Notes, and to repay the Syndicated Term Loan under circumstances similar to those constituting a change of control triggering event. In addition, the terms of any borrowing agreements may subject us to similar obligations. These agreements may also make our repurchase of Exchange Notes an event of default under such agreements. If we fail to pay interest on the Exchange Notes or repurchase the Exchange Notes when required, we will be in default under the indenture governing the Exchange Notes.

***There is no existing market for the Exchange Notes, an active and liquid trading market for the Exchange Notes may not develop and there are restrictions on resale of the Exchange Notes***

The Exchange Notes are a new issue of securities for which there is currently no public market, and no active trading market might ever develop. If the Exchange Notes are traded after their initial issuance, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors. To the extent that an active trading market does not develop, the liquidity and trading prices for the Exchange Notes may be harmed. The liquidity of any market for the Exchange Notes will depend upon the number of holders of the Exchange Notes, our results of operations and financial condition, the market for similar securities, the interest of securities dealers in making a market in the Exchange Notes and other factors. An active or liquid trading market for the Exchange Notes may not develop, and you may be unable to resell your Exchange Notes or may only be able to sell them at a substantial discount.

In addition, we have not registered the Exchange Notes under the Securities Act or any state securities laws. The Exchange Notes are being offered pursuant to exemptions from registration requirements under the Securities Act, and as a result, you will only be able to resell your Exchange Notes in transactions not subject to or exempt from the registration and qualification requirements of US federal and state securities law. See "Transfer Restrictions." Moreover, we may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under certain circumstances, US holders may be unable to exercise such rights unless a registration statement under the Securities Act is effective with respect to such securities or an exemption from registration of such securities under the Securities Act is available. We are under no obligation to file a registration statement under the Securities Act with respect to any securities which we may offer rights to acquire.

***Enforcement of the rights of holders of the Exchange Notes under the Exchange Notes across multiple jurisdictions may prove difficult***

Substantially all of our assets are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, Canada, the United Kingdom, Japan or most other western countries. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts. The PRC has not entered into any treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of other countries or regions (such as the United Kingdom, the United States, Canada or Hong Kong). Therefore, it may also be difficult to seek the recognition and enforcement of judgments obtained in these and other jurisdictions in the PRC.

**Risks Related to the Subsidiary Guarantees and the Collateral**

***The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Exchange Notes***

The Collateral will consist only of capital stock of our initial Subsidiary Guarantors, which excludes any capital stock of our existing or future PRC Subsidiaries and Foreign Subsidiaries. In addition, the security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied prior to repaying any amounts due under the

Exchange Notes to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The indenture prepared in connection with the Exchange Offer and issue of the Exchange Notes will permit us to also incur under certain circumstances additional debt secured by the Collateral as long as it is equally and ratably secured with the Exchange Notes. Furthermore, pursuant to an inter-creditor agreement, the Collateral will secure our obligations under the Exchange Notes as well as our obligations under the Syndicated Term Loan and the 2004 Senior Notes. If the proceeds of the sale of the Collateral were insufficient to repay the amounts due under the Exchange Notes, the Syndicated Term Loan, the 2004 Senior Notes and any additional secured debt, you would have only an unsecured claim against our remaining assets and the remaining assets of the Subsidiary Guarantor Pledgors. In addition, the holders of the 2004 Senior Notes and the lenders under the Syndicated Term Loan have security interests in the capital stock of certain of our subsidiaries which do not comprise the Collateral. Therefore, such creditors would have priority with respect to such assets over the holders of the Exchange Notes.

In addition, all of the Collateral consists of capital stock of privately held companies which may be illiquid and may not have any readily ascertainable market value. We cannot assure you that the pledged capital stock will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

***The Subsidiary Guarantors also guarantee our other significant obligations and they may not have the funds necessary to satisfy our financial obligations under the Exchange Notes***

The initial Subsidiary Guarantors that will guarantee the Exchange Notes do not have significant operations. In addition to the Exchange Notes, the Subsidiary Guarantors also guarantee the 2004 Senior Note, the Syndicated Term Loan, and the 2008 Convertible Notes. Certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future would have the funds necessary to satisfy our financial obligations under the Exchange Notes pursuant to their respective Subsidiary Guarantees if we are unable to do so.

***The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees***

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong, the British Virgin Islands, Canada or other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the law of the jurisdiction which is being applied. Generally, however, the guarantor would be considered insolvent at a particular time if it is unable to pay its debts as they fall due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities on its existing debt as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder was incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

However, certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. We cannot provide any assurance that the guarantee of a Subsidiary Guarantor's would not be voided or subject to review under applicable insolvency or fraudulent transfer laws, or subject to a lawsuit by or on behalf of creditors of such Subsidiary Guarantor.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantors, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Exchange Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of ours and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. There can be no assurance that, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Exchange Notes.

**Risks Related to the Exchange Offer**

***The proposed indenture amendments could materially and adversely affect the credit risk inherent in the 2004 Senior Notes***

The 2004 Senior Notes not exchanged pursuant to the Exchange Offer will remain outstanding. Concurrently with the Exchange Offer, we are separately conducting a consent solicitation relating to the 2004 Senior Notes. Upon receipt of the requisite consents, the proposed indenture amendments will become operative, and certain of the restrictive covenants contained in the indenture related to the 2004 Senior Notes will be modified. See "—Concurrent Consent Solicitation". As so amended, the indenture related to the 2004 Senior Notes will continue to govern the terms of the 2004 Senior Notes that remain outstanding after the consummation of the Exchange Offer.

It is possible that the changes to the indenture related to the 2004 Senior Notes effected by the proposed indenture amendments could increase the credit risk with respect to us faced by the non-exchanging holders or otherwise adversely affect the interests of the non-exchanging holders. See "Consent Solicitation for the 2004 Senior Notes".

***Holders of 2004 Senior Notes will not be able to effect transfers of their 2004 Senior Notes tendered in the Exchange Offer***

Holders of 2004 Senior Notes participating in the Exchange Offer will have to wait until after the Expiration Date to receive the Exchange Notes, during which time those holders of 2004 Senior Notes will not be able to effect transfers of their tendered 2004 Senior Notes.

***The Exchange Offer will result in reduced liquidity for the 2004 Senior Notes that are not exchanged, and any outstanding 2004 Senior Notes may have amended covenants***

The trading market for 2004 Senior Notes that are not exchanged in the Exchange Offer may become more limited than the existing trading market for the 2004 Senior Notes. A more limited trading market might adversely affect the liquidity, market price and price volatility of the 2004 Senior Notes. There can, moreover, be no assurance that an active market in the 2004 Senior Notes will exist, develop or be maintained, or as to the prices at which the 2004 Senior Notes may trade, after the Exchange Offer is consummated. Therefore, if 2004 Senior Notes are not tendered and accepted in the Exchange Offer, it may become more difficult for holders to sell or transfer unexchanged 2004 Senior Notes.

In addition, we are currently soliciting consent to amend the covenants of the 2004 Senior Notes to a level of restrictiveness which would be comparable to the one in the Exchange Notes. In that case, if you fail to tender your 2004 Senior Notes or such tender is not accepted, you may not have the same level of protection under the 2004 Senior Notes that you continue to hold after the consummation of the Exchange Offer. See "Consent Solicitation for the 2004 Senior Notes" and "Description of Material Differences Between the 2004 Senior Notes and the Exchange Notes".

***The holders of 2004 Senior Notes are responsible for complying with the procedures of the Exchange Offer***

Holders of 2004 Senior Notes are responsible for complying with all of the procedures for exchanging the 2004 Senior Notes pursuant to the terms of this Memorandum. Neither we, the Dealer Manager nor the Exchange Agent assumes any responsibility for informing holders of irregularities with respect to offers to exchange from the holders.

***The Exchange Offer may be terminated***

No assurance can be given that the Exchange Offer will be completed. Completion of the Exchange Offer is conditional upon, and the purchase of 2004 Senior Notes in the Exchange Offer will not occur, until Settlement Date. In addition, subject as provided herein, we may, in our sole discretion, amend, terminate or withdraw the Exchange Offer at any time prior to Expiration Date and may, in our sole discretion, waive each and any of the conditions to the Exchange Offer.

***Withdrawal of 2004 Senior Notes delivered may not be accepted***

Notwithstanding the right to withdraw 2004 Senior Notes that have been offered for exchange, such withdrawal will only be accepted if validly submitted to the relevant clearing system prior to the Withdrawal Date (or any earlier deadlines set by the relevant clearing system).

***Holders of 2004 Senior Notes are responsible for complying with applicable offer restrictions***

Holders of 2004 Senior Notes are referred to the offer restrictions on pages (iv) to (viii) and the deemed representations and warranties on pages 235 to 237 of this Memorandum. Non-compliance with the offer restrictions by a holder could result in, among other things, an inability to validly offer to exchange 2004 Senior Notes, the unwinding of trades and/or heavy penalties.

*Holders of 2004 Senior Notes are responsible for consulting their own advisors*

Holders of 2004 Senior Notes should consult their own tax, accounting, financial and legal advisors regarding the suitability to themselves of the tax or accounting consequences of participating or declining to participate in the Exchange Offer and an investment in the Exchange Notes.

**HOLDERS ARE ADVISED TO CHECK WITH THE BANK, SECURITIES BROKER, CLEARING SYSTEMS OR OTHER INTERMEDIARY THROUGH WHICH THEY HOLD THEIR 2004 SENIOR NOTES WHETHER SUCH INTERMEDIARY APPLIES DIFFERENT DEADLINES FOR ANY OF THE EVENTS SPECIFIED IN THIS MEMORANDUM, AND THEN TO ALLOW FOR SUCH DEADLINES IF SUCH DEADLINES ARE PRIOR TO THE DEADLINES SET OUT IN THIS MEMORANDUM.**

## EXCHANGE RATES

### PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply of and demand for Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to US dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the US dollar. From July 21, 2005 to December 31, 2007, the value of the Renminbi appreciated by approximately 11.9% against the US dollar. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Centre, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over-the-counter exchange rate for the business day.

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| Period | Period End | Average[1] | High | Low |
| | (RMB per US$1.00) | | | |
| 2002 | 8.2800 | 8.2772 | 8.2800 | 8.2700 |
| 2003 | 8.2767 | 8.2771 | 8.2800 | 8.2765 |
| 2004 | 8.2765 | 8.2768 | 8.2774 | 8.2764 |
| 2005 | 8.0702 | 8.1826 | 8.2765 | 8.0702 |
| 2006 | 7.8041 | 7.9579 | 8.0702 | 7.8041 |
| 2007 | 7.2946 | 7.5806 | 7.8127 | 7.2946 |
| 2008 | 6.8225 | 6.9193 | 7.2946 | 6.7800 |
| 2009 | | | | |
| January 2009 | 6.8392 | 6.8367 | 6.8403 | 6.8300 |
| February 2009 | 6.8395 | 6.8363 | 6.8470 | 6.8241 |
| March 2009 | 6.8329 | 6.8360 | 6.8438 | 6.8240 |
| April 2009 | 6.8180 | 6.8306 | 6.8361 | 6.8180 |
| May 2009 | 6.8278 | 6.8235 | 6.8326 | 6.8176 |
| June 2009 (through June 23, 2009) | 6.8348 | 6.8342 | 6.8374 | 6.8265 |

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which is determined by averaging the daily rates during the respective periods.

On June 23, 2009, the noon buying rate for US dollars in New York City for cable transfers in Renminbi was US$1.00 = RMB6.8348 as quoted by Bloomberg L.P.

**Hong Kong**

The H.K. dollar is freely convertible into other currencies, including the US dollar. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, or the Basic Law, which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong. Therefore, under existing Hong Kong law, (i) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of dividend payments to US residents and (ii) there are no limitations on the rights of non-residents or foreign owners to hold the Notes offered in this offering.

Since October 17, 1983, the H.K. dollar has been pegged to the US dollar at the rate of HK$7.80 to US$1.00. The central element in the arrangements which gave effect to the peg is that by agreement between the Hong Kong Special Administrative Region government and the three Hong Kong banknote issuing banks (i.e., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in US dollars, at the fixed exchange rate of HK$7.80 to US$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent US dollars at the fixed rate.

The market exchange rate of the H.K. dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to US$1.00 since the peg was first established. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per US dollar to a rate range of HK$7.75 to HK$7.85 per US dollar. The Hong Kong Special Administrative Region government has stated its intention to maintain the link at that rate range. The Hong Kong Special Administrative Region government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the H.K. dollar will remain freely convertible into other currencies, including the US dollar. However, no assurance can be given that the Hong Kong Special Administrative Region government will maintain this rate range or the link at HK$7.75 to HK$7.85 per US$1.00, or maintain any rate range or link at all.

The following table sets forth the noon buying rate for US dollars in New York City for cable transfers in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

| Period | Noon Buying Rate | | | |
|---|---|---|---|---|
| | Period End | Average[1] | High | Low |
| | | (HK$ per US$1.00) | | |
| 2002 | 7.7988 | 7.7996 | 7.8095 | 7.7970 |
| 2003 | 7.7640 | 7.7864 | 7.8001 | 7.7085 |
| 2004 | 7.7723 | 7.7899 | 7.8010 | 7.7632 |
| 2005 | 7.7533 | 7.7755 | 7.7999 | 7.7514 |
| 2006 | 7.7771 | 7.7685 | 7.7928 | 7.7506 |
| 2007 | 7.7984 | 7.8008 | 7.8289 | 7.7497 |
| 2008 | 7.7499 | 7.7814 | 7.8159 | 7.7497 |
| 2009 | | | | |
| January 2009 | 7.7544 | 7.7566 | 7.7618 | 7.7511 |
| February 2009 | 7.7551 | 7.7534 | 7.7551 | 7.7511 |
| March 2009 | 7.7500 | 7.7530 | 7.7593 | 7.7497 |
| April 2009 | 7.7500 | 7.7501 | 7.7508 | 7.7495 |
| May 2009 | 7.7519 | 7.7510 | 7.7526 | 7.7500 |
| June 2009 (through June 23, 2009) | 7.7501 | 7.7508 | 7.7520 | 7.7501 |

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which is determined by averaging the daily rates during the respective periods.

On June 23, 2009, the noon buying rate for US dollars in New York City for cable transfers in Hong Kong dollars was HK$7.7501 per US dollar as quoted by Bloomberg L.P.

**Canada**

The following table sets forth the noon buying rate for US dollars in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated.

| Period | Noon Buying Rate | | | |
|---|---|---|---|---|
| | Period End | Average[1] | High | Low |
| | (Cdn.$ per US$1.00) | | | |
| 2002 | 1.5800 | 1.5702 | 1.6128 | 1.5108 |
| 2003 | 1.2923 | 1.3916 | 1.5750 | 1.2923 |
| 2004 | 1.2034 | 1.2984 | 1.3970 | 1.1775 |
| 2005 | 1.1656 | 1.2083 | 1.2703 | 1.1507 |
| 2006 | 1.1652 | 1.1307 | 1.1726 | 1.0989 |
| 2007 | 0.9881 | 1.0665 | 1.1852 | 0.9168 |
| 2008 | 1.2240 | 1.0713 | 1.2971 | 0.9717 |
| 2009 | | | | |
| January 2009 | 1.2365 | 1.2256 | 1.2749 | 1.1822 |
| February 2009 | 1.2710 | 1.2452 | 1.2710 | 1.2190 |
| March 2009 | 1.2606 | 1.2645 | 1.2995 | 1.2245 |
| April 2009 | 1.1939 | 1.2242 | 1.2640 | 1.1939 |
| May 2009 | 1.0957 | 1.1528 | 1.1868 | 1.0957 |
| June 2009 (through June 23, 2009) | 1.1508 | 1.1177 | 1.1527 | 1.0817 |

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2009, which is determined by averaging the daily rates during the respective periods.

For a recent noon buying rate for US dollars in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York, see "Certain Definitions, Conventions and Currency Presentation."

## CONSOLIDATED CAPITALIZATION

The following table sets out our consolidated short-term debt and capitalization as of March 31, 2009 on (i) an actual basis, (ii) an as adjusted basis after giving effect to the Exchange Offer, assuming the entire US$300.0 million principal amount of 2004 Senior Notes is tendered and accepted and US$300.0 million principal amount of Exchange Notes are issued to the eligible holders thereof, and (iii) an as adjusted basis after giving effect to our issuance of 34,500,000 common shares completed on June 8, 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing Arrangements and Contractual Obligations" and "Description of the Notes." The following table should be read in conjunction with the selected consolidated financial data and the audited and unaudited consolidated financial statements and related notes incorporated by reference in this Memorandum.

| | As of March 31, 2009 | | |
|---|---|---|---|
| | Actual | As Adjusted[1] | As Adjusted[2] |
| | | (US$ thousands) | |
| Short-term debt: | | | |
| Bank Indebtedness[3] | 81,461 | 81,461 | 81,461 |
| Current portion of long-term debt | 12,500 | 12,500 | 12,500 |
| Total short-term debt | 93,961 | 93,961 | 93,961 |
| Long-term debt: | | | |
| 2008 Convertible Notes[4] | 280,250 | 280,250 | 280,250 |
| 2004 Senior Notes[5],[9] | 300,000 | — | — |
| Syndicated Term Loan[5],[8] | 137,500 | 137,500 | 137,500 |
| Bank Loans | — | — | — |
| The Exchange Notes[9] | — | 300,000 | 300,000 |
| Unamortized deferred financing costs | (12,177) | (12,177) | (12,177) |
| Total long-term debt[6] | 705,573 | 705,573 | 705,573 |
| Shareholders' equity: | | | |
| Equity portion of 2008 Convertible Notes[4] | 70,462 | 70,462 | 70,462 |
| Common shares, no par value, unlimited shares authorized, 220,279,062[11] shares outstanding | 561,021 | 561,021 | 877,887[10] |
| Contributed surplus | 8,685 | 8,685 | 8,685 |
| Accumulated other comprehensive income | 209,885 | 209,885 | 209,885 |
| Retained earnings | 792,562 | 792,562 | 792,562 |
| Total shareholders' equity | 1,642,615 | 1,642,615 | 1,959,481 |
| Total capitalization[7] | 2,360,688 | 2,360,688 | 2,677,554 |

Notes:

(1) As adjusted after giving effect to the Exchange Offer, assuming the entire US$300.0 million principal amount of 2004 Senior Notes is tendered and accepted and US$300.0 million principal amount of Exchange Notes is issued to the holders thereof.

(2) As adjusted after giving effect to (i) the Exchange Offer (see above note 1) and (ii) our issuance of 34,500,000 common shares completed on June 8, 2009.

(3) "Bank Indebtedness" includes bank indebtedness relating to both continued operations and discontinued operations.

(4) In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook, a convertible note should be split into an equity and a liability component. The 2008 Convertible Notes are guaranteed by the Subsidiary Guarantors (as defined in the indenture prepared in connection with the offering of the 2008 Convertible Notes).

(5) The 2004 Senior Notes and the Syndicated Term Loan are secured by pledges of the Collateral, as well as capital stock of certain of our other subsidiaries.

(6) "Long-term debt" includes all long-term debt but excludes the current portion of long-term debt.

(7) "Total capitalization" includes long-term debt plus shareholders' equity. As of March 31, 2009, we had outstanding options to acquire an aggregate of 4,118,626 common shares pursuant to our stock option plan at prices ranging between Cdn.$2.70 and Cdn.$19.00 per common share with expiry dates to March 31, 2014. In addition, as at March 31, 2009, and at their initial conversion rate, our outstanding 2008 Convertible Notes are convertible into a maximum of 17,007,603 common shares.

(8) We are currently in the process of seeking the consent of the lenders under the Syndicated Term Loan to amend certain of its terms, so that, among other things the covenants therein are not substantially more restrictive than the restrictive covenants under the Exchange Notes, including the limitation on incurrence of indebtedness and on restricted payments.

(9) In accordance with CICA Emerging Issues Committee Abstract—88 "Debtors Accounting for a Modification or Exchange of Debt Instruments" management has determined that the Exchange Offer constitutes a modification of the 2004 Senior Notes. As a result, financing costs incurred in connection with the offer of the Exchange Notes will be added to the unamortized deferred financing costs and will be amortized over the term of the debt using the effective interest rate method. Costs and fees relating to the Exchange Offer have not been included in the above capitalization table.

(10) Including net proceeds from the equity offering completed on June 8, 2009, assuming an exchange rate of Cdn.$1.1414 per US$1.00 and professional fees relating to such offering.

(11) The number of common shares outstanding takes into account the shares issued on June 8, 2009.

On June 8, 2009, we issued 34,500,000 common shares at a price of Cdn.$11.00 per share for total net proceeds of approximately Cdn.$361.7 million.

Since March 31, 2009, there has not been any other material changes to our capitalization.

## SELECTED FINANCIAL DATA

The selected financial data in this section has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2006, 2007 and 2008 and our unaudited consolidated financial statements as of and for the three-month periods ended March 31, 2008 and 2009 incorporated by reference in this Memorandum. The unaudited interim financial statements reflect all adjustments which are, in our opinion, necessary to provide a fair statement of the results for the interim periods indicated. The audited and unaudited consolidated financial statements were prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from US GAAP. The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited and unaudited consolidated financial statements and the related notes thereto incorporated by reference into this Memorandum and other information included elsewhere in this Memorandum. The results in the three-month periods ended March 31, 2008 and 2009 are not necessarily indicative of the results that may be expected for the full year, and our historical results in general do not necessarily indicate results expected for any future period.

| | As of and for the Year Ended December 31, | | | As of and for the Three-Month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[2],[3] | 2007[2],[3] | 2008[2],[3] | 2008[3] | 2009 |
| | (Restated) | | | | |
| | (US$ thousands, except per share amounts and margins) | | | | |
| **Consolidated Income Statement Data:** | | | | | |
| Revenue | 555,480 | 713,866 | 901,295 | 135,495 | 177,234 |
| Cost of sales | (380,508) | (470,825) | (536,557) | (88,421) | (110,398) |
| Selling, general and administrative expenses | (35,852) | (40,209) | (56,729) | (10,636) | (16,115) |
| Depreciation and amortization | (3,975) | (5,364) | (4,627) | (672) | (1,129) |
| Income from operations before other items[4] | 135,145 | 197,468 | 303,382 | 35,766 | 49,592 |
| Net income from continuing operations[2] | 92,212 | 142,431 | 216,393 | 17,243 | 27,922 |
| Net income/(loss) from discontinued operations[2] | 21,268 | 9,842 | 12,200 | (2,716) | (4,917) |
| Net income for the year/period | 113,480 | 152,273 | 228,593 | 14,527 | 23,005 |
| Basic earnings per share | 0.82 | 0.91 | 1.25 | 0.08 | 0.12 |
| Diluted earnings per share | 0.81 | 0.90 | 1.24 | 0.08 | 0.12 |
| **Other Consolidated Financial Data:** | | | | | |
| Gross profit[5] | 174,972 | 243,041 | 364,738 | 47,074 | 66,836 |
| Gross profit margin[6] | 31.5% | 34.0% | 40.5% | 34.7% | 37.7% |
| EBITDA[7] | 316,850 | 487,640 | 592,541 | 74,492 | 114,926 |
| **Balance Sheet Data:** | | | | | |
| Cash, cash equivalents and short-term deposits | 171,437 | 350,853 | 486,955 | 259,282 | 413,416 |
| Current assets | 333,609 | 527,028 | 783,869 | 473,406 | 670,718 |
| Non-current assets | 873,646 | 1,310,469 | 1,820,055 | 1,441,632 | 1,985,465 |
| Total assets | 1,207,255 | 1,837,497 | 2,603,924 | 1,915,038 | 2,656,183 |
| Current liabilities (including current portion of long-term debt) | 179,048 | 197,003 | 285,478 | 195,348 | 307,995 |
| Long-term debt (net of current portion) | 450,000 | 441,985 | 714,468 | 443,310 | 705,573 |
| Total liabilities | 629,048 | 650,199 | 1,005,160 | 650,283 | 1,013,568 |
| Total shareholders' equity | 578,207 | 1,187,298 | 1,598,764 | 1,264,755 | 1,642,615 |
| **Cash Flow Statement Data:** | | | | | |
| Cash flows from operating activities of continuing operations | 264,203 | 482,501 | 483,125 | 33,997 | 167,585 |
| Cash flows (used in) investing activities | (423,036) | (692,322) | (704,009) | (121,966) | (243,445) |
| Cash flows from/(used in) financing activities | 176,200 | 376,912 | 331,807 | (9,654) | 5,648 |
| Net increase/(decrease) in cash and cash equivalents | 44,469 | 175,803 | 112,481 | (98,468) | (74,169) |

Notes:

(1) Results for the year ended December 31, 2006, have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes and the classification of wood chips and commission revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the year ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the year ended December 31, 2008 incorporated by reference in this Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Income Statement Items" for a detailed description of our revenue components.

(2) Our Gaoyao facility was disposed in the three-month period ended March 31, 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the three-month periods ended March 31, 2008 and 2009. The annual consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 were issued prior to such disposition and have not been restated to reflect the Gaoyao facility as a discontinued operation. An impairment charge of our capital assets of US$15.4 million and US$18.2 million for the years ended December 31, 2007 and 2008, respectively, will be reclassified as discontinued operations. The remaining results of operations of the Gaoyao facility are not significant to the Company's consolidated results. The selected data in this table for the years ended December 31, 2006, 2007 and 2008 have not been restated to reflect the Gaoyao facility as a discontinued operation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview".

(3) The following financial data for the years ended December 31, 2006, 2007 and 2008 and the balance sheet as of March 31, 2008 have not been reclassified to reflect the Gaoyao facility as discontinued. See note 2 above.

(4) Income from operations before other items excludes interest income and expense, exchange gains/(losses), loss on changes in fair value of financial instruments and other income, impairment of capital assets, and amortization of deferred financing costs.

(5) 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.

(6) Gross profit margin is calculated by dividing gross profit by revenue. Gross profit margin 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. Because it is not a Canadian GAAP measure, gross profit margin may not be comparable to similar measures presented by other companies.

(7) EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and 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. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

A reconciliation from income from operations before the undernoted to EBITDA for the periods indicated is set out below:

| | For the Year Ended December 31, | | | For the Three-month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[2] | 2007[2] | 2008[2] | 2008 | 2009 |
| | (Restated) | | | | |
| | (US$ thousands) | | | | |
| Income from operations before other items | 135,145 | 197,468 | 303,382 | 35,766 | 49,592 |
| Add: | | | | | |
| Depreciation and amortization | 3,975 | 5,364 | 4,627 | 672 | 1,129 |
| Depletion of timber holdings included in cost of sales | 177,730 | 284,808 | 284,532 | 38,054 | 64,205 |
| EBITDA[3] | 316,850 | 487,640 | 592,541 | 74,492 | 114,926 |

Notes:

(1) See note (1) above.

(2) See note (3) above.

(3) See note (7) above.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto incorporated by reference in this Memorandum and other financial information included elsewhere in this Memorandum. Our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 and our unaudited consolidated financial statements for the three-month periods ended March 31, 2008 and 2009 incorporated by reference into this Memorandum have been prepared in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from US GAAP. Investors are advised that any evaluation of our business should be made with reference to the information contained in this Memorandum under the heading "Risk Factors."*

### Overview

We are a leading commercial forest plantation operator in the PRC. Our principal businesses include ownership and management of forest plantation trees, sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products.

Our business operations comprised two core business segments. Our wood fibre operations are our major revenue contributor, while our manufacturing and other operations enable us to add value to our fibre by producing downstream products. For the year ended December 31, 2008 and for the three-month period ended March 31, 2009, total revenue was US$901.3 million and US$177.2 million, respectively.

#### Wood Fibre Operations Segment

Our wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated tree plantations, selling wood logs sourced from PRC suppliers and selling wood products imported from outside the PRC. The wood fibre operations accounted for 93.0% and 93.5% of our total revenue for the year ended December 31, 2008 and the three-month period ended March 31, 2009, respectively.

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased tree plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture wood fibre growth during the course of our ownership and take advantage of potentially selling the trees at higher wood fibre prices. Under our planted tree plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using improved silviculture techniques and sell the trees as standing timber or harvest and sell the trees as logs. Under our integrated tree plantation model, instead of selling the trees from purchased or planted tree plantations as standing timber, we either sell the harvested logs or process the logs in our manufacturing facilities and sell value-added wood products. We are currently in the early stages of implementing our integrated tree plantation model.

As of March 31, 2009, approximately 348,000 hectares (84.9%) of our plantations under management were purchased tree plantations and approximately 62,000 hectares (15.1%) were planted tree plantations. In the year ended December 31, 2008, we sold approximately 86,067 hectares (82.8%) of plantation fibre from our purchased plantations, 14,071 hectares (13.5%) from our integrated plantations, and 3,807 hectares (3.7%) from our planted plantations, for a total of 103,945 hectares. In the three-month period ended March 31, 2009, we sold approximately 13,773 hectares (89.0%) of plantation fibre from our purchased plantations and 1,705 hectares (11.0%) from our planted plantations, for a total of 15,478 hectares. In the three-month period ended March 31, 2009, we did not sell any wood fibre under our integrated plantation model. This reflected our focus on sales of wood fibre from our purchased

plantations in this period, since we deferred harvesting from our integrated plantations during the first quarter of 2009, as such harvesting typically occurs in the second half of the year.

We sell wood fibre either as standing timber by hectare, or as logs by cubic meter. Average selling prices per hectare of standing timber vary according to a variety of factors, including the yield, age and species of the trees sold, whereas the price of logs varies according to diameter, age, density of fibre and species of tree. See "Business—Sales and Marketing."

Until the third quarter of 2007, we conducted our wood chip sales activities in the PRC through domestic wood dealers who acted as our AIs to purchase timber supplies and sell processed wood chips to the market. During the third quarter of 2007, wood chips and commission revenue terminated when our two AIs who processed wood chips for us ceased to provide us with wood chipping services. As a result, the operations from wood chips and commission are shown as net income/(loss) from discontinued operations in our consolidated statements of income and retained earnings for the years ended December 31, 2006, 2007 and 2008 and the three-month periods ended March 31, 2008 and 2009. In addition, as a result of our sale of machinery and equipment in March 2009 and the discontinuation of our Gaoyao particleboard operations, our particleboard operations are shown as discontinued operations in our consolidated financial statements for the three-month periods ended March 31, 2008 and 2009. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference in this Memorandum. Our audited consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 do not reflect the reclassification of the Gaoyao particleboard operations as discontinued operations after the disposition of the Gaoyao facility during the three-month period ended March 31, 2009.

In determining our geographical segments, revenues are attributed to the segments based on the location of our customers, and assets are attributed to the segments based on their locations. As of March 31, 2009, 99.4% of our revenue was derived from customers located in the PRC and all of our timber holdings and approximately US$91.6 million of our capital assets and assets held for sale in discontinued operations were located in the PRC.

**Recent Developments**

***Sale of Particleboard Manufacturing Equipment***

In March 2009, one of our subsidiaries signed an agreement to dispose the particleboard manufacturing equipment at its plant in Gaoyao for total consideration of approximately US$30.0 million. We retained the ownership of the manufacturing building and property. The purchaser is leasing these premises from us and is operating the equipment on the premises.

***Mandra Forestry***

We have recently entered into preliminary discussions with Mandra Forestry and certain holders of Mandra Notes regarding the possible acquisition by us of their Mandra Notes and/or additional equity of Mandra Forestry. These discussions are at a very preliminary stage and there are no assurances that an acquisition will materialize. Any potential transaction involving Mandra Forestry could result in us using material amounts of cash and/or incurring or assuming material amounts of new or existing debt.

***Omnicorp Limited***

On February 6, 2009, we acquired 55,000,000 ordinary shares of Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, and 4% secured convertible bonds with an aggregate principal amount of approximately US$21.7 million. The aggregate purchase price paid by us was satisfied by the payment of approximately US$4.3 million in cash for the Omnicorp shares and the issuance of approximately

2.7 million common shares at a price of Cdn.$10.00 per share for the Omnicorp 4% secured convertible bonds. The issuance of our common shares represented a dilution of approximately 1.5% of our currently issued and outstanding common shares. The acquisition was completed in the secondary market from various third parties. As a result of the completion of the transaction, our stake in Omnicorp has increased to approximately 20.0% of Omnicorp's outstanding shares as well as 89.6% of the outstanding convertible bonds. The convertible bonds held by us are convertible into an additional 106,164,150 Omnicorp ordinary shares at a price of HK$2.00 per share at any time prior to November 9, 2009, subject to certain terms and restrictions. Assuming the full conversion by us of the acquired convertible bonds, subject to certain terms and conditions of the convertible bonds, we would own approximately 40.2% of Omnicorp's outstanding shares.

***Acquisition of Commercial Plantation Forests in the Jiangxi Province***

On June 11, 2009, we, through our wholly-owned subsidiary Sino-Panel (China) Investments Limited ("Sino-Panel Investments"), entered into a master agreement to acquire between 15.0 million and 18.0 million cubic meters of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we currently plan to acquire such amount of wood fibre within an area of between 150,000 and 300,000 hectares of plantation trees to achieve an estimated average wood fibre yield of approximately 100 cubic meters per hectare. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel Investments has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The permissible land lease term after harvesting is up to 50 years under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between subsidiaries of Sino-Panel (China) Investments Limited and Jiangxi Zhonggan Industrial Development Company Limited ("Jiangxi Zhonggan") upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

***June 2009 Equity Offering***

On June 8, 2009, we completed a public offering of 34,500,000 common shares of Sino-Forest Corporation at Cdn.$11.00 per share for gross proceeds of Cdn.$379,500,000. The offering included the exercise in full of the over-allotment option by the underwriters to purchase 4,500,000 common shares. The offering was underwritten by a syndicate co-led by Credit Suisse Securities (Canada), Inc. and Dundee Securities Corporation, and included Merrill Lynch Canada Inc., Scotia Capital Inc. and TD Securities Inc. In addition to the offering in Canada, a portion of the offering was sold on a private placement basis in the United States, Asia and elsewhere.

**Factors Affecting Results of Operations**

We believe that the following principal factors affect our business and results of operations:

***Cyclical Price Fluctuations***

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Prices and demand for logs and wood chips have been, and in the future are expected to be, subject to cyclical fluctuations. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration material and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes, changes in industry capacity and output levels, general timber industry

condition and cyclical changes in the world and PRC economies. Log prices vary according to the species and size of the logs, with large diameter logs commanding higher prices than small diameter logs. In addition, 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. Increases or decreases in selling prices could have positive or negative effects on our business, financial condition and results of operations.

***Changes in Demand for Wood Products***

The demand for our products is directly correlated to demand for the wood products they are used to make. Demand for wood products is 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;
- changes in market prices of commodities;
- government regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters) and other factors affecting tree growth.

***Seasonality***

In general, our revenue is lowest in the first quarter of the year and represents approximately 15.0% of the revenue of the entire year. This ratio, however, does not constitute a projection of future revenue for any specific financial year or period, including the current financial year. This amount 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 logging and hauling timber during the rainy season in the first half of the year.

***Our Tree Plantation Yields***

The success of our business depends upon the productivity of our tree plantations and our ability to realize our expected yields. Tree plantation yields depend on a number of factors, many of which are beyond our control. Our ability to maintain and improve our yields will depend on these factors and the results of our research and development efforts. A decrease in the productivity of our tree plantations would adversely affect our business, financial condition and results of operations.

***Acquisition/Availability of Standing Timber***

Revenue from our sales of standing timber was US$352.6 million, US$521.5 million, US$685.4 million and US$128.0 million in the years ended December 31, 2006, 2007 and 2008 and the three-month period ended March 31, 2009, respectively, which represented approximately 63.5%, 73.1%, 76.0% and 72.2% of our total revenue in the years ended December 31, 2006, 2007 and 2008 and the three-month period ended March 31, 2009, respectively. Hence, our ability to source standing timber may have a significant impact on our revenue. In addition, fluctuations in the cost of sales of standing timber also have a direct impact on our gross profit margin and our results of operations.

**Critical Accounting Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires us to make estimates and assumptions, as well as to exercise our judgment, in the process of applying our accounting policies. This affects the amounts or values reported in our consolidated financial statements and accompanying notes. These estimates form a basis for making judgments about carrying values of assets and liabilities. Actual amounts or values could differ under different assumptions or conditions. We consider our critical accounting policies, meaning those which require us to make the most significant estimates and exercise the most amount of judgment, to be the following:

***Asset Impairment***

*Timber Holdings*

Timber holdings represented 69.3% of our consolidated total assets as of March 31, 2009. Timber holdings are carried on our consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. We review the recoverability of the carrying value of our 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.

We believe 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 risks such as fire, pest and disease, frost and typhoons, plantation growth and yield, future yield development and our weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on our consolidated income statement and the reported timber holdings amount in our consolidated balance sheet.

To assist with our impairment assessments, we engage an outside consultant to help derive cash flow estimates and to estimate the fair value of our 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, we could potentially experience future impairment charges and such charges could be material.

*Capital Assets*

We evaluate the recoverability of the carrying value of our 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.

We believe 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, 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 our consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

*Revenue Recognition of Standing Timber Sales*

We sell standing timber at various stages of maturity to domestic wood dealers from our tree plantations. Standing timber revenue represents a significant portion of our consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of our contractual arrangements with our customers. To date, substantially all of our standing timber revenue has been recognized when we and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, we and the buyer negotiate 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 we have not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the 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 BVI Subsidiaries are engaged in Authorized Sales Activities in the PRC through AIs that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the AI Agreements, the AIs are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. 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 of December 31, 2006, 2007 and 2008, and as of March 31, 2009, are the balances of the provisions for these tax-related liabilities amounting to US$66.6 million, US$80.2 million, US$89.9 million and US$95.9 million, respectively, based on the profits/income of the Authorized Sales Activities earned by the BVI Subsidiaries in the current period 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 judgments made by our management. A change in the facts and these estimates and judgments could have a material effect on our tax expense. We have 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 we operate, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which we operate. 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 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 judgments 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**

***Future Adoption of 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. In the period leading up to the changeover, the ACSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the changeover date.

We commenced our IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. We will invest in training and resources throughout the transition period to facilitate a timely conversion.

The diagnostic phase was completed during the latter part of 2008. This work involved a high-level review of the major differences between current Canadian GAAP and IFRS. While a number of differences have been identified, the areas of highest potential impact are as follows: timber holdings; property, plant and equipment; impairment of assets; income taxes; and foreign exchange accounting. We expect the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

During the coming year, 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 staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

***Goodwill, intangible assets and fair value of financial assets***

As of January 1, 2009, we adopted the following CICA accounting standard and Emerging Issues Committee ("EIC") abstract. New Section 3064 Goodwill and Intangible Assets 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 our interim and annual financial statements beginning on January 1, 2009. We have evaluated the new section and determined that adoption of these requirements will have no impact on our consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities is a guidance requiring that an entity's own credit risk and the credit risk of the counterparty should be taken into

account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to our 2009 fiscal year with retrospective without restatement of prior periods. Adoption of this guidance had no impact on consolidated financial statements.

*Financial Instruments and Comprehensive Income*

As of January 1, 2007, we adopted the following CICA Handbook Sections: Section 3855 Financial Instruments—Recognition and Measurement, Section 3861 Financial Instruments—Disclosure and Presentation, Section 3865 Hedges, Section 1530 Comprehensive Income and Section 3251 Equity. These accounting standards introduced new requirements for recognition and measurement of financial instruments, the application of hedge accounting, the reporting and display of comprehensive income as well as the recognition of certain transition adjustments. We adopted these Sections retroactively without restatement of the consolidated financial statements of the prior period except for the presentation of unrealized foreign currency translation adjustments arising from self-sustaining foreign operations which are presented as part of other comprehensive income retroactively.

Deferred financing costs relating to the 2004 Senior Notes and the Syndicated Term Loan amounting to US$8.7 million as of January 1, 2007 that had previously been reported in other assets, are now recorded against the carrying value of the related debt and amortized into interest expense using the effective interest method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line item in the consolidated statement of income. Effective January 1, 2007, we no longer amortize deferred financing costs using the straight-line method, and instead have taken it into the income statement and recorded it as interest expense using the effective interest method over the term of the related debt. Effective January 1, 2007, a cumulative adjustment was made to account for the difference between the accumulated amortization of deferred financing costs using the effective interest method and the straight-line method. This resulted in a decrease in long-term debt and an increase in equity of US$1.1 million net of tax of nil.

Upon adoption of CICA Section 3865, we determined that our foreign currency swap did not qualify for hedge accounting treatment. As a result, the fair value of the swap as of January 1, 2007 was included as a liability on the balance sheet through an adjustment to equity, decreasing it by US$9.8 million.

*Income Taxes*

Effective January 1, 2007, we voluntarily adopted a new policy for accounting for uncertainty in income taxes. Under our previous policy, we 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 our new accounting policy, we evaluate a tax position using a two-step process:

Step 1—Recognition requires us to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50% ("more-likely-than-not") that the tax position taken or to be 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 the recognition threshold has been met, requires us to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that has a greater than 50% likelihood of being realized upon ultimate settlement.

See note 2 in the consolidated financial statements for the year ended December 31, 2007 incorporated by reference into this Memorandum for further details regarding the adoption of these standards.

*Capital Disclosures*

During the fourth quarter of 2006, the CICA issued three new accounting standards: CICA Handbook Section 1535 "Capital Disclosure," CICA Handbook Section 3863 "Financial Instruments—Presentation" and CICA Handbook Section 3862 "Financial Instruments—Disclosure." These standards were effective for interim and annual financial statements for our reporting period beginning on January 1, 2008.

The Capital Disclosure section describes the standards for disclosing information about a company's objectives, policies and processes for managing capital, quantitative data about what a company regards as capital and whether a company has complied with any capital requirements and, if not, the consequences of such non-compliance. Financial Instruments—Presentation carries forward the guidance under Section 3861 with little change and Financial Instruments—Disclosure requires disclosure on the face of the balance sheet of each of the financial instrument categories as well as additional disclosure regarding credit, market and liquidity risks we face.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard was effective for our reporting period beginning on January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

**Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

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

The design and effectiveness of internal controls over financial reporting was assessed as of December 31, 2008. Based on that evaluation, we concluded that the design and effectiveness of our DC&P and ICFR was ineffective due to the weakness discussed below with respect to ICFR.

The success of our vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. During 2009, management will take steps to address this deficiency and will continue to monitor and mitigate this weakness.

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

There has been no change in the design of the Company's internal controls over financial reporting during the quarter ended March 31, 2009, that would materially affect, or is reasonably likely to materially affect, Sino-Forest's internal controls over financial reporting.

## Components of Income Statement Items

Set forth below is a description of the key line items of our consolidated income statement:

### *Revenue*

We derive our revenue from our two core business segments, i.e., our wood fibre operations which generate revenue from sales of plantation fibre and other fibre (e.g. wood logs and other wood products), and our manufacturing and other operations which generate revenue from sales of manufactured wood products such as engineered wood flooring, oriented strand board and finger-joint board, as well as from greenery and nursery activities.

The table below presents a breakdown of revenue for the periods indicated by business segment and the relative contribution of such business segment's revenue to our total revenue:

| | Year Ended December 31, | | | | | | Three-Month Period Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2008 | | 2008 | | 2009 | |
| | (Restated) | | | | | | | | | |
| | (US$ millions, except percentages) | | | | | | | | | |
| Wood Fibre Operations, including | | | | | | | | | | |
| Plantation Fibre | 352.6 | 63.5% | 521.5 | 73.1% | 685.4 | 76.0% | 102.7 | 75.8% | 128.0 | 72.2% |
| Other Fibre | 178.9 | 32.2% | 154.0 | 21.5% | 153.5 | 17.0% | 24.2 | 17.9% | 37.7 | 21.3% |
| *Sub-total Wood Fibre Operations* | *531.5* | *95.7%* | *675.5* | *94.6%* | *838.9* | *93.0%* | *126.9* | *93.7%* | *165.7* | *93.5%* |
| Manufacturing and Other Operations | 24.0 | 4.3% | 38.4 | 5.4% | 62.4 | 7.0% | 8.6 | 6.3% | 11.5 | 6.5% |
| **Total Revenue** | **555.5** | **100%** | **713.9** | **100%** | **901.3** | **100%** | **135.5** | **100%** | **177.2** | **100%** |

### *Cost of Sales*

Our cost of sales consists of: (i) depletion of timber holdings as they are sold; (ii) the costs of logs acquired in the domestic PRC market; (iii) the cost of imported logs and wood-based products acquired in our sales and trading activities of these products; and (iv) the costs incurred at our manufacturing plants.

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 administrative 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.

Our cost of sales also varies from period to period due to the effect of several factors, including yield, volume of timber sold, depletion of timber holdings, cost of imported logs and wood-based products, cost of logs acquired in the domestic PRC market, with respect to our integrated plantations, harvesting costs and government levies, and costs incurred at our manufacturing plants. Depletion will depend on original acquisition costs, species and age of the trees.

The table below presents a breakdown of our cost of sales for the periods indicated and by business segment:

| | Year Ended December 31, | | | Three-Month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | (Restated) | | (US$ millions) | | |
| Plantation Fibre | 184.4 | 284.8 | 329.4 | 56.5 | 64.2 |
| Other Fibre | 173.8 | 149.3 | 145.6 | 23.5 | 36.3 |
| *Sub-total Wood Fibre Operations* | 358.2 | 434.1 | 475.0 | 80.0 | 100.5 |
| Manufacturing and Other Operations | 22.3 | 36.7 | 61.6 | 8.4 | 9.9 |
| **Total Cost of Sales** | **380.5** | **470.8** | **536.6** | **88.4** | **110.4** |

***Selling, General and Administration***

Our selling, general and administration expenses consist of salaries and bonuses, legal and professional fees, stock-based compensation, insurance, advertising, rent and other expenses.

***Interest Expense***

Our interest expense consists of interest paid on the 2004 Senior Notes, the Syndicated Term Loan, the 2008 Convertible Notes, bank loans and other bank indebtedness. For additional information on the 2004 Senior Notes and the Syndicated Term Loan, see "Description of Other Indebtedness."

***Interest Income***

Our interest income consists of income earned on cash balances and the US$15.0 million loan provided to Mandra Forestry Holdings Limited ("Mandra Forestry") in the second quarter of 2005.

***Exchange Gains/(Losses)***

Our exchange gains (losses) represent translation adjustments of Canadian dollar or Hong Kong dollar transactions or balances which are included in our consolidated statements of income.

***Loss on Changes in Fair Value of Financial Instruments***

Our loss on changes in fair value of financial instruments represents the fair value adjustment on the currency swap contract and the Omnicorp embedded conversion option.

***Other Income***

Our other income mainly consists of gains on disposal of other assets and management fees from Mandra Forestry.

***Net Income/(Loss) from Discontinued Operations***

Our discontinued operations consists of wood chip and commission income sales activities that we conducted through our subsidiary Suri-Wood Inc. until the third quarter of 2007, when our two AIs who processed wood chips for us ceased to provide us with wood chipping services.

## Results of Operations

The table below sets forth, for the periods indicated, certain revenue and expense items for our consolidated operations, both in absolute amounts and expressed as a percentage of total revenue:

| | Year Ended December 31, | | | | | | Three-Month Period Ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2006[1],[3] | | 2007[3] | | 2008[3] | | 2008 | | 2009 | |
| | (US$ thousands) | (% of total revenue) | (US$ thousands) | (% of total revenue) | (US$ thousands) | (% of total revenue) | (US$ thousands) | (% of total revenue) | (US$ thousands) | (% of total revenue) |
| | (Restated) | | | | | | | | | |
| **Revenue** | 555,480 | 100 | 713,866 | 100 | 901,295 | 100 | 135,495 | 100 | 177,234 | 100 |
| Cost of sales | (380,508) | 68.5 | (470,825) | 66.0 | (536,557) | 59.5 | (88,421) | 65.3 | (110,398) | 62.3 |
| **Gross Profit[2]** | **174,972** | **31.5** | **243,041** | **34.0** | **364,738** | **40.5** | **47,074** | **34.7** | **66,836** | **37.7** |
| Selling, general and administration | (35,852) | 6.5 | (40,209) | 5.6 | (56,729) | 6.3 | (10,636) | 7.8 | (16,115) | 9.1 |
| Depreciation and amortization | (3,975) | 0.7 | (5,364) | 0.8 | (4,627) | 0.5 | (672) | 0.5 | (1,129) | 0.6 |
| Interest expense | (37,340) | 6.7 | (43,960) | 6.2 | (52,321) | 5.8 | (10,475) | 7.7 | (16,795) | 9.5 |
| Interest income | 6,486 | 1.2 | 15,184 | 2.1 | 11,128 | 1.2 | 2,881 | 2.1 | 1,904 | 1.1 |
| Exchange gains/(loss) | 3,676 | 0.7 | 12,409 | 1.7 | (5,268) | 0.6 | (2,513) | 1.9 | (93) | 0.1 |
| Impairment of capital assets[4] | (877) | 0.2 | (20,846) | 2.9 | (18,157) | 2.0 | — | — | — | — |
| Loss on changes in fair value of financial instruments | (1,179) | 0.2 | (2,996) | 0.4 | (1,839) | 0.3 | (4,535) | 3.3 | (981) | 0.6 |
| Other income | 1,312 | 0.2 | 3,206 | 0.4 | 3,573 | 0.4 | 393 | 0.2 | 221 | 0.1 |
| Amortization of deferred financing costs | (1,819) | 0.3 | — | — | — | — | — | — | — | — |
| **Income before income taxes** | **105,404** | **19.0** | **160,465** | **22.5** | **240,498** | **26.7** | **21,517** | 15.9 | **33,848** | 19.1 |
| Provision for income taxes | (13,192) | 2.4 | (18,034) | 2.5 | (24,105) | 2.7 | (4,274) | 3.2 | (5,926) | 3.3 |
| **Net income from continuing operations[1],[4]** | **92,212** | **16.6** | **142,431** | **20.0** | **216,393** | **24.0** | **17,243** | **12.7** | **27,922** | **15.8** |
| **Net income/(loss) from discontinued operations[1],[4]** | **21,268** | **3.8** | **9,842** | **1.4** | **12,200** | **1.4** | **(2,716)** | **2.0** | **(4,917)** | **2.8** |
| **Net income for the year/period** | **113,480** | **20.4** | **152,273** | **21.3** | **228,593** | **25.4** | **14,527** | **10.7** | **23,005** | **13.0** |

Notes:

(1) Results for the year ended December 31, 2006 have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes and the classification of wood chips and commission revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference in this Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Income Statement Items" for a detailed description of our revenue components.

(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) Our Gaoyao facility was disposed in the three-month period ended March 31, 2009 and the results of operations of the Gaoyao facility have been presented as discontinued in the three-month periods ended March 31, 2008 and 2009. The annual consolidated financial statements for the years ended December 31, 2006, 2007 and 2008 were issued prior to such disposition and have not been restated to reflect the Gaoyao facility as a discontinued operation. An impairment charge of our capital assets of US$15.4 million and US$18.2 million for the years ended December 31, 2007 and 2008, respectively, will be reclassified as discontinued operations. The remaining results of operations of the Gaoyao facility are not significant to the Company's consolidated results. The selected data in this table and elsewhere in this management's discussion and analysis of financial condition and results of operations for the years ended December 31, 2006, 2007 and 2008 have not been restated to reflect the Gaoyao facility as a discontinued operation.

(4) The "impairment of capital assets" for the years ended December 31, 2007 and 2008 includes US$15.4 million and US$18.2 million, respectively, relating to the disposition of the Gaoyao facility during the three-month period ended March 31, 2009. See note 3 above.

***Comparison for the Three-Month Periods Ended March 31, 2008 and 2009***

*Revenue*

Our revenue increased 30.8%, from US$135.5 million in the three-month period ended March 31, 2008 to US$177.2 million in the three-month period ended March 31, 2009. This increase was due, in large part, to the improvement in the forest products market conditions from the fourth quarter of 2008 reflecting in part the positive effects of the PRC government economic stimulus spending which contributed to increased demand for wood fibre in the three-month period ended March 31, 2009.

Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 30.6%, from US$126.9 million in the three-month period ended March 31, 2008 to US$165.7 million in the three-month period ended March 31, 2009. This increase was primarily due to increased sales volumes of fibre sold in the three-month period ended March 31, 2009.

*Revenue From Plantation Fibre.* Revenue from sales of plantation fibre increased 24.6%, from US$102.7 million in the three-month period ended March 31, 2008 to US$128.0 million in the three-month period ended March 31, 2009. This increase was primarily due to the sale of approximately 2.1 million cubic meters of fibre harvested from approximately 15,478 hectares of trees from our purchased and planted plantations in the three-month period ended March 31, 2009, partially offset by a decrease in sales from our integrated plantations. In the three-month period ended March 31, 2008, we sold approximately 1.4 million cubic meters of fibre, with approximately 863,000 cubic meters from our purchased and planted plantations and approximately 509,000 cubic meters from our integrated plantations. In the three-month period ended March 31, 2009, we did not sell any wood fibre under our integrated plantation model. This reflected our focus on sales of wood fibre from our purchased plantations in this period, since we deferred harvesting from our integrated plantations during the first quarter of 2009, as such harvesting typically occurs in the second half of the year. In the three-month period ended March 31, 2009, the average yield of fibre sold under our purchased and planted plantations was approximately 137 cubic meters per hectare and fibre had an average selling price of approximately US$60 per cubic meter (representing an averaged selling price increase of approximately 3.2% from the three-month period ended March 31, 2008, including a 4.9% appreciation of the Renminbi against the US dollar). In the three-month period ended March 31, 2008, the average yield and average selling price of fibre sold under the purchased and planted plantations were approximately 93 cubic meters per hectare and approximately US$58 per cubic meter, respectively. In addition, in the three-month period ended March 31, 2008, the average yield of harvested logs sold under our integrated plantations was 120 cubic meters per hectare and its average selling price was approximately US$103 per cubic meter.

Plantation fibre sales comprised 75.8% of total revenue in the three-month period ended March 31, 2008, compared to 72.2% in the three-month period ended March 31, 2009.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the periods indicated below:

| | Three-months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| | Hectares | Sales per hectare | Total revenue | Hectares | Sales per hectare | Total revenue |
| | | US$ | US$'000 | | US$ | US$'000 |
| Purchased plantations | 13,773 | 9,169 | 126,284 | 9,175 | 5,476 | 50,244 |
| Integrated plantations | — | — | — | 4,254 | 12,306 | 52,349 |
| Planted plantations | 1,705 | 988 | 1,684 | 64 | 1,203 | 77 |
| **Total** | **15,478** | **8,268** | **127,968** | **13,493** | **7,609** | **102,670** |

*Revenue From Other Fibre.* Revenue from other fibre increased 56.1%, from US$24.2 million (representing 17.9% of our total revenue) in the three-month period ended March 31, 2008 to US$37.8 million (representing 21.3% of our total revenue) in the three-month period ended March 31, 2009. This increase was due to the increase in revenue from sales of imported wood products.

Revenue from sales of imported wood products increased 56.6%, from US$24.1 million in the three-month period ended March 31, 2008 to US$37.7 million in the three-month period ended March 31, 2009. This increase was primarily due to increased volumes of imported logs sold.

Revenue from sales of wood logs decreased 37.4%, from US$123,000 in the three-month period ended March 31, 2008 to US$77,000 in the three-month period ended March 31, 2009.

Other fibre sales comprised 17.9% of total revenue in the three-month period ended March 31, 2008, compared to 21.3% in the three-month period ended March 31, 2009.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 33.2% from US$8.6 million in the three-month period ended March 31, 2008 to US$11.5 million in the three-month period ended March 31, 2009. This increase was primarily due to increased revenue from our greenery projects in the three-month period ended March 31, 2009.

Revenue from manufacturing and other operations comprised 6.3% of total revenue in the three-month period ended March 31, 2008, compared to 6.5% in the three-month period ended March 31, 2009.

*Cost of Sales*

Our cost of sales increased 24.9%, from US$88.4 million in the three-month period ended March 31, 2008 to US$110.4 million in the three-month period ended March 31, 2009. This increase in cost of sales was primarily due to increased sales volumes of plantation fibre and imported wood products.

Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 25.6%, from US$80.0 million in the three-month period ended March 31, 2008 to US$100.5 million in the three-month period ended March 31, 2009. This increase was primarily due to increased sales of plantation fibre and imported wood products.

*Cost of Sales of Plantation Fibre.* Plantation fibre cost of sales increased 13.7%, from US$56.5 million in the three-month period ended March 31, 2008 to US$64.2 million in the three-month period ended March 31, 2009. This increase reflected primarily increased sales volumes of plantation fibre.

*Cost of Sales of Other Fibre.* Cost of sales of other fibre increased 54.2%, from US$23.5 million in the three-month period ended March 31, 2008 to US$36.3 million in the three-month period ended March 31, 2009. This increase was due to the increase in the cost of sales of imported wood products, partially offset by a decrease in the cost of sales of wood logs.

Imported wood products cost of sales increased 54.7%, from US$23.4 million in the three-month period ended March 31, 2008 to US$36.2 million in the three-month period ended March 31, 2009. This increase reflected primarily the increase in the sales volumes of our imported log trading business.

Wood logs cost of sales decreased US$47,000, from US$117,000 in the three-month period ended March 31, 2008 to US$70,000 in the three-month period ended March 31, 2009.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 17.5%, from US$8.4 million in the three-month period ended March 31, 2008 to US$9.9 million in the three-month period ended March 31, 2009. This increase was primarily due to increased sales volumes.

*Gross Profit*

Our gross profit increased 42.0%, from US$47.1 million in the three-month period ended March 31, 2008 to US$66.8 million in the three-month period ended March 31, 2009. Gross profit margin (gross profit as a percentage of total revenue) on average increased from 34.7% in the three-month period ended March 31, 2008 to 37.7% in the three-month period ended March 31, 2009. This increase in gross profit margin was primarily due to increased sales from plantation fibre operations which earned a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

*Gross Profit Margin from Sales of Plantation Fibre.* Gross profit margin from sales of purchased and planted plantations decreased from 63.0% in the three-month period ended March 31, 2008 to 49.8% in the three-month period ended March 31, 2009, which was primarily due sales from plantations with a higher fibre cost per cubic meter in the three-month period ended March 31, 2009. Gross profit margin from sales of logs under our integrated plantations operations was 27.7% (or US$28 per cubic meter) in the three-month period ended March 31, 2008.

*Gross Profit Margin from Sales of Other Fibre.* Gross profit margin from sales of imported wood products increased from 2.8% in the three-month period ended March 31, 2008 to 3.9% in the three-month period ended March 31, 2009.

Gross profit margin from sales of wood logs increased from 4.9% in the three-month period ended March 31, 2008 to 9.1% in the three-month period ended March 31, 2009. This increase was primarily due to a change in the mix of species of wood logs sold in the three-month period ended March 31, 2009.

Manufacturing and Other Operations Profit Margin

Gross profit margin from manufacturing and other operations increased from 2.2% in the three-month period ended March 31, 2008 to 13.8% in the three-month period ended March 31, 2009. This decrease was primarily due to improved operations under our greenery and nursery business segment in the three-month period ended March 31, 2009.

*Selling, General and Administrative Expenses*

Our selling, general and administrative expenses increased 51.5%, from US$10.6 million in the three-month period ended March 31, 2008 to US$16.1 million in the three-month period ended March 31, 2009. This increase was primarily due to an increase in the number of staff, increased incentive accrued compensation and increased research and development expenses in the three-month period ended March 31, 2009.

*Depreciation and Amortization*

Depreciation and amortization increased 68.0%, from US$0.7 million in the three-month period ended March 31, 2008 to US$1.1 million in the three-month period ended March 31, 2009. This increase was primarily due to increased capital assets.

*Income from Operations before Other Items*

Our income from operations before other items increased 38.7%, from US$35.8 million in the three-month period ended March 31, 2008 to US$49.6 million in the three-month period ended March 31, 2009 due to the factors explained above. Income from operations before other items as a percentage of revenue increased from 26.4% in the three-month period ended March 31, 2008 to 28.0% in the three-month period ended March 31, 2009.

*Interest Expense*

Our interest expense increased 60.3%, from US$10.5 million in the three-month period ended March 31, 2008 to US$16.8 million in the three-month period ended March 31, 2009. This increase was primarily due to the interest served on our 5.0% convertible senior notes issued in the third quarter in 2008.

*Interest Income*

Our interest income decreased 33.9%, from US$2.9 million in the three-month period ended March 31, 2008 to US$1.9 million in the three-month period ended March 31, 2009. This decrease was primarily due to the decrease in the interest rate earned on deposits in the three-month period ended March 31, 2009, partially offset by the accretion of interest income on the convertible bonds of Omnicorp.

*Exchange (Losses)/Gains*

Exchange losses was US$0.1 million in the three-month period ended March 31, 2009, compared to US$2.5 million in the three-month period ended March 31, 2008. These exchange losses were primarily due to the weakening of the Renminbi against the US Dollar in the three-month period ended March 31, 2009.

*Loss on Changes in Fair Value of Financial Instruments*

The loss on changes in fair value of financial instruments decreased US$3.5 million from US$4.5 million in the three-month period ended March 31, 2008 to US$1.0 million in the three-month period ended March 31, 2009. The loss in the three-month period ended March 31, 2009 included a loss of US$0.4 million relating to the embedded conversion option of the convertible bonds issued by Omnicorp and a loss of US$0.6 million on our foreign currency swap.

*Other Income*

Other income decreased US$0.2 million, from US$0.4 million in the three-month period ended March 31, 2008 to US$0.2 million in the three-month period ended March 31, 2009.

*Provision for Income Taxes*

Provision for income taxes was US$4.3 million in the three-month period ended March 31, 2008 compared to US$5.9 million in the three-month period ended March 31, 2009. This increase was primarily due to the increased income earned during the three-month period ended March 31, 2009.

*Net Income for the period*

Net income for the period increased 58.4%, from US$14.5 million in the three-month period ended March 31, 2008 to US$23.0 million in the three-month period ended March 31, 2009. Net income for the period as a percentage of our total revenue increased from 10.7% in the three-month period ended March 31, 2008 to 13.0% in the three-month period ended March 31, 2009.

***Comparison of the Years Ended December 31, 2007 and 2008***

*Revenue*

Our revenue increased 26.3%, from US$713.9 million in the year ended December 31, 2007 to US$901.3 million in the year ended December 31, 2008. The increase was primarily due to increased revenue from sales of plantation fibre in the year ended December 31, 2008.

Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 24.2%, from US$675.5 million in the year ended December 31, 2007 to US$838.9 million in the year ended December 31, 2008. This increase was primarily due to increased revenue from plantation fibre in the year ended December 31, 2008.

*Revenue From Plantation Fibre.* Revenue from sales of plantation fibre increased 31.4%, from US$521.5 million in the year ended December 31, 2007 to US$685.4 million in the year ended December 31, 2008. This increase was primarily due to the sale of logs harvested from our integrated plantations in the year ended December 31, 2008, compared to none in the year ended December 31, 2007. In the year ended December 31, 2008, our total volume of fibre sold was approximately 10.2 million cubic meters of fibre, including approximately 8.6 million cubic meters of fibre harvested from approximately 89,874 hectares of trees from our purchased and planted plantations and approximately 1.6 million cubic meters of fibre harvested from approximately 14,071 hectares from our integrated plantations. In the year ended December 31, 2007, we sold approximately 9.9 million cubic meters of fibre harvested from approximately 146,037 hectares from our purchased and planted plantations. In the year ended December 31, 2008, the average yield of fibre sold under our purchased and planted plantations was approximately 96 cubic meters per hectare and fibre had an average selling price of approximately US$61 per cubic meter (representing an averaged selling price increase of approximately 16.3% from the year ended December 31, 2007, including a 10.3% appreciation of the Renminbi against the US dollar). In the year ended December 31, 2007, the average yield and average selling price of fibre sold under the purchased and planted plantations were approximately 68 cubic meters per hectare and approximately US$53.0 per cubic meter, respectively. In addition, in the year ended December 31, 2008, the average yield of harvested logs sold under our integrated plantations was 111 cubic meters per hectare and its average selling price was approximately US$102.0 per cubic meter.

Plantation fibre sales comprised 73.1% of total revenue in the year ended December 31, 2007, compared to 76.0% in the year ended December 31, 2008.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the periods indicated below:

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Hectares | Sales per hectare | Total revenue | Hectares | Sales per hectare | Total revenue |
| | | US$ | US$'000 | | US$ | US$'000 |
| Purchased plantations | 86,067 | 6,040 | 519,872 | 138,365 | 3,686 | 509,953 |
| Integrated plantations | 14,071 | 11,313 | 159,185 | — | — | — |
| Planted plantations | 3,807 | 1,667 | 6,347 | 7,672 | 1,504 | 11,536 |
| **Total** | **103,945** | **6,594** | **685,404** | **146,037** | **3,571** | **521,489** |

*Revenue From Other Fibre.* Revenue from other fibre was US$153.9 million (representing 21.5% of our total revenue) in the year ended December 31, 2007, compared to US$153.5 million (representing 17.0% of our total revenue) in the year ended December 31, 2008. This decrease was due to the decrease in revenue from sales of imported wood products, partially offset by an increase in sales of wood logs.

Revenue from sales of imported wood products decreased 7.3%, from US$150.7 million in the year ended December 31, 2007 to US$139.7 million in the year ended December 31, 2008. This decrease was primarily due to a lower average selling price due to a change in our product mix in the year ended December 31, 2008.

Revenue from sales of wood logs increased US$10.6 million, from US$3.2 million in the year ended December 31, 2007 to US$13.8 million in the year ended December 31, 2008. The increase was primarily due to the increased sales volume of logs sourced from the PRC.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 62.4% from US$38.4 million in the year ended December 31, 2007 to US$62.4 million in the year ended December 31, 2008. This increase was primarily due to the increased revenue from sales of engineered wood flooring and the operations of relatively new processing facilities located in southern China. Revenue from manufacturing and other operations comprised 5.4% of total revenue in the year ended December 31, 2007, compared to 7.0% in the year ended December 31, 2008.

*Cost of Sales*

Our cost of sales increased 14.0%, from US$470.8 million in the year ended December 31, 2007 to US$536.6 million in the year ended December 31, 2008. This increase in cost of sales was primarily due to an increase in sales volumes of plantation fibre.

Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 9.4%, from US$434.2 million in the year ended December 31, 2007 to US$475.0 million in the year ended December 31, 2008. This increase was primarily due to increased sales of plantation fibre.

*Cost of Sales of Plantation Fibre.* Plantation fibre cost of sales increased 15.6%, from US$284.8 million in the year ended December 31, 2007 to US$329.4 million in the year ended December 31, 2008. This increase reflected primarily increased cost of sales per $m^3$ of plantation fibre.

*Cost of Sales of Other Fibre.* Cost of sales of other fibre decreased 2.5%, from US$149.4 million in the year ended December 31, 2007 to US$145.6 million in the year ended December 31, 2008. This decrease was primarily due to the decrease in the cost of sales of imported wood products, partially offset by increased cost of sales of wood logs.

Imported wood products cost of sales decreased 8.2%, from US$146.4 million in the year ended December 31, 2007 to US$134.4 million in the year ended December 31, 2008. This decrease reflected primarily the decrease in the average cost of sales per $m^3$ of our imported log trading business.

Wood logs cost of sales substantially increased from US$2.9 million in the year ended December 31, 2007 to US$11.2 million in the year ended December 31, 2008. This increase was primarily due to increased sales volumes of wood logs.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 68.0%, from US$36.7 million in the year ended December 31, 2007 to US$61.6 million in the year ended December 31, 2008. This increase was primarily due to increased sales volumes.

*Gross Profit*

Our gross profit increased 50.1%, from US$243.0 million in the year ended December 31, 2007 to US$364.7 million in the year ended December 31, 2008. Our gross profit margin (gross profit as a percentage of total revenue) increased from 34.0% in the year ended December 31, 2007 to 40.5% in the year ended December 31, 2008. This increase was primarily due to the higher proportion of sales from our plantation fibre operations, which generally earn a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

*Gross Profit Margin from Sales of Plantation Fibre.* Gross profit margin from sales of plantation fibre from our purchased and planted plantations increased from 45.4% in the year ended December 31, 2007 to 56.8% in the year ended December 31, 2008. This increase was primarily due to a higher selling price and an improved yield per hectare sold resulting in a lower cost per cubic meter of fibre sold in the year ended December 31, 2008. In addition, the gross profit margin from sales of logs harvested under our integrated plantation operations was 36.0% (or US$37.0 per cubic meter) in the year ended December 31, 2008.

*Gross Profit Margin from Sales of Other Fibre.* Gross profit margin from sales of imported wood products increased from 2.9% in the year ended December 31, 2007 to 3.8% in the year ended December 31, 2008.

Gross profit margin from sales of wood logs increased from 8.8% in the year ended December 31, 2007 to 18.8% in the year ended December 31, 2008. This increase was primarily due to a change in the mix of species of wood logs sold in the year ended December 31, 2008.

Manufacturing and Other Operations Gross Profit

Gross profit margin from manufacturing and other operations decreased from 4.6% in the year ended December 31, 2007 to 1.3% in the year ended December 31, 2008. This decrease was primarily due to increased production costs of our manufacturing plants in the year ended December 31, 2008.

*Selling, General and Administrative Expenses*

Our selling, general and administrative expenses increased 41.1%, from US$40.2 million in the year ended December 31, 2007 to US$56.7 million in the year ended December 31, 2008, reflecting primarily expenses relating to an additional staff complement.

*Depreciation and Amortization*

Depreciation and amortization decreased 13.7%, from US$5.4 million in the year ended December 31, 2007 to US$4.6 million in the year ended December 31, 2008, which reflected primarily increased impairment charges taken on certain manufacturing facilities, partially offset by increased capital assets in the year ended December 31, 2008.

*Income from Operations before other Items*

Our income from operations before other items increased 53.6%, from US$197.5 million in the year ended December 31, 2007 to US$303.4 million in the year ended December 31, 2008, due to the factors discussed above. Our income from operations before other items as a percentage of revenue increased from 27.7% in the year ended December 31, 2007 to 33.7% in the year ended December 31, 2008.

*Interest Expense*

Our interest expense increased 19.0%, from US$44.0 million in the year ended December 31, 2007 to US$52.3 million in the year ended December 31, 2008. This increase was primarily due to the interest served on our 5.0% convertible senior notes issued in the third quarter in 2008.

*Interest Income*

Our interest income decreased 26.7%, from US$15.2 million in the year ended December 31, 2007 to US$11.1 million in the year ended December 31, 2008. This decrease was primarily due to a lower interest rate earned on deposits in the year ended December 31, 2008.

*Exchange (Losses)/Gains*

Exchange losses were US$5.3 million in the year ended December 31, 2008, compared to exchange gains of US$12.4 million in the year ended December 31, 2007. These exchange losses were primarily due to the weakening of the US dollar against the Hong Kong dollar and Renminbi in the year ended December 31, 2008.

*Impairment of Capital Assets*

The impairment of capital assets in the year ended December 31, 2007 and 2008 were US$20.8 million and US$18.2 million, respectively, representing write-downs of certain manufacturing facilities to fair market value due to continued losses over the years.

*Loss on Changes in Fair Value of Financial Instruments*

The loss on changes in fair value of financial instruments in the year ended December 31, 2008 decreased US$1.2 million from US$3.0 million in the year ended December 31, 2007 to US$1.8 million in the year ended December 31, 2008. The loss in the year ended December 31, 2008 included a loss of US$2.9 million on the embedded conversion option of the convertible bonds issued by Omnicorp, partially offset by a gain of US$1.1 million on our foreign currency swap.

*Other Income*

Other income increased 11.4% from US$3.2 million in the year ended December 31, 2007 to US$3.6 million in the year ended December 31, 2008.

*Provision for Income Taxes*

Provision for income taxes was US$18.0 million in the year ended December 31, 2007 compared to US$24.1 million in the year ended December 31, 2008. The increase was primarily due increased income earned in the year ended December 31, 2008.

*Net Income for the Year*

Net income for the year increased 50.1%, from US$152.3 million in the year ended December 31, 2007 to US$228.6 million in year ended December 31, 2008. Net income for the year as a percentage of our total revenue increased from 21.3% in the year ended December 31, 2007 to 25.4% in the year ended December 31, 2008.

***Comparison of the Years Ended December 31, 2006 and 2007***

*Revenue*

Our revenue increased 28.5%, from US$555.5 million in the year ended December 31, 2006 to US$713.9 million in the year ended December 31, 2007. The increase was primarily due to increased sales of plantation fibre and manufacturing and other operations, partially offset by a decrease in the sales of imported wood products in the year ended December 31, 2007.

Wood Fibre Operations Revenue

Revenue from wood fibre operations increased 27.1%, from US$531.4 million in the year ended December 31, 2006 to US$675.5 million in the year ended December 31, 2007. This increase was primarily due to increased sales of plantation fibre, partially offset by decreased sales of imported wood products and wood logs.

*Revenue From Plantation Fibre.* Revenue from sales of plantation fibre increased 47.9%, from US$352.6 million in the year ended December 31, 2006 to US$521.5 million in the year ended

December 31, 2007. In the year ended December 31, 2006, we sold approximately 111,367 hectares of plantation fibre at an average selling price of approximately US$3,166 per hectare, compared to approximately 146,037 hectares at an average selling price of approximately US$3,571 per hectare in the year ended December 31, 2007. The increase in the average selling price in the year ended December 31, 2007 was primarily attributable to the higher proportion of sales of purchased plantations to total sales, which had a higher yield and therefore a higher average selling price per hectare. Plantation fibre sales comprised 63.5% of total revenue in the year ended December 31, 2006, compared to 73.1% in the year ended December 31, 2007, which reflected our business focus on growing our timber plantation operations. Included in our sales of plantation fibre were the sales of logs harvested from our plantations in Hunan Province in the amount of US$6.2 million in the year ended December 31, 2007. There were no such sales of plantation fibre in Hunan Province in the year ended December 31, 2006.

The following table sets forth the revenue from plantation fibre sales per tree plantation business model for the years indicated below:

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | |
| | Hectares | Sales per hectare | Total revenue | Hectares | Sales per hectare | Total revenue |
| | | US$ | US$'000 | | US$ | US$'000 |
| Purchased plantations[1] | 138,365 | 3,686 | 509,953 | 106,091 | 5,651 | 346,514 |
| Integrated plantations | — | — | — | — | — | — |
| Planted plantations | 7,672 | 1,504 | 11,536 | 5,276 | 1,149 | 6,060 |
| **Total** | **146,037** | **3,571** | **521,489** | **111,367** | **3,166** | **352,574** |

Note:

(1) Including the "Heyuan Pine Undertaking". Under the "Heyuan Pine Undertaking", we were granted a right to purchase mature trees in Heyuan, Guangdong Province by a PRC joint venture partner. This arrangement expired on February 12, 2006.

*Revenue From Other Fibre.* Revenue from other fibre decreased 13.9%, from US$178.9 million (representing 32.2% of our total revenue) in the year ended December 31, 2006 to US$154.0 million (representing 21.6% of our total revenue) in the year ended December 31, 2007. This decrease was due to the decrease in revenue from sales of imported wood products, partially offset by an increase in sales of wood logs.

Revenue from sales of imported wood products decreased 15.5%, from US$178.4 million in the year ended December 31, 2006 to US$150.7 million in the year ended December 31, 2007. This decrease was primarily due to a lower sales volume relating to increased Russian log export duties. Imported wood products sales comprised 32.1% of total revenue in the year ended December 31, 2006, compared to 21.1% in the year ended December 31, 2007.

Revenue from sales of wood logs increased US$2.7 million, from US$0.5 million in the year ended December 31, 2006 to US$3.2 million in the year ended December 31, 2007. The increase was primarily due to the increased sales volume of logs from Inner Mongolia. Wood log sales comprised 0.1% of total revenue in the year ended December 31, 2006, compared to 0.4% in the year ended December 31, 2007.

Manufacturing and Other Operations Revenue

Revenue from manufacturing and other operations increased 59.8% from US$24.0 million in the year ended December 31, 2006 to US$38.4 million in the year ended December 31, 2007. This increase was primarily due to the increased sales volume of engineered wood flooring. Revenue from manufacturing and other operations comprised 4.3% of total revenue in the year ended December 31, 2006, compared to 5.4% in the year ended December 31, 2007.

*Cost of Sales*

Our cost of sales increased 23.7%, from US$380.5 million in the year ended December 31, 2006 to US$470.8 million in the year ended December 31, 2007. The increase in cost of sales was primarily due to increased sales volumes of standing timber, wood logs and manufacturing products.

Wood Fibre Operations Cost of Sales

Wood fibre operations cost of sales increased 21.2%, from US$358.2 million in the year ended December 31, 2006 to US$434.1 million in the year ended December 31, 2007. This increase was primarily due to increased sales of standing timber and wood logs, partially offset by decreased sales of imported wood products.

*Cost of Sales of Plantation Fibre.* Plantation fibre cost of sales increased 54.5%, from US$184.4 million in the year ended December 31, 2006 to US$284.8 million in the year ended December 31, 2007. This increase reflected primarily the 17.8% increase in cost of sales per hectare of standing timber from US$1,656 per hectare in the year ended December 31, 2006 to US$1,950 per hectare in the year ended December 31, 2007. This increase in cost of sales per hectare reflected the higher proportion of hectares of purchased tree plantations to total sales of standing timber in the year ended December 31, 2007, as standing timber from our purchased tree plantations generally had a higher average cost per hectare compared to our other available sources of standing timber.

*Cost of Sales of Other Fibre.* Cost of sales of other fibre decreased 14.0%, from US$173.8 million in year ended December 31, 2006 to US$149.3 million in the year ended December 31, 2007. This decrease was due to the decrease in the cost of sales of imported wood products, partially offset by an increase in the cost of sales of wood logs.

Imported wood products cost of sales decreased 15.5%, from US$173.3 million in the year ended December 31, 2006 to US$146.4 million in the year ended December 31, 2007. This decrease reflected primarily the decrease in the sales volumes of our imported log trading business.

Wood logs cost of sales increased US$2.4 million, from US$0.5 million in the year ended December 31, 2006 to US$2.9 million in the year ended December 31, 2007. This increase was primarily due to sales of logs from Inner Mongolia. There were no sales of logs from Inner Mongolia in the year ended December 31, 2006.

Manufacturing and Other Operations Cost of Sales

Manufacturing and other operations cost of sales increased 64.1% from US$22.3 million in the year ended December 31, 2006 to US$36.7 million in the year ended December 31, 2007. This increase was primarily due to increased sales volume of engineered wood flooring.

*Gross Profit*

Our gross profit increased 38.9%, from US$175.0 million in the year ended December 31, 2006 to US$243.0 million in the year ended December 31, 2007. Our gross profit margin (gross profit as a percentage of total revenue) increased from 31.5% in the year ended December 31, 2006 to 34.0% in the year ended December 31, 2007. This increase was primarily due to the higher proportion of sales of plantation fibre, which generally earn a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

Wood fibre operations gross profit margin increased from 32.6% in the year ended December 31, 2006 to 35.7% in the year ended December 31, 2007.

*Gross Profit Margin from Sales of Plantation Fibre.* Gross profit margin from sales of standing timber decreased from 47.7% in the year ended December 31, 2006 to 45.4% in the year ended December 31,

2007. This decrease was primarily due to a lower yield of plantations sold in the year ended December 31, 2007 compared to such yield in the year ended December 31, 2006.

*Gross Profit Margin from Sales of Other Fibre.* Gross profit margin from sales of other fibre increased from 2.9% in the year ended December 31, 2006 to 3.0% in the year ended December 31, 2007.

Gross profit margin from sales of imported wood products remained stable at 2.9% for the years ended December 31, 2006 and 2007.

Gross profit margin from sales of wood logs increased from 2.2% in the year ended December 31, 2006 to 8.8% in the year ended December 31, 2007. This increase was primarily due to sales of logs from Inner Mongolia which commanded higher margin.

Manufacturing and Other Operations Gross Profit

Gross profit margin from manufacturing and other operations decreased from 7.1% in the year ended December 31, 2006 to 4.6% in the year ended December 31, 2007. This decrease was primarily due to increased cost of production of manufacturing plants in the year ended December 31, 2007.

*Selling, General and Administrative Expenses*

Our selling, general and administrative expenses increased 12.2%, from US$35.9 million in the year ended December 31, 2006 to US$40.2 million in the year ended December 31, 2007, reflecting primarily expenses relating to an additional staff complement and the establishment of new companies.

*Depreciation and Amortization*

Depreciation and amortization increased 34.9%, from US$4.0 million in the year ended December 31, 2006 to US$5.4 million in the year ended December 31, 2007, which reflected primarily increased depreciation charges for our manufacturing plants in connection with increased capital assets in the year ended December 31, 2007.

*Income from Operations before Other Items*

Our income from operations before other items increased 46.1%, from US$135.1 million in the year ended December 31, 2006 to US$197.5 million in the year ended December 31, 2007, due to the factors discussed above. Our income from operations before other items as a percentage of revenue increased from 24.3% in the year ended December 31, 2006 to 27.7% in the year ended December 31, 2007.

*Interest Expense*

Our interest expense increased 17.7%, from US$37.3 million in the year ended December 31, 2006 to US$44.0 million in the year ended December 31, 2007. This increase was primarily due to partial drawdown of our Syndicated Term Loan in the second quarter of the year ended December 31, 2006 and to the reclassification of amortization of deferred financing cost to interest expense in the year ended December 31, 2007. For additional information on the Syndicated Term Loan, see "Description of Other Indebtedness—Syndicated Term Loan."

*Interest Income*

Our interest income increased 134.1%, from US$6.5 million in the year ended December 31, 2006 to US$15.2 million in the year ended December 31, 2007. This increase was primarily due to higher cash and cash equivalents and short-term deposits from the financings completed in the year ended December 31, 2006 and interest income earned on the loan to Mandra Forestry.

*Exchange Gains*

Exchange gains increased US$8.7 million from US$3.7 million in the year ended December 31, 2006 to US$12.4 million in the year ended December 31, 2007. This increase was due to the appreciation of the Canadian dollar against the US dollar in the year ended December 31, 2007, since we held Canadian dollars representing the proceeds of a public offering of 15,900,000 common shares in Canada which was completed in the year ended December 31, 2007.

*Impairment of Capital Assets*

The impairment of capital assets in the year ended December 31, 2007 was US$20.8 million, representing write-down of certain manufacturing facilities to fair market value due to continued losses over the years. Write-down of capital assets was approximately US$0.9 million in the year ended December 31, 2006.

*Loss on Changes in Fair Value of Financial Instruments*

The loss on changes in fair value of financial instruments in the year ended December 31, 2007 increased US$1.8 million from US$1.2 million in the year ended December 31, 2006 to US$3.0 million in the year ended December 31, 2007. This increase was primarily due to the fair value increase in our currency swap contract. For additional information in this swap contract, see "—Financing Arrangements and Contractual Obligations."

*Other Income*

Other income increased US$1.9 million from US$1.3 million in the year ended December 31, 2006 to US$3.2 million in the year ended December 31, 2007. This increase was primarily due to the gain on disposal of investment in Greenheart Resources Holdings Limited ("Greenheart").

*Provision for Income Taxes*

Provision for income taxes was US$13.2 million in the year ended December 31, 2006 compared to US$18.0 million in the year ended December 31, 2007. The increase was primarily due to higher income earned in the year ended December 31, 2007.

*Net Income from Continuing Operations*

As a result of the foregoing, our net income from continuing operations for the year ended December 31, 2007 increased 54.5%, from US$92.2 million in the year ended December 31, 2006 to US$142.4 million in the year ended December 31, 2007. Our net profit margin from continuing operations increased from 16.6% in the year ended December 31, 2006 to 20.0% in the year ended December 31, 2007.

*Net Income from Discontinued Operations*

Our net income from discontinued operations decreased US$11.5 million, from US$21.3 million in the year ended December 31, 2006 to US$9.8 million in the year ended December 31, 2007. This decrease was due primarily to a decrease in the sales volume of wood chips and the adoption of a new accounting policy for uncertainty of income taxes. For more information on this new accounting policy, see "—Change in Accounting Policies—Income Taxes."

**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 tree plantations either in the form of standing timber or logs, to develop our existing tree 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.

As of March 31, 2009, we had cash, cash equivalents and short-term deposits of US$413.4 million. As of March 31, 2009, our total debt (including bank indebtedness, current portion of long-term debt and long term debt) was US$799.5 million, compared with US$787.6 million at December 31, 2008.

*Cash Flows*

The following table sets forth a condensed summary of our statement of cash flows for the periods indicated:

| | Year Ended December 31, | | | Three-Month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[2] (Restated) | 2007[2] | 2008[2] | 2008 | 2009 |
| | (US$ millions) | | | | |
| Net cash provided by operations | 280.7 | 455.5 | 541.7 | 64.3 | 99.2 |
| Net change in working capital | (16.5) | 27.0 | (58.6) | (30.4) | 68.4 |
| Cash flows from operating activities of continuing operations | 264.2 | 482.5 | 483.1 | 34.0 | 167.6 |
| Cash flows used in investing activities | (423.0) | (692.3) | (704.0) | (122.0) | (243.4) |
| Cash flows from (used in) financing activities | 176.2 | 376.9 | 331.8 | (9.7) | 5.7 |
| Net increase (decrease) in cash and cash equivalents | 44.5 | 175.8 | 112.5 | (98.5) | (74.2) |

Notes:

(1) Results for the year ended December 31, 2006 have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes and the classification of wood chips and commission revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference in this Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Income Statement Items" for a detailed description of our revenue components.

(2) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 61.

*Cash Flows from Operating Activities of Continuing Operations*

Cash flows from operating activities of continuing operations increased from US$34.0 million in the three-month period ended March 31, 2008 to US$167.6 million in the three-month period ended March 31, 2009. This increase mainly resulted from an increase in cash generated by our operations and an increase in cash used for working capital items resulting from a decrease in accounts receivable of our wood fibre operations.

Cash flows from operating activities of continuing operations increased from US$482.5 million in the year ended December 31, 2007 to US$483.1 million in the year ended December 31, 2008. This increase mainly resulted from an increase in cash generated by our operations, partially offset by a decrease in cash used for working capital items resulting from an increase in accounts receivable of our wood fibre operations.

Cash flows from operating activities of continuing operations increased 82.6% to US$482.5 million in the year ended December 31, 2007 from US$264.2 million in the year ended December 31, 2006. The increase was primarily due to an increase in cash provided by operations resulting from increased sales of standing timber.

*Cash Flows Used in Investing Activities*

Cash flows used in investing activities increased from US$122.0 million in the three-month period ended March 31, 2008 to US$243.4 million in the three-month period ended March 31, 2009. In the three-months periods ended March 31, 2008 and 2009, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities and other assets. Our cash outlays for our tree plantations amounted to US$83.6 million and US$233.9 million in the three-month periods ended March 31, 2008 and 2009, respectively. Our cash outlays for our manufacturing facilities and other capital assets amounted to US$10.0 million and US$3.3 million in the three-month periods ended March 31, 2008 and 2009, respectively. Our cash outlays for other assets amounted to US$22.4 million and US$5.3 million in the three-month periods ended March 31, 2008 and 2009, respectively. The increase in non-pledged short-term deposits in the three-month period ended March 31, 2008 amounted to US$3.9 million compared to US$0.9 million in the three-month period ended March 31, 2009. In addition, we invested US$1.9 million for business acquisitions in the three-month period ended March 31, 2008, and US$0.2 million in connection with our acquisition of convertible bonds issued by Omnicorp in the three-month period ended March 31, 2009.

Cash flows used in investing activities increased from US$692.3 million in the year ended December 31, 2007 to US$704.0 million in the year ended December 31, 2008. In the years ended December 31, 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities and other assets. Our cash outlays for our tree plantations amounted to US$640.3 million in the year ended December 31, 2007 and US$656.7 million in the year ended December 31, 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to US$12.6 million in the year ended December 31, 2007 and US$30.2 million in the year ended December 31, 2008. Our cash outlays for other assets amounted to US$31.2 million in the year ended December 31, 2007 and US$9.6 million in the year ended December 31, 2008. The increase in non-pledged short-term deposits in the years ended December 31, 2007 and 2008 were US$8.7 million and US$5.6 million, respectively. In addition, in the years ended December 31, 2007 and 2008, we invested US$0.8 million and US$1.9 million, respectively, for business acquisitions.

Cash flows used in investing activities increased 63.7%, from US$423.0 million in the year ended December 31, 2006 to US$692.3 million in the year ended December 31, 2007. In the years ended December 31, 2006 and 2007, cash flows used in investing activities were primarily used for capital expenditures to obtain additional tree plantations and for investments in manufacturing facilities. Our cash outlays for our tree plantations amounted to US$415.1 million in the year ended December 31, 2006 and US$640.3 million in the year ended December 31, 2007. Our cash outlays for our manufacturing facilities and other capital assets amounted to US$10.0 million in the year ended December 31, 2006 and US$12.6 million in the year ended December 31, 2007. The increase in non-pledged short-term deposits in the year ended December 31, 2007 amounted to US$8.7 million compared to a decrease in non-pledged short-term deposits of US$11.9 million in the year ended December 31, 2006. In addition, we invested US$6.0 million to acquire approximately 13% equity interest in Greenheart and US$1.8 million to acquire certain convertible notes issued by Omnicorp in the year ended December 31, 2007. We also paid US$23.6 million as prepaid plantation land leases in the year ended December 31, 2007.

*Cash Flows (Used in) From Financing Activities*

Cash flows from financing activities were US$5.7 million in the three-month period ended March 31, 2009, compared with a cash outflow used in financing activities of US$9.7 million in the three-month period ended March 31, 2008. In the three-month period ended March 31, 2008, cash flows used in financing activities consisted of a decrease in bank indebtedness of US$6.5 million, an increase in pledged short-term deposits of US$1.9 million, and payments on derivative financial instruments of US$2.1 million, offset by an increase in long-term debt of US$0.9 million. In the three-month period ended March 31,

2009, cash flows used in financing activities consisted of a decrease in pledged short-term deposits of US$0.2 million and an increase in bank indebtedness of US$8.3 million, offset by payments on derivative financial instruments of US$2.9 millions.

Cash flows from financing activities were US$376.9 million in the year ended December 31, 2007, compared with US$331.8 million in the year ended December 31, 2008. In the year ended December 31, 2007, cash flows from financing activities primarily consisted of US$389.9 million in net proceeds from the issuance of shares and a decrease in pledged short-term deposits of US$6.2 million, offset by a decrease in bank indebtedness of US$17.0 million and payments on derivative financial instruments of US$2.2 million. In the year ended December 31, 2008, cash flows from financing activities consisted of US$335.9 million in net proceeds from the issuance of convertible senior notes, an increase in bank indebtedness of US$15.6 million and US$1.6 million in net proceeds from the issuance of shares, offset by payments on derivative financial instruments of US$4.9 million and an increase in pledged short-term deposits of US$16.3 million.

Cash flows from financing activities were US$176.2 million in the year ended December 31, 2006, compared with US$376.9 million in the year ended December 31, 2007. In the year ended December 31, 2006, cash flows from financing activities consisted of an increase in bank indebtedness of US$29.2 million and long-term debt of US$150.0 million and a decrease in pledged short-term deposits of US$0.4 million and net proceeds from the issuance of common shares of US$0.5 million offset by an increase in deferred financing costs of US$3.0 million and payments on derivative financial instruments of US$0.9 million. In the year ended December 31, 2007, cash flows from financing activities consisted of net proceeds from the issuance of common shares of US$389.9 million and a decrease in pledged short-term deposits of US$6.2 million offset by payments on derivative financial instruments of US$2.2 million and a decrease in bank indebtedness of US$17.0 million.

**Financing Arrangements and Contractual Obligations**

As of March 31, 2009, we had secured and unsecured short-term liabilities of US$81.5 million (including US$6.0 million from discontinued operations), comprising US$39.3 million of short-term bank loans and US$42.1 million of trust receipt loans. We had long-term debt, including its current portion, of US$718.1 million as of such date. Our borrowings were denominated in US dollars and Renminbi.

***Short-Term Borrowings***

As of March 31, 2009, we had US$186.1 million of short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. Pursuant to the 2004 Senior Notes' covenants, the maximum amount of short-term borrowings allowed for purposes of working capital is US$100 million. As of March 31, 2009, US$81.5 million in respect of bank indebtedness and US$5.3 million in respect of other bank instruments were utilized. Interest is payable on these short-term borrowings at a weighted average rate of 4.9% per annum, and the borrowings are either repayable on demand or due in less than one year. As of March 31, 2009, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately US$31.2 million and certain bank deposits of US$16.4 million.

*Long-Term Debt*

As of March 31, 2009, our material long-term indebtedness (including its current portion) consisted of the following:

| Loan | March 31, 2009 (US$ thousands) |
|---|---|
| 2004 Senior Notes | 300,000 |
| Syndicated Term Loan | 150,000 |
| 2008 Convertible Notes[1] | 280,250 |
| Unamortized deferred financing costs | (12,177) |
| **Total** | **718,073** |

Note:

(1) In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook, a convertible note should be split into an equity and a liability component. The 2008 Convertible Notes are guaranteed by the Subsidiary Guarantors (as defined in the indenture prepared in connection with the offering of the 2008 Convertible Notes). As at March 31, 2009, the equity portion of the 2008 Convertible Notes was US$70,462,000.

*2004 Senior Notes.* On August 17, 2004, we issued an aggregate principal amount of US$300 million 2004 Senior Notes. The 2004 Senior Notes bear interest at a rate of 9.125% per annum, with interest payable in semi-annual installments. Their maturity date is August 17, 2011. The 2004 Senior Notes are (i) our general obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the Notes (as well as the Initial Non-Guarantor Subsidiaries) on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2004 Senior Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) secured by the pledge of the shares of the Subsidiary Guarantors and the Initial Non-Guarantor Subsidiaries. Total interest expense on the 2004 Senior Notes for the three-month period ended March 31, 2009 was US$7.2 million.

On August 16, 2004, we entered into a five-year currency swap contract to meet interest payments at US$27.4 million per annum over the year ended December 31, 2008 and the year ending December 31, 2009. The US dollars will be used to fully pay our interest payments on the 2004 Senior Notes due on the relevant interest payment dates to and including August 17, 2009.

Concurrently with the Exchange Offer, we are separately conducting a consent solicitation in connection with the 2004 Senior Notes. The proposed amendments to the 2004 Indenture and terms of the 2004 Senior Notes, if approved and effected, would result in the 2004 Senior Notes having substantially the same terms as the Exchange Notes, in particular with respect to restrictive covenants related to incurrence of indebtedness and the making of restricted payments. The amended 2004 Senior Notes, however, would continue to have the same maturity date, principal amount, interest, security and redemption rights. For additional information on the 2004 Senior Notes, see "Description of Other Indebtedness—2004 Senior Notes."

*Syndicated Term Loan.* We entered into the US$150.0 million Syndicated Term Loan on February 24, 2006 with a syndication of banks. This Syndicated Term Loan carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on our ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.1% per annum. Under the Syndicated Term Loan, consolidated EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated income (except depletion of timber holdings), less all other non-cash items increasing consolidated net income. The Syndicated Term Loan is guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors

for the Notes (as well as the Initial Non-Guarantor Subsidiaries) and ranks at least *pari passu* with the claims of all other unsecured, unsubordinated creditors of us and such Subsidiary Guarantors, except for obligations mandatorily preferred by law applying to companies generally. This facility has been primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The Syndicated Term Loan was fully drawn down in 2006. Principal of US$37.5 million will be repayable in 2010 and the remaining balance in 2011. Total interest on the Syndicated Term Loan was US$1.5 million for the three-month period ended March 31, 2009.

We are currently in the process of seeking the consent of the lenders under the Syndicated Term Loan to amend certain of its terms, so that, among other things the covenants therein are not substantially more restrictive than the restrictive covenants under the Exchange Notes, including the limitation on incurrence of indebtedness and on restricted payments. For additional information on the Syndicated Term Loan, see "Description of Other Indebtedness—Syndicated Term Loan."

*2008 Convertible Notes.* On July 17, 2008 and August 5, 2008, we issued an aggregate principal amount of US$345 million 2008 Convertible Notes. The 2008 Convertible Notes bear interest at a rate of 5.0% per annum, with interest payable in semi-annual installments. Their maturity date is August 1, 2013 and they are convertible into our common shares, at the option of the holders, at any time prior to such maturity date at an initial conversion rate of 49.2974 (49.2974 as well at the date hereof) common shares per US$1,000 principal amount of convertible notes. The 2008 Convertible Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the 2004 Senior Notes, except for certain of these subsidiaries (the "Initial Non-Guarantor Subsidiaries"), on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2008 Convertible Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries. Accrued interest on the 2008 Convertible Notes was US$7.3 million for the three-month period ended March 31, 2009. For additional information on the 2008 Convertible Notes, see "Description of Other Indebtedness—2008 Convertible Notes."

***Other Contractual Obligations***

As of March 31, 2009, we had other contractual obligations relating to: (i) approximately US$44.3 million in respect of capital contributions to our WFOEs; (ii) US$8.9 million of capital commitments with respect to buildings, plant and machinery; (iii) US$3.0 million of purchase commitments, mainly regarding logs; (iv) commitments under operating leases of approximately US$55.2 million; and (v) US$718.1 million relating to the 2004 Senior Notes, the Syndicated Term Loan and the 2008 Convertible Notes.

*Scheduled Maturities of Contractual Obligations*

The following table presents the scheduled maturities of our contractual obligations as of March 31, 2009:

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Due in less than one year | Due in two to three years | Due in four to five years | Due after five years |
| | (US$ thousands) | | | | |
| Long-term debt[1] | 718,073 | 12,500 | 431,901 | 273,672 | — |
| Capital contributions | 44,250 | — | 4,250 | 40,000 | — |
| Capital commitments[2] | 8,935 | 8,935 | — | — | — |
| Purchase commitments | 3,019 | 3,019 | — | — | — |
| Operating leases[3] | 55,228 | 3,046 | 4,792 | 3,853 | 43,537 |
| Total contractual cash obligations | **829,505** | **27,500** | **440,943** | **317,325** | **43,537** |

Notes:

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

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

(3) These represent mainly leases of plantation land.

*Guarantees*

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of March 31, 2009, we had provided guarantees of approximately US$121.4 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.

*Offerings of common shares*

On April 10, 2007, we issued 25.4 million common shares to several institutional investors, including Temasek Holdings Pte Ltd and United Capital-Investment Group Limited, at Cdn.$9.15 per share for gross proceeds of Cdn.$232 million.

On June 12, 2007, we issued 15.9 million common shares at Cdn.$12.65 per share for gross proceeds of approximately Cdn.$201 million in a public offering in Canada and on a private placement basis in the United States, Asia and elsewhere.

On June 8, 2009, we issued 34.5 million common shares at Cdn.$11.00 per share for gross proceeds of approximately Cdn.$379.5 million in a public offering in Canada and on a private placement basis in the United States, Asia and elsewhere.

**Historical and Planned Capital Expenditures**

The following table sets forth the breakdown of our capital expenditures for the years ended December 31, 2006, 2007 and 2008 and the three-month periods ended March 31, 2008 and 2009:

| | Year Ended December 31, | | | Three-Month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2008 | 2009 |
| | (US$ millions) | | | | |
| Tree Acquisition: Purchased Plantations | 365.5 | 623.7 | 646.4 | 77.9 | 245.6 |
| Tree Acquisition: Heyuan Pine Undertaking | 17.7 | — | — | — | — |
| Replanting and Maintenance of Plantations | 24.0 | 23.3 | 26.1 | 4.4 | 5.8 |
| Manufacturing and other operations | 9.6 | 12.6 | 30.1 | 10.0 | 5.2 |
| **Total** | **416.8** | **659.6** | **702.6** | **92.3** | **256.6** |

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees and various plantation management costs, including land lease costs and the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures in relation to the manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our tree plantations in the consolidated statements of cash flows included herein and the above capital expenditure on plantations was due to non-cash transactions movements of accounts, payable and capitalizations of deposits paid for acquisitions of plantations from other assets to timber holdings.

For the year ending December 31, 2009, capital expenditures are expected to be approximately US700.0 million in connection with plantation acquisitions, replanting and maintenance, and approximately US$30.0 million for the development of manufacturing facilities integrated with our plantation operations. These acquisition levels will be adjusted as necessary, based on several factors some of which are beyond our control, including changes in the macroeconomic environment in the PRC.

Under the master agreements entered into in July 2006 to secure at least 1.5 million cubic meters of wood fibre annually over a 12-year period in Inner Mongolia, we have acquired 17,000 cubic meters of wood fibre as at March 31, 2009.

Under the master agreements entered into in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, we have acquired 112,940 hectares of plantation trees for US$450.2 million as at March 31, 2009.

Under the master agreement entered into in March 2007 to acquire 200,000 hectares of plantation trees over a ten-year period in Yunnan, we have acquired 53,115 hectares of plantation trees for US$274.3 million as at March 31, 2009.

Under the master agreement entered into in December 2007 to acquire 150,000 hectares of plantation trees over a five-year period in Guangxi, we have acquired 79,092 hectares of plantation trees for US$361.3 million as at March 31, 2009.

Under the master agreement entered into in August 2008 to acquire 200,000 hectares of plantation trees over a ten-year period in Fujian, we have not made any acquisition of plantation trees as at March 31, 2009.

For a further description of the terms of the master agreements that we have entered into to acquire plantation trees or standing timber, see "Business—Our Wood Fibre Operations—Access to Future Purchases of Tree Plantations".

**Off-Balance Sheet Arrangements**

We do not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, except for our currency swap contract (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financing Arrangements and Contractual Obligations") which is fully accounted for in our financial statements incorporated by reference into this Memorandum, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of March 31, 2009. 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.

**Related Party Transactions**

Pursuant to their respective service agreements, we pay the salaries of our Chairman and Chief Executive Officer and our President in the form of consultancy fees to companies controlled by these executive officers. The consultancy fees incurred in the years ended December 31, 2007 and 2008, and for the three-month period ended March 31, 2009, amounted to US$4.6 million, US$6.0 million, and US$153,000, respectively.

In addition, as at March 31, 2009, we owed an aggregate amount of US$4.9 million in consultancy fees related to these related parties.

On February 6, 2009, we entered into an agreement to acquire 55,000,000 ordinary shares and approximately US$21,700,000 4% secured convertible bonds of Omnicorp from various vendors for a total consideration of approximately US$25,775,000. Among the vendors were one of our directors and an entity controlled by such director, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

**Aging of Accounts Receivable**

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

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

The following table sets forth an aging analysis of our accounts receivable as of December 31, 2006, 2007 and 2008 and as of March 31, 2008 and 2009:

| | Aging Analysis | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total Accounts Receivable | 0 to 30 Days | 31 to 60 Days | 61 to 90 Days | 91 to 180 Days | 181 to 360 Days | Over One Year |
| | (US$ thousands) | | | | | | |
| At December 31, 2006 | 124,784 | 84,216 | 33,651 | 5,118 | 1,610 | 189 | — |
| At December 31, 2007 | 105,329 | 81,980 | 6,006 | 13,360 | 3,704 | 279 | — |
| At December 31, 2008 | 226,456 | 96,529 | 83,373 | 19,110 | 22,464 | 2,372 | 2,608 |
| At March 31, 2008 | 134,560 | 95,949 | 2,777 | 14,774 | 19,797 | 1,263 | — |
| At March 31, 2009 | 131,065 | 59,383 | 21,936 | 11,197 | 27,026 | 9,935 | 1,588 |

**Taxation**

Our PRC subsidiaries are governed by the Enterprise Income Tax Laws of the PRC (中華人民共和國企業所得稅法) which came into effect on January 1, 2008 (the "New EIT Law") and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the New EIT Law, PRC companies are subject to enterprise income tax at an effective rate of 25% on taxable income reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing could be eligible for an exemption from state income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. Pursuant to the New EIT Law and relevant regulations, for enterprises which are entitled to the tax holiday under the old EIT law and if such tax holiday has not yet commenced, such tax holiday is deemed to have begun on January 1, 2008. Pursuant to the New EIT Law and relevant regulations, the PRC subsidiaries engaged in tree plantation operations, if eligible, could apply for an exemption from PRC enterprise income tax.

Our tax charges for the years ended December 31, 2006, 2007 and 2008 were US$13.2 million, US$18.0 million, and US$24.1 million, respectively, which represented effective tax rates of 12.5%, 11.2%, and 10.0%, respectively. We believe we have made adequate tax provisions to meet our tax liabilities as they become due.

**Market Risks**

***Exchange Rate Risk***

We conduct our business primarily in Renminbi, and partly in US dollars and Hong Kong dollars. In the years ended December 31, 2007 and 2008, and in the three-month period ended March 31, 2009, 81.6%, 86.2% and 80.8% of our sales were received in Renminbi, respectively, and 18.4%, 13.8% and 19.2% of our sales were received in US dollar and Euro, respectively. We translate our results of self-sustaining foreign operations into US dollars using the current rate method. We expect in the future that substantially all of our sales will be received in Renminbi. The majority of our operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on our 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 our revenue in Renminbi is converted into other currencies to meet foreign currency financial obligations denominated in currencies other than Renminbi. We have a substantial amount of indebtedness denominated in US dollars. Foreign currency based earnings are translated into US dollars each period. As a result, fluctuations in the value of US dollars relative to other currencies will impact our reported net income. Such exchange rate fluctuations have historically not been material year on year relative to our overall earnings or financial position. A fluctuation of +/−1%, provided as an indicative range in currency movement, on financial instrument that are denominated in foreign currency other than US dollars, would, everything being equal, have an effect on net income after tax and other comprehensive income for the three-month period ended March 31, 2009 of approximately US$5.1 million and US$ nil, respectively.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration for 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. We cannot predict nor give any assurance of the Renminbi's future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars, of our net assets, net profits and any declared dividends. We cannot give any assurance that any future movements in the exchange rates of Renminbi against the US dollar and other foreign currencies will not adversely affect our results of operations, financial condition and cash flows.

As of March 31, 2009, we had Renminbi-denominated bank accounts of RMB437.4 million, US dollar-denominated bank accounts of US$347.5 million, Canadian dollar-denominated bank accounts of Cdn.$1.9 million, Hong Kong dollar-denominated bank accounts of HK$2.7 million, and Euro-denominated bank accounts of €15,000. We also had US dollar- and Renminbi-denominated accounts receivable of US$15.3 million and RMB791.3 million, respectively.

We incurred mainly US dollar-denominated debt for capital expenditures primarily relating to the development and acquisition of our tree plantations and investment in our manufacturing plants. If the US dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

***Credit Risk***

We are exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at March 31, 2009 included US$47.2 million due from three customers representing 36.0% of outstanding receivables. We undertake credit evaluations on customers as necessary and have monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically we have made arrangements with our debtors to settle amounts payable with respect to the purchase of standing timber on our behalf. As at March 31, 2009, US$38.6 million, or 29.4%, of accounts receivable were aged more than 90 days. We have no significant allowance for doubtful accounts for the three months ended March 31, 2009.

We are 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. We have deposited the cash equivalents in instruments that meet minimum requirements for quality and liquidity as stipulated by our Board of Directors. Our management believes the risk of loss to be remote.

***Liquidity Risk***

Liquidity risk is the risk that we may encounter difficulties in meeting obligations associated with financial liabilities. Our 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 March 31, 2009, we were holding cash and cash equivalents of US$367.0 million. We believe that continued cash flow from operations in 2009 together with the cash and cash equivalents from previous financings will be sufficient to fund our requirements for investments in working capital, timber holdings and capital assets in the year ending December 31, 2009.

| | Payment Due by Period | | | | |
|---|---|---|---|---|---|
| | Within one year | In the second and third year | In the fourth and fifth year | After the fifth year | Total |
| | (US$ thousands) | | | | |
| Bank indebtedness[1] | 81,461 | — | — | — | 81,461 |
| Accounts payable and accrued liabilities[1][2] | 108,616 | — | — | — | 108,616 |
| Long-term debt[3] | 12,500 | 431,901 | 273,672 | — | 718,073 |
| **Total** | **202,577** | **431,901** | **273,672** | — | **908,150** |

Notes:

(1) Including continuing and discontinued operations.

(2) Excluding the tax provision for tax related contingency.

(3) Including current portion of long-term debt.

*Interest Rate Risk*

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our 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 March 31, 2009, US$191.0 million or 23.9% of our total debt is subject to variations in interest rates. A +/−1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding 12-month period, would have an impact on income after taxes for the period of approximately US$1.0 million. We do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk. We seek to mitigate our interest rate risk by managing our portfolio of variable and fixed rate debt, as well as managing the term to maturity.

We are also exposed to interest rate risk on cash equivalents. We do not use financial instruments to mitigate this risk.

*Commodity Price Risk*

We are exposed to fluctuations in the prices of standing timber and wood-based products. We import wood-based products from suppliers outside of the PRC. Such purchases are made at market prices. In addition, all our 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 our business, results of operation and financial condition.

We do not enter into any futures contracts to hedge our sales of standing timber and wood-based products.

**Non-GAAP Financial Measures**

EBITDA, gross profit, sales per hectare, price per cubic meter and gross margin per cubic meter are measures we use that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. We consider these statistics to be key performance indicators that management uses to monitor the Company's performance. These data, however, should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and depletion of timber holdings from cost of sales, for the period.

Gross profit for any period refers to our total revenue less cost of sales for the given period. Our gross profit margin for any period refers to our gross profit divided by our total revenue for the relevant period.

EBITDA and gross profit are not measures of financial performance under either Canadian GAAP or US GAAP. We believe that these measures are useful for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. We believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our business sector.

A reconciliation from net income from continuing operations to EBITDA for the periods indicated is set out below:

| | For the Year Ended December 31, | | | For the Three-month Period Ended March 31, | |
|---|---|---|---|---|---|
| | 2006[1],[3] | 2007[3] | 2008[3] | 2008 | 2009 |
| | (Restated) | | | | |
| | (US$ thousands) | | | | |
| Income from operations before other items | 135,145 | 197,468 | 303,382 | 35,766 | 49,592 |
| Add: | | | | | |
| Depreciation and amortization | 3,975 | 5,364 | 4,627 | 672 | 1,129 |
| Depletion of timber holdings included in cost of sales | 177,730 | 284,808 | 284,532 | 38,054 | 64,205 |
| EBITDA[2] | 316,850 | 487,640 | 592,541 | 74,492 | 114,926 |

Notes:

(1) Results for the year ended December 31, 2006 have been restated to reflect the adoption of a new accounting policy for uncertainty in income taxes and the classification of wood chips and commission revenue as revenue from discontinued operations, due to the cessation of wood chips and commission operations in the third quarter of 2007. See note 18 to our audited consolidated financial statements as at and for the years ended December 31, 2007 and note 19 to our audited consolidated financial statements as at and for the years ended December 31, 2008 incorporated by reference in this Memorandum. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Components of Income Statement Items" for a detailed description of our revenue components.

(2) EBITDA for any period is defined as income from operations before the undernoted for the period after adding depreciation and amortization and 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. Because it is not a Canadian GAAP measure, EBITDA may not be comparable to similar measures presented by other companies.

(3) The above financial data have not been reclassified to reflect the Gaoyao facility as discontinued. See note (3) on page 61.

You should not consider our definition of EBITDA in isolation or construe it as an alternative to net income from continuing operations for the year/period or as an indicator of operating performance or any other standard measure under Canadian GAAP or US GAAP. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

## CORPORATE STRUCTURE

The following tables, which do not include certain non-material subsidiaries, show our current corporate structure, indicate the place of incorporation/registration of the entities listed below and show the percentage equity interest beneficially owned (directly or indirectly) by the Company in each such entities.

| | Place of Incorporation/ Registration | Percentage Equity Interest Held by the Corporation |
|---|---|---|
| **Sino-Forest Corporation** | **Canada** | |
| Sino-Panel Holdings Limited | British Virgin Islands | 100 |
| Sino-Global Holdings Inc. | British Virgin Islands | 100 |
| Sino-Forest Resources Inc. | British Virgin Islands | 100 |
| Sino-Panel (Asia) Inc. | British Virgin Islands | 100 |
| Grandeur Winway Limited | British Virgin Islands | 100 |
| Sinowin Investments Limited | British Virgin Islands | 100 |
| Dynamic Profit Holdings Limited | British Virgin Islands | 100 |
| Suri-Wood Inc. | British Virgin Islands | 100 |
| Sino-Panel (Guangxi) Limited | British Virgin Islands | 100 |
| Sino-Panel (Yunnan) Limited | British Virgin Islands | 100 |
| Sino-Panel (North East China) Limited | British Virgin Islands | 100 |
| Sino-Panel [Hunan] Limited | British Virgin Islands | 100 |
| SFR (China) Inc. | British Virgin Islands | 100 |
| Sino-Panel (Gaoyao) Ltd. | British Virgin Islands | 100 |
| Sino-Panel (North Sea) Limited | British Virgin Islands | 100 |
| Sino-Forest Investments Limited | British Virgin Islands | 100 |
| Sino-Panel [Xiangxi] Limited | British Virgin Islands | 100 |
| Sino-Panel [Suzhou] Limited | British Virgin Islands | 100 |
| Expert Bonus Investment Limited (BVI) | British Virgin Islands | 100 |
| Glory Billion International Limited (BVI) | British Virgin Islands | 100 |
| Amplemax Worldwide Limited (BVI) | British Virgin Islands | 100 |
| Ace Supreme International Limited (BVI) | British Virgin Islands | 100 |
| Express Point Holdings Limited (BVI) | British Virgin Islands | 100 |
| Smart Sure Enterprises Limited (BVI) | British Virgin Islands | 100 |
| Sino-Wood Partners, Limited | Hong Kong | 100 |
| Sino-Plantation Limited | Hong Kong | 100 |
| Sino-Wood (Guangxi) Limited | Hong Kong | 100 |
| Sino-Wood (Jiangxi) Limited | Hong Kong | 100 |
| Sino-Wood (Guangdong) Limited | Hong Kong | 100 |
| Sino-Wood (Fujian) Limited | Hong Kong | 100 |
| Sino-Panel (China) Investments Limited | PRC | 100 |
| Hunan Jiayu Wood Products (Hongjiang) Co., Ltd. | PRC | 100 |
| Sino-Maple (Shanghai) Trading Co., Ltd. | PRC | 100 |
| Sino-Maple (Shanghai) Co., Ltd. | PRC | 100 |
| Sinowin Plantings (Suzhou) Co., Ltd. | PRC | 100 |
| Sino-Panel (Gengma) Co., Ltd. | PRC | 100 |
| Heilongjiang Jiamu Panel Co., Ltd. | PRC | 100 |
| Shaoyang Jiading Wood Products Co., Ltd. | PRC | 100 |
| Jiafeng Wood (Suzhou) Co., Ltd. | PRC | 100 |
| Guangdong Jiayao Wood Products Development Co., Ltd. | PRC | 100 |

| | Place of Incorporation/ Registration | Percentage Equity Interest Held by the Corporation |
|---|---|---|
| Sino-Panel (Beihai) Development Co., Ltd. | PRC | 100 |
| Sino-Forest (China) Investments Limited | PRC | 100 |
| Guangxi Guijia Forestry Co., Ltd. | PRC | 100 |
| Gaoyao Jiayao Forestry Development Co., Ltd. | PRC | 100 |
| Jiangxi Jiachang Forestry Development Co., Ltd. | PRC | 100 |
| Zhangzhou Jiamin Forestry Development Co., Ltd. | PRC | 100 |
| Sino-Forest (Heyuan) Co., Ltd. | PRC | 100 |
| Sino-Forest (Guangzhou) Co., Ltd. | PRC | 100 |
| Sino-Forest (Guangzhou) Trading Co., Ltd. | PRC | 100 |
| Sino-Forest (Suzhou) Trading Co., Ltd. | PRC | 100 |
| Sino-Forest (Anhui) Co., Ltd. | PRC | 100 |
| Hunan Jiayu Wood Products Co., Ltd. | PRC | 100 |
| Xiangxi Autonomous State Jiaxi Forestry Development Co., Ltd. | PRC | 100 |
| Zhangjiagang Free Trade Zone Jiashen International Trading Co., Ltd. | PRC | 100 |
| Sino-Panel (Luzhai) Co., Ltd. | PRC | 100 |
| Mandra Forestry Holdings Limited | British Virgin Islands | 15 |
| Greenheart Resources Holdings Limited ("Greenheart") | British Virgin Islands | 17.26[(1),(2)] |
| Omnicorp Limited ("Omnicorp") | Bermuda | 20[(1)] |

Notes:

(1) Ownership percentage is based on the outstanding ordinary shares as published respectively by Greenheart and Omnicorp as at March 31, 2009.

(2) The equity interest is made up of 5.18% direct investment and 12.08% indirect investment through Omnicorp in Greenheart.

(3) Our non-material active subsidiaries that were not included in the above table are:

Sino-Panel Corporation (Canada), Sino-Capital Global Inc. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio-Science Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Guangzhou) Limited (BVI), Sino-Biotechnology (Guangzhou) Co. Ltd. (PRC WFOE), Sino-Panel (Guangxi) Development Co. Ltd. (PRC WFOE), Sino-Panel (Hezhou) Co. Ltd. (PRC WFOE), Sino-Panel (Sanjiang) Co. Ltd. (PRC WFOE), Sino-Panel (Yunnan) Trading Co. Ltd. (PRC WFOE), Sino-Panel (Guangzhou) Trading Co. Ltd (PRC WFOE), Hunan Jiayu Wood Products (Zhijiang) Co. Ltd. (PRC WFOE), Sino-Panel (Yuanling) Co. Ltd. (PRC WFOE), Sino-Panel (Jianghua) Co. Ltd. (PRC WFOE), Beihai Changqing Wooden Co. Ltd. (PRC Limited Company), Suzhou City Lvyun Garden Engineering Co. Ltd. (PRC Limited Company), Sino-Panel (Fujian) Co., Ltd. (PRC WFOE), Sino-Panel (Heilongjiang) Trading Co., Ltd. (PRC WFOE), and Jiangxi Jiawei Panel Co., Ltd. (PRC WFOE).

# BUSINESS

## Overview

We are a leading commercial forest plantation operator in the PRC. Our principal businesses include ownership and management of forest plantation trees, sale of standing timber and logs, and complementary manufacturing of downstream engineered-wood products. For the year ended December 31, 2008 and for the three-month period ended March 31, 2009, total revenue was US$901.3 million and US$177.2 million, respectively.

Our vision is to become the leading commercial forest 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. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using sophisticated research and development and plantation management practices. Our plantations are strategically located in close proximity to main manufacturing hubs and large consumer markets. As of March 31, 2009, we had approximately 410,000 hectares of tree plantations under management located in eight provinces of the PRC. In addition, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, Jiangxi and Fujian that give us the right to acquire, subject to contractual conditions and other factors, approximately 855,000 to 1,005,000 additional hectares of tree plantations.

Pursuant to our strategy of migrating to an integrated plantations model, as well as securing access to future purchases of tree plantations, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi, and Fujian Provinces since September 2006, which have provided us with access to an additional 400,000, 200,000, 150,000, and 200,000 hectares of standing timber, respectively. In June 2009, we entered into a new long-term master agreement in the Jiangxi province which provides for wood fibre purchases sourced from an area of between 150,000 and 300,000 hectares of plantation trees. As of March 31, 2009, we have acquired approximately 245,000 hectares under these agreements.

Our business operations are comprised of two core business segments. Our wood fibre operations are our major revenue contributor, while our manufacturing and other operations enable us to add value to fibre by producing downstream products.

### Wood Fibre Operations Segment

Our wood fibre operations segment consists of acquiring, cultivating and selling standing timber or harvested logs from our purchased, planted or integrated tree plantations, selling wood logs sourced from PRC suppliers and selling wood products imported from outside the PRC. The wood fibre operations accounted for 93.1% and 93.5% of our total revenue for the year ended December 31, 2008 and the three-month period ended March 31, 2009, respectively.

We operate our plantations using three business models: purchased, planted and integrated. Under our purchased tree plantation model, we purchase young trees and subsequently sell these trees as standing timber when they reach maturity. This model allows us to capture wood fibre growth during the course of our ownership and take advantage of potentially selling the trees at higher wood fibre prices. Under our planted tree plantation model, we assess the suitability of land where the trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long-term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using improved silviculture techniques and sell the trees as standing timber. Under our integrated tree plantation model, instead of selling the trees from purchased or planted tree plantations as standing timber, we either sell the harvested logs or process the logs in our manufacturing facilities and sell value-added wood products. We are currently in the early stages of implementing our integrated tree plantation model.

As of March 31, 2009, approximately 348,000 hectares (84.9%) of our plantations under management were purchased tree plantations and approximately 62,000 hectares (15.1%) were planted tree plantations.

In the year ended December 31, 2008, we sold approximately 86,067 hectares (82.8%) of plantation fibre from our purchased plantations, 14,071 hectares (13.5%) from our integrated plantations, and 3,807 hectares (3.7%) from our planted plantations, for a total of 103,945 hectares. In the three-month period ended March 31, 2009, we sold approximately 13,773 hectares (89.0%) of plantation fibre from our purchased plantations and 1,705 hectares (11.0%) from our planted plantations, for a total of 15,478 hectares. In the three-month period ended March 31, 2009, we did not sell any wood fibre under our integrated plantation model. This reflected our focus on sales of wood fibre from our purchased plantations in this period, since we deferred harvesting from our integrated plantations during the first quarter of 2009, as such harvesting typically occurs in the second half of the year.

Manufacturing and Other Operations Segment

Our manufacturing and other operations segment complements our wood fibre operations by maximizing usage and adding value to the upstream fibre. This segment represents our secondary source of revenue and consist of sales of wood-based products, such as melamine chipboard, engineered wood flooring, sawn timber, oriented strand board and finger-joint board manufactured at our own production plants. We currently operate manufacturing plants in Suzhou, Jiangsu Province, Muling City, Heilongjiang Province, Dongkou, Huaihua, Xiangxi and Yuanling, Hunan Province, and Lin Cang, Yunnan Province. We also operate a greenery and nursery business based in Suzhou, Jiangsu Province. For the year ended December 31, 2008 and the three-month period ended March 31, 2009, our manufacturing and other operations represented 6.9% and 6.5%, respectively, of our total revenue.

**Our Competitive Strengths**

We believe that we have the following strengths:

***Leading commercial forest plantation operator in the PRC with our own sustainable and large-scale supply of forestry resources***

We are currently a leading commercial forest plantation operator in the PRC with our own sustainable and large-scale supply of forestry resources subject to long-term master agreements. Our size allows us to benefit from economies of scale in our forestry operations and efficiently manage our tree plantations, and gives us the breadth to engage in extensive research and development activities. These factors give us a competitive advantage compared to smaller operators that have difficulties in efficiently managing their tree plantations. We further expect to maintain and expand our existing tree plantation resources and bring a sustainable supply, subject to long-term master agreements, of wood fibre to the market. We also expect to acquire additional tree plantations that we intend to use pursuant to our integrated tree plantation model. As of March 31, 2009, we had approximately 410,000 hectares of tree plantations under management and we had entered into six long-term master agreements that give us a right to acquire approximately 855,000 to 1,005,000 additional hectares of plantation trees.

***Strategically located plantations in eight provinces of the PRC***

We have developed our tree plantations primarily in southern and eastern PRC. These regions offer favorable climate and soil conditions for eucalyptus and pine and Chinese fir plantations with easy access to transportation routes and are close to major population centers as well as industrial and consumer markets in the PRC for wood panel, furniture, construction, interior decoration and pulp and paper.

***Strong track record in obtaining and developing commercial tree plantations and ability to leverage our industry foresight***

We are one of the first foreign companies to do business in the PRC's forestry sector and have a strong track record in obtaining, developing and cultivating commercial tree plantations since 1995. Once

we obtain tree plantations in favorable locations, we operate the tree plantations using advanced, environmentally prudent plantation management practices focused on the development of sustainable commercial plantations. We believe our 14-year track record of developing fast-growing commercial tree plantations in the PRC using advanced plantation management techniques is a competitive advantage in the PRC, where the commercial tree plantation industry is comparatively undeveloped, with few large-scale commercial tree plantations currently using advanced plantation management practices. In 2006, we announced our plan to move inland, starting in Hunan and Yunnan Provinces, to develop tree plantations in second- and third-tier cities in order to align our expansion strategy with the PRC government's Eleventh Five-Year Plan (2006-2010) of rural and regional development. We are leveraging our first-mover advantage in these new regions to obtain strategically located plantations and support from local provincial governments and forestry bureaus.

***Extensive forestry and management expertise with local knowledge in the PRC***

We have developed extensive forestry and management expertise with local knowledge in the PRC. Our management team has extensive experience in the forestry industry. We have recruited personnel with a great deal of experience in plantation management and research and development that have put in place advanced plantation management practices at our tree plantation operations. Our plantation planning and management team has an in-depth understanding of local forestry landscapes and markets based on the experience of most of its members who formerly worked with local forestry bureaus and/or state-owned plantation farms in various regions and provinces. We also utilize experts in the tree plantation industry as our consultants, advisors and employees, who provide expert advice on management, and ecological and plantation matters.

***Systematic application of advanced planting and silviculture techniques***

Our plantation program is designed to produce short-rotation high-yielding trees, primarily through the systematic application of advanced planting and silviculture techniques. These advanced techniques allow us to improve efficiency in growing rotations, achieve higher fibre output, grow more uniform timber, lower our access and harvesting costs, minimize the impact on the environment and improve our plantations' resistance to disease and frost. Our planting expertise is aimed at enabling the plantation trees to grow with improved quality, reduced cost and increased yield, and in an environmentally responsible manner. More uniform plantations and our use of developed tree species with special features (e.g. fewer branches) enables us to increase our harvesting efficiency, reduce waste, increase yield and provide higher quality and more profitable timber.

***Strong research and development capability***

Our tree plantation research and development efforts are focused on increasing the yield of our plantations and improving the wood quality of the trees grown, particularly the standing wood volume per unit area. We cooperate with a number of academic and scientific institutions in the PRC to steadily increase plantation yields, reduce cultivation costs, increase the quality and value of harvested wood output and to maintain or enhance forest ecosystems and land productivity. We conduct research and development on superior planting material breeding and propagation, cultivation and management technology, tree protection, technology for sustainable plantation management, wood properties and processing and ecological and environmental technology. We have focused on improving our research and development capability and we obtain research and development support from local academic institutions. We carry out research and development projects by ourselves and/or jointly with a number of research or academic institutions in the PRC.

*Expertise in sustainable plantation development*

Our sustainable tree plantation operations in the PRC are consistent with the PRC government's promotion of sustainable tree plantation development. We employ advanced forest management practices and adopt prudent environmental management of our tree plantations. We believe that we have gained recognition for our use of sustainable plantation development in the PRC and this should help us obtain additional business opportunities. Our scientific and conscientious approach to quality plantation management led us to receive the Forest Stewardship Council ("FSC") Certificate for certain areas of our planted plantation in Gaoyao, Guangdong Province, the first commercial tree plantation in the PRC to be granted and hold such accreditation.

*Established relationships in the PRC*

We believe that over the last 14 years we have established good relationships with local forestry bureaus, tree plantation owners, plantation service providers and wood dealers in the PRC. We believe that our relationships with local forestry bureaus and tree plantation owners have supported the development of our tree plantation business in the past and will continue to benefit us in expanding our forestry resources in the future. We also maintain good relationships with plantation service providers and employ members of local village communities surrounding our tree plantations to provide labor to our plantations.

We believe that we have an in-depth understanding of the dynamics of the PRC forestry market. This enhances our ability to deal with market changes, such as changes in prices or customer requirements, and provides us with a competitive advantage over current and potential competitors.

**Our Business Opportunities**

We believe that we are well-positioned to benefit from the following factors:

*Strong and growing consumption of wood fibre from downstream producers*

We believe that, as an upstream provider of wood fibers for downstream producers, we are well-positioned to benefit from increased demand for, and a limited supply of, wood fibers in the PRC.

According to Research and Markets, a market research resource, the PRC's forested areas represent 4.6% of the total global forested area with 174.90 million hectares. The forest coverage in the PRC reaches only 18.21% of the total area of the PRC, which is significantly lower than the world average level of forest coverage per country of 61.52%. PRC forest reserves are 12.46 billion cubic meters and represent less than 3% of the total worldwide reserves. PRC forest reserves per capita are 9.421 cubic meters, which is less than one sixth of the average per capita forest reserves worldwide. PRC forest reserves per hectare represent only 84.73 cubic meters which is equal to 84.86% of the average forest reserve per hectare worldwide. In terms of forest area per capita, the PRC has scarce forestry resources compared to other countries with abundant forest resources.

Pöyry estimates that domestic furniture production will grow approximately 11% per year between 2002 and 2010 and that consumption of paper and paperboard will exceed 60 million tons by 2010.

*A growing gap between domestic timber supplies and domestic demand as imported timber becomes increasingly expensive due to stringent logging bans in the PRC and abroad and increasing export tariffs in neighboring countries*

Wood shortage is a persistent phenomenon in the PRC. Over the past few years, severe flooding, desertification, the loss of natural habitats and change in global weather conditions have led countries that have supplied natural forest wood and wood from tree plantations, including the PRC and the United States, to impose limits on annual allowable cuts ("AACs") and, in some cases, logging bans, as applicable. These AACs and logging bans have significantly decreased global natural forest and plantation wood

supply. In 2001, the PRC State Council announced the National Forest Protection Program. The National Forest Protection Program limited the total forests that may be harvested, including natural and plantation forests, during the five-year period from 2001 to 2005, to 223 million cubic meters per year. According to Pöyry, this quota increased to 248 million cubic meters per year during the five-year period from 2006 to 2010. However, we believe that the supply of forest wood will remain restricted in the future.

The shortfall between domestic wood consumption and supply in the PRC was historically met by imports, which comprised 32 million cubic meters of logs in 2006, with 68% of logs coming from Russia. In 2007, to stimulate domestic wood processing businesses, the Russian government raised round wood export duties from 6.5% to 25% as of April 2008 and, according to RISI, announced potential future increases of such export duties to 80% in 2009. In light of the expected decrease in natural forest wood supply from within and outside of the PRC and the expected increase in demand for wood, we believe that sustainable tree plantations should play an increasingly important role in satisfying domestic demand in the future. In addition, we also examine, from time to time, opportunities to invest in, or acquire plantations or other sources of wood supply in the PRC and in the Asia Pacific region.

***Recent changes in the forestry industry that favor sustainable plantations***

The wood processing industry has recently begun adapting to the increasing use of small diameter plantation wood by acquiring and using new machinery to facilitate processing of small diameter logs into reconstituted wood panels and engineered wood-based products. Plantation wood is more predictable than natural forest wood in terms of output quantity and quality. Tree plantations in the PRC have historically consisted of softwood plantations, such as pine. In recent years, there has been increasing emphasis on the expansion of fast growing hardwood plantations such as eucalyptus and poplar, which comprise a significant portion of our planted tree plantations. We believe that these developments will benefit us by increasing demand for logs and/or standing timber from our tree plantations as well as increasing demand for wood-based products from our manufacturing plants.

**Strategy**

Our strategy is to build on our competitive strengths and our business opportunities to become the leading plantation developer and wood resource supplier in the PRC, with established operations in close proximity to PRC's key regional markets and ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. We believe that the following key elements will allow us to successfully execute 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***

We intend to become a regional plantation developer and wood resource supplier in the PRC to downstream users in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries and to supply the PRC market with 18 million cubic meters of standing timber, wood logs and imported wood products by the end of 2011. In order to do so, we will continue to invest in additional sustainable, short-rotation tree plantations in our current geographic locations and expand into other geographic locations. We intend to further increase our plantation area under management by investing in additional tree plantations that we intend to use pursuant to our integrated tree plantation model, and, thereafter, expanding our planted tree plantations. We intend to replant with fast-growing short-rotation tree species, primarily eucalyptus, to cultivate sustainable, high-yielding tree plantations.

In expanding the area of our tree plantations, we will focus on our integrated tree plantation model, whereby we harvest trees from our plantation and sell them as logs or use the wood fibre in our manufacturing facilities to produce value-added wood products. We can then use the cash flows from the

sale of such logs or wood products to finance our forestry expansion whereby, following the harvesting of these trees in our tree plantations in Hunan, Yunnan and Guangxi, we intend to exercise our right to enter into long-term plantation land leases for further developing sustainable tree plantations.

***Improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques***

We seek to manage our tree plantations in a manner that optimizes the biological growth of our trees and enhances prudent environmental management. We will seek to develop improvements in forestry technology using genetics, tissue culture and cloning techniques, and fertilization, which should result in an increase in yields. In order to aid these efforts, we intend to continue to invest in our research and development resources, and collaborate with PRC and overseas academic institutions. We aim to achieve higher than historical yields as a result. We are currently able to achieve an average standing timber yield of 100 to 150 cubic meters per hectare per six-year cycle for eucalyptus trees on our planted tree plantations.

***Practice sustainable and environmentally responsible forestry and manufacturing***

We believe that environmentally sound management practices will ensure the sustainable development of forest resources and provide greater predictability in plantation management. Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We intend to follow these management practices for additional tree plantations to be acquired in the future. We will continue to implement and improve our environmental management systems to help improve the ecological and social environment of our tree plantations.

***Build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams***

Our downstream manufacturing operations produce value-added wood products to maximize fibre value. This is expected to further diversify our revenue streams.

***Strengthen management processes and information systems to support the growth of our multi-faceted businesses***

We plan to invest in additional personnel, management and technology in order to improve our management processes and information systems. As the area of our tree plantations continues to grow, we will have to develop additional systems and management personnel to achieve greater planning and operational control of our plantations. This will allow us to conduct more frequent sampling checks of our timber resources, and would, in turn, allow us to analyze planting statistics, including growth conditions and the quality of our tree plantations, more quickly. It will also allow us to maintain more stringent controls over our tree plantation management processes.

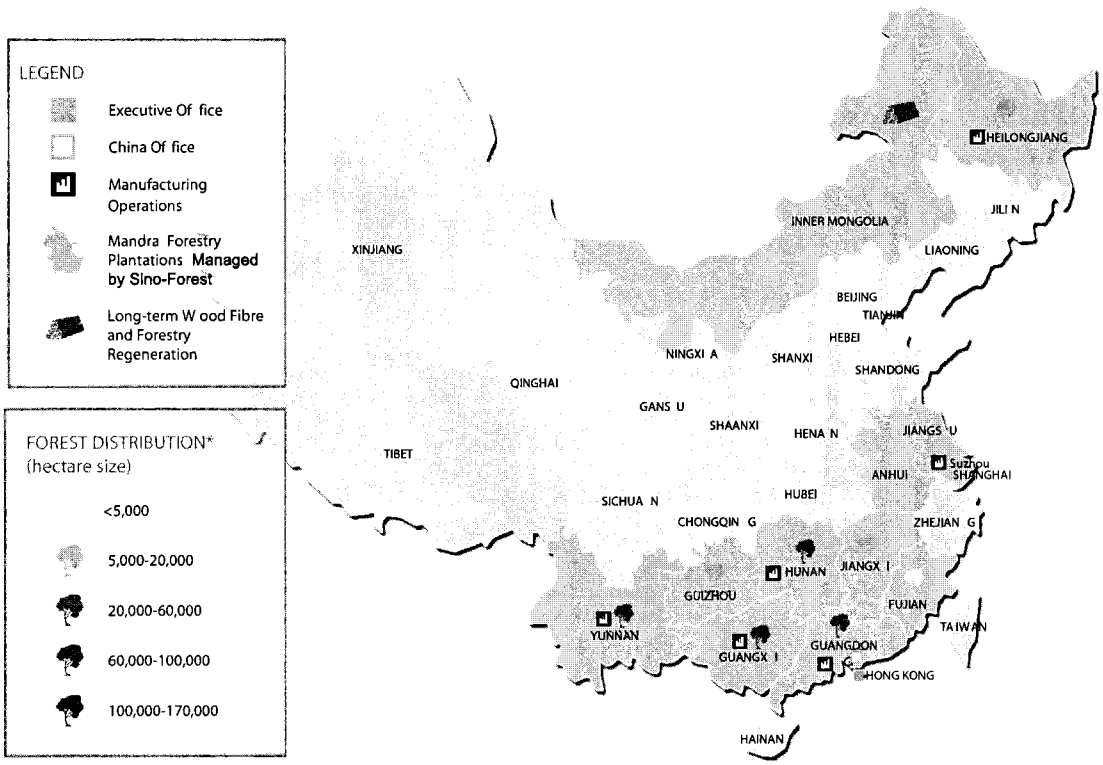
***Align our strategy with PRC government's plans***

We aim to align our strategy with the PRC government's plans to increase forest coverage and productivity and enhance rural employment. The Eleventh Five-Year Plan (2006-2010) calls for infrastructure improvement, social development in rural areas, and creation of regional markets to promote a "new socialist countryside." With respect to the forestry industry, the State Forestry Administration plans to speed up the development of fast-growing, high-yielding plantation and forestry integration. Under our long-term master agreements, our plantation model is migrating to focus on replanting and conversion of harvested plantation lands into fast-growing and high-yielding plantations.

## Our Wood Fibre Operations

### *Overview*

Our wood fibre operations generate the bulk of our revenue, accounting for 93.5% of our revenue in the three-month period ended March 31, 2009. These operations essentially consist of acquiring, cultivating, harvesting and selling logs and standing timber from our tree plantations, selling wood logs sourced from PRC suppliers, and selling wood products imported from outside the PRC. Most of the standing timber and logs we sell come from our own tree plantations. Our tree plantations are located primarily in the southern and eastern regions of the PRC. The following map highlights the locations of our tree plantations in the PRC as of March 31, 2009.




### *Tree Plantations and Plantation Business Models*

We operate our plantations using three business models: purchased, planted and integrated.

### *Purchased Tree Plantation Model*

In our purchased tree plantation model, we purchase young trees from local forestry entities and subsequently sell the trees as standing timber when they reach maturity. The purchase agreements for the trees also give us the right to lease the plantation land and replant after we harvest the trees. The right to lease the plantation is subject to negotiation of definitive plantation land-use agreement and obtaining and completing the requisite government approval and registration procedures. We refer to plantations managed under our purchased tree plantation model as "purchased tree plantations."

The purchase price of the trees takes into account a variety of factors such as tree species, yield, age, size, quality and location of the tree plantation. We also consider soil and weather conditions for replanting, log prices and regional market demand. While we normally do not have to conduct extensive plantation management work with respect to the trees growing on our purchased tree plantations, we do take measures to ensure that the trees are protected from pests and disease, and apply fertilizer regularly, where appropriate, depending on the age of the trees.

As of March 31, 2009, our purchased tree plantations represented approximately 348,000 hectares under management. Our purchased tree plantations are primarily located in Guangdong, Guangxi, Jiangxi, Hunan, Yunnan, Heilongjiang and Guizhou Provinces. They consist of a diversified mix of tree species, predominantly pine, Chinese fir and eucalyptus. The advantages of purchasing trees include the ability to achieve an expansion of plantation reserves within a shorter time scale than by planting, while at the same time better positioning us to ensure a sizeable harvesting profile.

*Planted Tree Plantation Model*

In our planted tree plantation model, we assess the suitability of land where trees have been recently harvested. If we find the land to be suitable, we seek to lease the land under long term lease agreements. For replanting and conversion into fast-growing high-yielding plantations, we cultivate trees using improved silviculture techniques and sell the trees as standing timber. We refer to our planted or re-planted trees as "planted tree plantations." We choose to plant trees in strategically located areas and operate our commercial plantations using advanced environmentally prudent plantation management practices. We believe our 14-year track record in the PRC using advanced plantation management techniques is a competitive advantage in the country, where the commercial tree plantation industry is comparatively underdeveloped and where there are currently limited large-scale plantations using advanced plantation management practices.

In the fourth quarter of 2007, we completed the conversion of the legal structure of all of our four CJVs to WFOEs in accordance with PRC law. Under the WFOE structure, we will have overall operational control and management rights of our plantation operations. We have leased and will continue to lease land from the original plantation rights holders and pay the land lease rent, which is settled mainly on an annual basis. Terms of land leases are between 30 and 50 years, depending on negotiations in different locations. The conversion is expected to provide us with greater control over plantation management through plantation land leasing rather than harvested timber sharing and allow us to capture higher margins. As of March 31, 2009, our planted tree plantations operated through WFOEs comprised approximately 62,000 hectares. For those plantations originally operated by CJVs, we are still in the process of negotiating with the original plantation land use rights holders to enter into plantation land use agreements and going through the requisite governmental approval and registration procedures. There is no assurance that we will secure all of these plantation land use rights from the farmers and collective organizations. See "Risk Factors—Risks Related to Our Business".

We started operating our first planted tree plantation on barren land in 1995. Our planted tree plantations now consist primarily of eucalyptus trees in Guangdong, Guangxi and Jiangxi Provinces. As of March 31, 2009, our planted tree plantations represented approximately 62,000 hectares under management.

*Integrated Tree Plantation Model*

Pursuant to our integrated tree plantation model, instead of selling trees from purchased or planted tree plantations as standing timber, we either sell the logs or vertically integrate them with our manufacturing facilities to produce value-added wood products and lease the underlying land for replanting. Our integrated tree plantation model is essentially a combination of the purchased tree and planted tree plantation models.

The following table sets forth the location and approximate total hectares of our tree plantations as of March 31, 2009:

**Tree Plantations Under Management**

| Location | Planted Tree plantations (in hectares) | Purchased Tree plantations (in hectares) | Total Hectares (approximate) |
|---|---|---|---|
| Guangdong | 39,000 | 9,000 | 48,000 |
| Guangxi | 12,000 | 146,000 | 158,000 |
| Jiangxi | 7,000 | 15,000 | 22,000 |
| Hunan | 4,000 | 112,000 | 116,000 |
| Yunnan | — | 53,000 | 53,000 |
| Heilongjiang | — | 6,000 | 6,000 |
| Guizhou | — | 7,000 | 7,000 |
| **Total** | **62,000** | **348,000** | **410,000** |

As of March 31, 2009, our tree plantations under management represented approximately 410,000 hectares.

***Access to Future Purchases of Tree Plantations***

Pursuant to our strategy of acquiring plantations inland, where forests are denser and the acquisition of trees and leasing of underlying land tends to be more cost effective, we have entered into long-term master agreements in Hunan, Yunnan, Guangxi and Fujian Provinces, giving us the right to acquire up to approximately 950,000 additional hectares of trees, of which approximately 245,000 hectares have been acquired as of March 31, 2009. In addition, we entered a master agreement in June 2009 to acquire wood fibre from within 150,000 to 300,000 hectares of plantation trees over a three-year period in Jiangxi Province. A description of our main long-term master agreements is provided below. In addition, despite higher acquisition costs of trees in the Guangxi region in comparison to Hunan and Yunnan, the geographical location and climate of this region are conducive to fast-growing, high-yield species, such as eucalyptus.

*Long-term Acquisition Agreement in Hunan*

We entered into long-term master agreements in September and December 2006 through Sino-Panel (Asia) Inc. ("Sino-Panel"), one of our wholly-owned subsidiaries, with Hongjiang City Forestry Technology Integrated Development Services Company, which acted as the authorized agent for the original plantation rights holders, to acquire approximately 400,000 hectares of plantation trees for between RMB10.4 billion to RMB12.5 billion over 14 years in Hunan Province. The purchase price is not to exceed RMB260 per cubic meter. The plantations under this agreement include mature trees with an estimated yield of 100 to 120 cubic meters per hectare, or an aggregate 40 to 48 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreements, Sino-Panel has the pre-emptive rights to lease the underlying plantation land for up to 50 years. We intend to annually re-plant approximately the same amount of hectares of trees harvested in the previous year over the 14-year period of the agreements. The terms of the lease are to be negotiated with Hongjiang City Forestry Technology Integrated Development Services Company, the counterparty of the master agreements, upon the authorization of the original plantation rights holders and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

Under the provisions of such master agreements, we have acquired approximately 113,000 hectares of standing timber for US$450.2 million as of March 31, 2009.

*Long-term Acquisition Agreement in Yunnan*

Pursuant to a master agreement entered into in March 2007 by Sino-Panel with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd. ("Gengma Forestry"), established in Lincang City, Yunnan Province, which acted as the authorized agent for the original plantation rights holders, Sino-Panel has the right to acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan Province for between RMB5.5 billion to RMB10.9 billion over a 10-year period. The purchase price is not to exceed RMB260 per cubic meter. The number of hectares to be acquired each year will be determined by the PRC Subsidiaries by entering into specific purchase agreements with Gengma Forestry. The plantations under this agreement include mature trees with an estimated wood fibre yield of 105 to 210 cubic meters per hectare, or an aggregate 21 to 42 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has the pre-emptive rights to lease the underlying plantation land for up to 50 years. The final terms of the lease are to be further negotiated with Gengma Forestry and the lease is subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in accordance with PRC laws and regulations.

Under the provisions of such master agreement, we have acquired approximately 53,000 hectares of plantation trees for US$274.3 million as of March 31, 2009.

*Long-term Acquisition Agreement in Guangxi*

In December 2007, we entered into a master agreement with Zhanjiang Bo Hu Wood Company Limited ("Bo Hu"), which acted as the authorized agent for the original plantation rights holders, to acquire approximately 150,000 hectares of plantation trees in Guangxi Province through Sino-Panel for between RMB5.7 billion to RMB6.8 billion, with a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB380 per cubic meter over a five-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 to 120 cubic meters per hectare, or an aggregate 15.0 million to 18.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of such master agreement, Sino-Panel has pre-emptive rights to lease land at a price, as permitted under the relevant PRC laws and regulations, not to exceed RMB525 per hectare per annum for 30 years. The land lease can be for up to 50 years from the harvest date as permitted under PRC laws and regulations. The specific terms and conditions of such purchase or lease are determined following the execution of definitive agreements between our PRC subsidiaries and Bo Hu upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations.

Under the provisions of this master agreement, we have acquired approximately 79,000 hectares of plantation trees in Guangxi Province for US$361.3 million as of March 31, 2009.

*Long-term Acquisition Agreement in Fujian*

On August 11, 2008, we entered into a master agreement with Zhangzhou Lv Sheng Forestry Development Company Limited ("Lv Sheng") to acquire approximately 200,000 hectares of non-state-owned plantation trees in Fujian Province through Sino-Panel for approximately RMB7.0 billion for a

price not to exceed RMB350 per cubic meter over a ten-year period. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The permissible land lease term after harvesting is up to 50 years under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between our PRC subsidiaries and Lv Sheng upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The plantations under this agreement include mature trees with an estimated wood fibre yield of approximately 100 cubic meters per hectare, or an aggregate 20.0 million cubic meters of wood fibre. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

Under the provisions of this master agreement, we have not acquired any hectares of plantation trees in Fujian Province as of March 31, 2009.

*Long-term Acquisition Agreement in Jiangxi*

On June 11, 2009, we, through our wholly-owned subsidiary Sino-Panel (China) Investments Limited ("Sino Panel China"), entered into a master agreement with Jiangxi Zhonggan to acquire between 15.0 million and 18.0 million cubic meters of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per cubic meter, to the extent permitted under the relevant PRC laws and regulations. Under the master agreement, we currently plan to acquire such amount of wood fibre within an area of between 150,000 and 300,000 hectares of plantation trees. In addition to securing the maximum tree acquisition price, if permitted under the relevant PRC laws and regulations, Sino-Panel China has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years. The permissible land lease term after harvesting is up to 50 years under PRC laws and regulations. The specific terms and conditions of such purchase or lease are to be determined upon the execution of definitive agreements between the PRC subsidiaries of Sino-Panel and Jiangxi Zhonggan upon the authorization of the original plantation rights holders, and subject to the requisite governmental approval and plantation rights registration with the local forestry bureau in compliance with the relevant PRC laws and regulations. The plantations under this agreement include trees with an estimated average wood fibre yield of approximately 100 cubic meters per hectare. Pursuant to the terms of this master agreement, we are not obligated to acquire any of the plantation trees covered by these agreements which do not meet our specific requirements.

***Plantation Management***

To optimize the yields on our planted tree plantations, we engage in intensive silviculture and a variety of advanced plantation management techniques. Our advanced management practices include detailed site assessments, site selection and preparation, terracing, use of improved planting materials, density and spacing control, fertilization and tending and monitoring and preventing damage to the trees. We generally engage third parties to perform the day-to-day management of the plantations.

We have developed a sustainable intensive plantation management system to work together with our management practices and environmental policies. This system and our other management practices are designed to produce fast-growing, high-quality sustainable forestry resources, optimize yields, improve resistance to disease, frost and fire, enhance environmental conservation and improve aesthetics. In addition, these practices result in more uniform tree plantations, which increase harvesting efficiency and reduce waste through sawing and peeling.

*Plantation Service Providers*

We engage third parties for all of the field operations of our tree plantations. During the course of the year, we typically engage approximately 10 to 20 third-party service providers for our planted tree plantations and our purchased tree plantations. The terms of our contracts with these service providers vary and can range from one or two years to one plantation cycle. The services to be provided by the plantation service providers must comply with our plantation management systems and operation guidelines. For areas with trees planted by us, the service providers perform all preparatory work and planting work such as clearance of plantation land, preparation for plowing or terracing, leveling of land, planting, fertilization and applying pesticides and other cultivation activities. We are generally responsible for providing seedlings and fertilizer and inspecting and supervising the different stages of work of the service providers. For our purchased tree plantations, depending on the age profile of the trees, the service provider is engaged to manage the trees, such as applying fertilizers and pesticides.

*Wood Logs*

Wood chips operations were ceased due to a lack of chipping capacity available to us. Therefore, from the third quarter 2007 onwards, the wood chips business has been reclassified to report as discontinued operations. The reportable revenue stream now primarily represents the sale of logs.

We now source logs from PRC suppliers, including pursuant to the Inner Mongolia master agreement referred to below, and sell them in the domestic PRC market. Wood logs sales comprised 1.5% of total revenue in 2008, compared to 0.5% of total revenue in 2007.

*Imported Wood Products*

We also engage in trading activities of wood-based products sourced from outside the PRC. These consist primarily of large diameter logs, sawn timber, veneer and other wood-based products sourced from Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. In these transactions, we purchase wood-based products that correspond to the requirements of wood dealers and sell directly to these dealers. Our customers in these transactions are primarily wood dealers in the PRC. The overseas suppliers generally ship the wood-based products to ports in the PRC designated by the wood dealers.

The purchase contracts and the sales contracts are generally short-term contracts, with delivery within one to two months from the date of the contracts. The sales are usually denominated in US dollars. Payments are usually settled within 45 to 90 days of delivery.

**Our Manufacturing and Other Operations**

*Overview*

Our manufacturing operations complement our wood fibre operations by maximizing usage and adding value to upstream fibre.

In 2000, we began the process of developing our manufacturing plants to complement our tree plantation operations using small diameter logs to manufacture quality wood-based products that are traditionally made from large-diameter logs. To date, we produce engineered wood flooring, oriented stand board ("OSB"), finger-joint board, block board and other wood-based products in four provinces in the PRC. In addition, we have a greenery and nursery operations based in Jiangsu Province which was established to source, supply and manage landscaping products for property developers and other organizations.

*Particleboard Operation*

The particleboard operation in Guangdong Province had a total land area of approximately 122,000 square meters and a total building area of approximately 26,000 square meters, located within the Economic Development Zone of the Pearl River Delta. The plant produced quality particleboard and a melamine-faced chipboard, targeting one of the largest furniture manufacturing markets in the PRC.

In March 2009, one of our subsidiaries signed an agreement to sell the particleboard manufacturing equipment at its plant in Gaoyao. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

*Engineered Wood Flooring*

The flooring business was established in 2004. We developed the Sino-Maple brand to market our engineering wood products. Seeing the growth opportunities, in 2006 we decided to build our own engineered flooring facility in Suzhou. The Suzhou operation has a total land area of approximately 156,000 square meters and a total building area of approximately 18,700 square meters. The first phase of the manufacturing facilities was completed in the third quarter of 2006 and is in full commercial operation with an annual capacity of approximately 4.0 million square meters. The second phase was completed in 2007, and the combined capacity is approximately 6.5 million square meters. Sino-Maple flooring products are distributed through more than 200 outlets nationwide, including B&Q's large do-it-yourself chain stores. Sino-Maple has also participated in numerous international exhibitions promoting its wood flooring products, which are fast becoming a popular substitute for solid and laminated flooring in the PRC due to its environmentally conscious use of forest plantation logs instead of large diameter natural forest logs.

In addition, this facility recently received accreditation from the Forest Stewardship Council ("FSC") for its flooring products.

*Oriented Strand Board*

Our Heilongjiang facility was established in the fourth quarter of 2005 to manufacture OSB and other wood-based products. The facility is located in Heilongjiang Province, close to the Russian border and close to a source of wood supplies. OSB is still a relatively new product in the PRC, although it is widely used in other countries as a building, flooring and packaging material. The plant has an annual capacity of approximately 12,000 cubic meters.

*Sawn Timber Facility*

Our Yunnan facility was established in the fourth quarter of 2008, producing sawn timber and flooring material with an estimated annual capacity of 18,000 cubic meters anticipated for full ramp up in 2009.

*Finger-Joint Board*

We acquired processing facilities in Hunan Province, producing finger-joint board, block board and particleboard with a total annual capacity of 150,000 cubic meters. We ceased the operational lease agreement of the particleboard production facility in June 2009. Our strategy in Hunan is to maximize the value of our wood fibre through value-added processing.

*Our Greenery and Nursery Operations*

According to the PRC State Forestry Administration, there is a lack of forestation in the country, and six major cities, including Beijing, Shanghai and Guangzhou, have been identified among the 10 most polluted cities in the world. In order to counteract these problems, the PRC government has called for the improvement of air quality and city landscaping through the planting of trees in green belts along city borders, roads and streets, and in parks. Seeing the need to improve the gap between landscape

management and supply of tree nursery products, we decided to pursue opportunities in this forest product business segment. With our plantation resources and expertise, we established a greenery and nursery operations in Jiangsu Province to source, supply and manage landscaping products for property developers and other organizations.

**Sales and Marketing**

Substantially all of our sales are made in the PRC. In the three-month period ended March 31, 2009, sales to customers in the PRC were US$176.2 million and sales to customers located in other countries were US$1.2 million. In the years ended December 31, 2006, 2007 and 2008, our domestic sales of wood-based products, wood logs and standing timber accounted for virtually all of our revenue.

One of our marketing strategies is to develop long-term relationships with wood dealers that will engage in sales transactions and trading activities with us year after year. These long-term relationships will enable us to better understand their needs and to take advantage of our competitive strengths, including our market expertise and advanced plantation management practices.

We engage in trading of logs and wood-based products both in the PRC and overseas, generally under short-term contracts. We issue invoices to our AIs in the PRC on a quarterly basis. Sales are usually denominated in Renminbi, with payments usually settled within 60 days of delivery.

With respect to trading activities involving the export of wood-based products overseas, the delivery period of wood-based products is usually one to two months from the date of the contract. The sales are denominated in US dollars and are made pursuant to letter of credit arrangements. Payments are usually settled within 45 to 90 days of delivery. In cases where we purchase imported logs for sale in the PRC, we issue letters of credit for the purchase of the logs. The purchases and sales are denominated in US dollars, with payments usually settled within 45 to 90 days of delivery.

With respect to sales of standing timber, we generally grant buyers a credit period of up to nine months from the date of the contract, with sales generally denominated in Renminbi. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. Pursuant to the sales contract, the buyer is required to harvest the standing timber within 18 months from the date of the contract. We recognize revenue upon such sale.

Our wood-based product manufacturing plants currently consist primarily of sales of wood-based panel to distributors, which engage in further processing before sale to end-user customers, and sales of flooring products to distributors, property developers and contractors. These sales are generally under short- to medium-term contracts and are denominated in Renminbi. Payments are usually settled within 120 days.

**Suppliers**

The supply of wood logs and wood-based products for our trading activities is sourced primarily from local suppliers of logs and wood-based products in the PRC. We also source logs and wood-based products for our trading activities overseas, primarily from Suriname, Papua New Guinea, Brazil, Vietnam, Russia and New Zealand. The credit terms granted by our suppliers of logs and wood-based products generally range from one to three months on open account and by letters of credit.

In the years ended December 31, 2006, 2007 and 2008, our five largest suppliers accounted for approximately 44.2%, 54.8% and 45.5% of our total costs of sales, respectively. The largest supplier accounted for approximately 12.6%, 32.2% and 16.5% of our total costs of sales, respectively, during such periods. See "Risk Factors—Risks Related to Our Business."

**Transportation**

Historically, we have not transported logs and wood-based products to customers ourselves, as we mainly engaged in sales of timber from our planted tree plantations and purchased tree plantations. In these sales transactions, the customer is responsible for harvesting and transporting the logs out of the forested areas.

With respect to our trading activities of logs and wood-based products sourced from overseas, we generally arrange for the shipping of the logs and wood-based products to ports in the PRC for the customers of the products, who arrange for the transportation of the products once they are unloaded at the port. The logs and wood-based products are generally shipped to ports in the southern region of the PRC.

**Customers**

Our customers and AIs are mostly wood dealers and panel manufacturers. We intend to expand our customer base to include more end-user customers, such as pulp and panel mills, and, with respect to our wood-based product manufacturing plants, large furniture manufacturers.

In the years ended December 31, 2006, 2007 and 2008, our five largest customers (including AIs) accounted for approximately 57.5%, 58.7% and 55.6% of our revenue, respectively. In the same periods, our largest customer (including AIs) accounted for approximately 12.9%, 15.8% and 13.9% of our revenue, respectively. See "Risk Factors—Risks Related to Our Business."

**Competition**

The market for logs and wood-based products in the PRC is highly fragmented, with a large number of small operators of tree plantations. There are also large operators of tree plantations in the PRC. These operators normally operate their own plantations and, in certain cases, replant and utilize these plantations as a source for their downstream operations.

The market for wood-based panels in the PRC is also highly fragmented, with a large number of small manufacturers and no dominant manufacturers. We expect that our principal competitors in the wood-based product manufacturing industry will be large domestic and foreign manufacturers of wood-based panels and engineered floorings. A number of domestic and foreign mills have commenced or announced plans to build wood-based panel mills in the PRC, which are expected to increase competition in the wood-based panels market in the PRC. We may also face competition from imports of wood-based panels. The primary competitive factors in the wood-based panels industry are product quality, level of technology in the manufacturing process, product innovation, product mix, price and logistics.

The markets for forest products in the PRC are highly competitive in terms of price and quality. In addition, wood-based products are subject to increasing competition from a variety of substitutes, including non-wood and engineered wood-based products, as well as import competition from other worldwide suppliers. See "Risk Factors—Risks Related to Our Business."

**Environmental Matters**

Our tree plantation and manufacturing operations are subject to PRC laws and regulations relating to the protection of the environment. We believe that our operations are in substantial compliance with these laws and regulations. There are currently no significant environmental proceedings involving us.

*Tree Plantations*

We maintain an environmental management system designed to ensure sustainable and responsible resource management. It sets out policies on the social, ecological and environmental aspects of our tree

plantation operations and detailed operating procedures on environmental compliance. Some of our plantation operations are managed in accordance with the environmental standards of two of the most recognized international forest certification systems. Besides the environmental requirements of International Organization for Standardization ISO14001, we have also been working since 2000 to integrate FSC principles and criteria into our tree plantation management and operations, which cover all recognized environmental and relevant issues such as the control of soil and water erosion, the conservation of biodiversity and natural habitats, the improvement of environmental conditions, the maintenance of production continuity, health and protection of forests, local community development, etc. We obtained an ISO14001 certificate in 2002 for one of our plantation companies in Guangxi Province, and an FSC Forest Management ("FM") certificate in 2003 for another in Guangdong Province (SW-FM/COC-001146). We aim to expand our success in FSC to all of our plantation forests.

In the past five years, we have gone through stringent third-party annual assessments and re-assessments for our FSC and ISO operations, continuously improving our environmental performance through the recurrence of prescribed operation, monitoring and inspection, technological development and correction of plantation management. Our efforts in addressing all main environmental concerns or issues are well recognized by the independent assessors. For example, we strive to address: (i) soil erosion issues through sound site preparation, forest road construction, planting spacing, harvesting planning, and operation season control; (ii) the maintenance of long-term land productivity through soil erosion control, fertilizing, understory vegetation conservation, species rotation, etc.; and (iii) natural disasters such as forest fire, disease and pest, freezing and snowing through effective fire prevention and control systems, proper management of genetic diversity, development and deployment of resistant varieties etc. Our practice of identifying and conserving biodiversity and the potentially special habitats nested in our plantation forest ecosystems is also recognized.

Besides our commitment to managing our plantation forests in an environmentally-friendly manner, we are also actively involved in various activities relevant to environmental protection or enhancement. The PRC launched its first China Green Carbon Foundation, spearheaded by the State Forestry Administration, on July 20, 2007 to develop carbon credit trading, forest bio-fuels and renewable energy through large-scale tree plantation in a sustainable manner, which will also mitigate greenhouse gas emissions. We are one of the founding members and the only member from the forestry sector. In 2008, we donated approximately US$769,000 to the establishment of "Applied Research Centre for Pearl River Delta Environment" at Hong Kong Baptist University. A primary goal of the research centre is to develop a competent team to study the pollution problems and provide solutions for industries in the Pearl River Delta Region.

We believe that, with our commitment to corporate responsibility, we will steadily and effectively improve our sustainable plantation management, from economic, environmental and social perspectives.

*Manufacturing*

We began manufacturing engineered wood products to complement our tree plantation operations in 2000, and now produce mainly OSB, flooring, block board, finger-joint board, veneer and plywood, which generally cause relatively minor environmental problems. Environmental issues may include, but are not limited to, sawdust emissions, air pollution, glue waste, water pollution, toxic chemical content, fire, health & safety and raw material sourcing. We strive to integrate international standards into our wood product manufacturing by updating our management system and operation procedures in a timely manner.

We are committed to fully utilizing certified and legal raw wood material in our manufacturing, which is considered to be a significant way of protecting regional and even global environments from deforestation. So far, we have obtained FSC Chain-of-Custody ("FSC CoC") certificates (SW-COC-003299; GFA-COC-001561) for our key factories that produce particleboard, OSB, flooring, veneer, etc. We intend on making all of our wood product manufacturing subject to the FSC CoC certification

system, which involves regular stringent inspections carried out by accredited and independent third-parties. Wood products with an FSC CoC certificate must be made from FSC-certified raw materials. To date, we are still one of few companies that simultaneously produces FSC FM-certified raw material and FSC CoC-certified wood products in China.

We have acquired advanced facilities and equipment that fully meet the demands of environmental protection, to keep hazardous substance emissions under acceptable levels. We have various procedures in place for controlling environmental issues. Examples of such procedures include the following: (i) sawdust is properly collected and either recycled as product material or used to produce energy in our factories, thus reducing air and water pollution; (ii) polluted water is processed in special facilities for agricultural irrigation; (iii) wood products are always sampled and inspected in a standardized way to control the quality and toxic chemicals such as formaldehyde; and (iv) procedures for preventing and controlling fire and work accidents are implemented to avoid or reduce loss, damage and relevant environmental accidents. All environmental matters associated with our wood product manufacturing are regularly or periodically inspected and assessed by local authorities or relevant parties.

With our wood product manufacturing, some environmental accidents may still occur from daily operation or at old facilities. As with most other labor-intensive companies in China, we often have inexperienced or outsourced workers in our labor force, who may inadvertently cause environmental and safety accidents, even though professional training is always first provided. We strive to implement an integrated training and monitoring system to avoid or minimize accidents. In addition, old inefficient facilities or equipment may emit hazardous chemicals or contaminated materials and as a consequence, timely replacement and effective maintenance of outdated facilities, equipment or their parts are necessary to control environmental accidents in manufacturing operations.

*Environmental regulation*

As disclosed under "Risk Factors—Risks Related to the PRC", our tree plantations and manufacturing plants are subject to certain environmental laws and regulations, particularly with respect to air emissions and discharges of wastewater and other pollutants into land, water and air, and the use, disposal and remediation of hazardous substances and contaminants. We may be required to incur significant expenditures to comply with applicable environmental laws and regulations. Moreover, some or all of the environmental laws and regulations to which we are subject in our tree plantations and manufacturing plants could become more stringent in the future, which could affect our production costs and results of operations. For example, international standards in wood-based products manufacturing currently require that wood panels satisfy specified maximum levels of formaldehyde emissions, as well as providing for other environmental protection measures. Any failure by us to comply with applicable environmental laws and regulations could result in civil or criminal fines or penalties or enforcement actions, including a requirement to install pollution control equipment or other mandated actions. As a result, environmental laws and regulations may adversely affect our business, financial condition and results of operations.

**Research and Development**

Research and development is an important function of our tree plantation operations. The goal of our research and development efforts is to improve tree plantation yields and the quality of the trees grown on our tree plantations. We have developed a sustainable intensive plantation management system in order to optimize investment efficiency. The system comprises standardized plantation management operation procedures, genetic improvements, cultivation techniques and inspection and monitoring.

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

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

In performing our research and development activities, from time to time we also collaborate with, and receive assistance from, research and academic institutions in the PRC.

Our research and development division is composed of a team of nine individuals. The research and development division is headed by a research scientist with over 25 years of research and operations experience in forestry and plantation management.

In the years ended December 31, 2006, 2007 and 2008, we spent approximately US$371,000, US$412,000 and US$1,071,000, respectively, on research and development activities.

**Other Tree Plantation Contractual Arrangements**

*Inner Mongolia Wood Fibre Supply*

On July 31, 2006, we entered into a master agreement with Inner Mongolia Forest and Timber Resources Co., Ltd., an equity joint venture company in the PRC, and Erlianhot Lianhe Forestry Bureau in the Inner Mongolia Autonomous Region, to secure a minimum of 1.5 million cubic meters annually of long-term supply of wood fibre over the period of 12 years by managing a program of secondary forests.

We continue to experience delays in the supply of wood logs from the local partner in Inner Mongolia due to the possible increase in export tariff from 25% to 80% planned by the Russian government. Given the proximity of Inner Mongolia to Russia, and the similarity of certain tree species in those regions, the local partner has decided to delay harvesting in anticipation of higher log prices in the future.

*Mandra Forestry*

In 2005, we formed an alliance with Mandra Forestry Finance Limited ("Mandra Forestry") by investing US$15.0 million in the form of a subordinated loan and acquiring a 15% equity interest, with the goal of gaining access to timber in Anhui Province close to the strategically important Yangtze River Delta. Leveraging on our track record and expertise in plantation operation, we provide plantation management service for an annual management fee of US$1.0 million and have obtained access to an inventory of Chinese fir and pine trees while earning a margin of 3% on the sales of timber delivered by Mandra Forestry.

We entered into a shareholders agreement with Mandra Forestry dated May 11, 2005 (the "Mandra Shareholders Agreement"). Under the Mandra Shareholders Agreement, we have been granted an option to purchase all of the outstanding equity securities of Mandra Forestry from the other shareholders of Mandra Forestry and shares represented by warrants held by certain warrant holders at any time until one day prior to the fifth anniversary of the Mandra Shareholders Agreement (May 11, 2010); *provided that* the exercise of such option may only be completed if (1) either (a) the rating agencies that issued ratings on the US$195,000,000 12% guaranteed notes due 2013 by Mandra Forestry and Mandra Forestry Finance Limited (the "Mandra Notes") provide confirmation in advance that the exercise of the option will not result in a rating decline or (b) no rating decline occurs within six months following public notice or notice to the rating agencies of our intention to exercise the option and (2) we guarantee the obligations of Mandra Forestry under the Mandra Notes and the indenture thereto.

The consideration payable by us for the equity securities of Mandra Forestry will be their fair market value in connection with the repurchase and will be determined by an independent qualified investment bank or firm of certified public accountants appointed by the board of directors of Mandra Forestry. Subject to limited exceptions, termination of that certain operating management agreement dated as of May 11, 2005 between us and Mandra Forestry Finance Limited will result in the loss of our purchase option.

From May 11, 2010 to May 11, 2012, being the seventh anniversary of the shareholders agreement, we will have a final purchase option to purchase all of the outstanding equity securities of Mandra Forestry Finance Limited from each of the shareholders of Mandra Forestry Finance Limited for a period of 120 days following notice from Mandra Forestry that it intends to effect a public offering of shares or listing of Mandra Forestry; *provided that* if Sino-Forest Investments Limited declines to exercise the option and Mandra Forestry subsequently fails to effect a public offering of shares or listing within the following nine months, Sino-Forest Investments Limited will be granted the same purchase option prior to any future public offering of shares or listing proposed to be effected prior to the seventh anniversary of the date of the Mandra Shareholders Agreement.

We have recently entered into preliminary discussions with Mandra Forestry and certain holders of Mandra Notes regarding the possible acquisition by us of their Mandra Notes and/or additional equity of Mandra Forestry. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

*Investment in Greenheart and Omnicorp*

In July 2007, we 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 meters of logs from Suriname for US$175 per cubic meter up to January 2009. In addition, we invested US$6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp 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 us consisting of 7,860,000 Omnicorp ordinary shares, 4% secured convertible bonds at a principal amount of US$4.0 million issued by Omnicorp which mature on November 9, 2009, and cash in the amount of US$302,000, resulting in us recognizing a gain of US$3.4 million as other income. In October 2007, we acquired convertible bonds issued by Omnicorp for US$1.8 million from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp ordinary share.

On February 6, 2009, we acquired 55,000,000 Omnicorp ordinary shares and 4% secured convertible bonds with an aggregate principal amount of approximately US$21.7 million at an aggregate purchase price of approximately US$4.3 million in cash and approximately 2.7 million common shares at a price of Cdn.$10.00 per share. As a result of the completion of the transaction, our stake in Omnicorp has

increased to approximately 20.0% of Omnicorp's outstanding shares as well as 89.6% of the outstanding convertible bonds. Assuming the full conversion by us of the acquired convertible bonds, subject to certain terms and conditions of the convertible bonds, we would own approximately 40.2% of Omnicorp's outstanding shares. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

**Insurance**

We maintain insurance policies against risks of loss of our tree plantations. These policies cover all our planted tree plantations and the indemnity will be on actual insured value of the hectares of damaged plantation after netting deductible. As for our purchased tree plantations, the coverage of our insurance policy is subject to an annual aggregate loss limit at 15% of the declared value of our total purchased tree plantation after netting deductible, with any accident loss limit of RMB10 million. Accidents and disasters insured for our tree plantations include fire, lightning, explosion, flooding and windstorm. We believe our insurance coverage is consistent with the practice of other PRC tree plantation operators. In addition, we believe the risk of loss from fire and other natural disasters is reduced because our tree plantations are located in different provinces in the PRC and because of our measures to protect against natural disasters. We do not carry business interruption coverage. Significant damage to our tree plantations, whether as a result of fire, flooding or other causes, would have a material adverse effect on our business and results of operations.

We also maintain property all risks and public liability insurance policies for our manufacturing facilities. The occurrence of a significant event to our manufacturing facilities that we are not fully insured or indemnified against, or the failure of a party to meet its indemnification obligations, could materially and adversely affect our business and results of operations.

**Intellectual Property**

We have registered the "Sino-Forest" trademark in certain classes in the PRC, the United Kingdom and Japan, and we have also registered two trademarks,"三月楓" (San Yue Feng) and"北美楓情" (Sino-Maple), for our wood products in the PRC.

**Employees**

As of March 31, 2009, we had 2,845 full-time employees in Canada, Hong Kong and the PRC. The following table sets forth the number and location of our employees according to category as of March 31, 2009:

| | Canada | Hong Kong | PRC | Total |
|---|---|---|---|---|
| Executives and Senior Management | 1 | 2 | 34 | 37 |
| Plantation Operation[1] | — | — | 541 | 541 |
| Personnel, Administration and IT | 1 | 10 | 331 | 342 |
| Finance, Accounting and Risk Management | 1 | 12 | 146 | 159 |
| Corporate Planning, Banking and Sales | — | 6 | 37 | 43 |
| Corporate and Organization Development | — | 16 | 91 | 107 |
| Sales and Marketing (import trading) | — | 6 | 19 | 25 |
| Research & Development and Environment | — | 4 | — | 4 |
| Manufacturing[2] | — | 8 | 1,579 | 1,587 |
| **Total** | **3** | **64** | **2,778** | **2,845** |

Notes:

(1) Plantation Operation comprises staff working in plantations, forestry projects, quality control and purchases related to plantations, forestry engineers, technicians, and foresters.

(2) Manufacturing comprises staff such as engineers, technicians, factory workers, quality control, purchase and warehouse personnel, and security guards.

We believe that our relationships with our employees are generally good. We have not experienced any significant problems with the recruitment or retention of employees, nor suffered from any material disruption of our business operations as a result of any labor dispute, strike or employee dispute.

***Employee Benefits***

We provide employee benefits, including provident fund schemes and medical insurance schemes, to our employees. We also provide corporate travel care insurance for our senior management.

Our staff in the PRC are members of a central pension scheme operated by the relevant local government. The subsidiaries in the PRC are required to contribute approximately 12% to 20% of their covered payroll to the central pension scheme to fund the retirement benefits. Adequate provision for the contribution has been made in the accounts in accordance with the rules of the central pension scheme. In addition to pension insurance, we maintain other social insurance for our staff in the PRC as implemented in the relevant regions where our PRC subsidiaries are located, including medical insurance, unemployment insurance, working injury insurance and maternity insurance.

***Pension and Other Schemes***

We started investing in a mandatory provident fund retirement scheme for our staff in Hong Kong in December 2000. Since then, we have been contributing 5% of the salaries of the staff in Hong Kong to this fund.

**Legal Proceedings and Inquiry**

From time to time we are involved in litigation arising from the ordinary course of our business. We are not currently involved, and have not recently been involved, in any legal or arbitration proceedings that we believe would be likely to have a material effect on our financial condition or results of operations.

## GOVERNMENT REGULATION

### Plantation Industry

#### Development of the Plantation Industry

The PRC government encourages the development of the plantation industry in the PRC. In June 2003, the PRC State Council promulgated The Notice on the Decision to Speed Up the Development of Plantation Industry (Zhong Fa (2003) No. 9) (中共中央國務院關於加快林業發展的決定) dated June 25, 2003. The Key Elements of the Policies in Forestry Industry (林業產業政策要點) was jointly promulgated by the State Forestry Administration, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, State Administration of Taxation, China Banking Regulatory Commission and China Securities Regulatory Commission on August 10, 2007 for implementing this notice.

The notice records the decisions of the PRC central government to pursue the following main goals:

- to develop the non-state owned plantation industry and to encourage the participation of foreign investors in the plantation industry, either solely or jointly with others;
- to strengthen plantation infrastructure in order to ensure the continued development of the economy of the PRC;
- to expedite and reform the development of the plantation industry;
- to emphasize the importance of the plantation industry in the development and preservation of the ecological environment;
- to increase forest resources and the supply of forest products;
- to promote the infrastructure development of the ecological environment;
- to further improve the system of plantation rights in respect of the plantation land and plantation trees;
- to assist in the processing of transfers, leases, mortgages and pledges and making investments in joint ventures for plantations; and
- to strengthen financial support of the development of the plantation industry by continuing to provide long-term and low interest rate credit facilities and encouraging plantation operators to raise funds from the public.

The Key Elements of the Policies in Forestry Industry describe the following main goals:

- to insist on the consistency of the foreign investment policy, *i.e.*, to favor allocation of foreign investments on areas identified in the Catalog of Foreign-invested Industry Guidance (外商投資產業指導目錄) and the Catalog of Foreign-invested Dominant Industries of the Mid-west Region (中西部地區外商投資優勢產業目錄);
- to encourage and facilitate development and use of critical technologies, equipment and products that favor the upgrade of industrial structure of forestry;
- to gradually establish the Timber Industrial Zone composed of the Southeast Coastal Area, Southern Timberland and Huang-Huai-Hai Plain;
- to encourage the development of non-public-owned forestry, eliminate institutional obstacles to such development and introduce advanced international technologies and management experiences;

- to establish a sound product quality inspection and monitoring system and help forestry corporations obtain the ISO 9000 and ISO 14000 certifications;
- to strictly follow the released tax policy and provide insurance and financial services to companies and individuals in the forestry industry;
- to establish a platform for transactions of plantation land use rights;
- to improve forest harvesting management and facilitate harvesting of artificial commercial plantations, in particular at plantations supplying industrial raw materials, and to strengthen the operators' rights to cultivate the plantations; and
- to create a favorable environment for development of the forestry industry.

On July 14, 2008, the PRC State Council promulgated the Opinions on Comprehensively Promoting the Reform of the Collectively Owned Plantation Right System (中共中央國務院關於全面推進集體林權制度改革的意見) dated June 8, 2008 in order to further liberalize and modernize the forestry industry, develop the productivity of the forestry industry, increase farmers' income and develop the ecological system in the PRC. Such opinions provide that, among others, in accordance with applicable laws and regulations, the farmers with contractual rights over the collectively owned PRC commercial plantations may, without change of the plantation usage, dispose of such rights relating to plantation operations and plantation tree ownership rights through sub-contracts, leases, transfers, mortgages, or as contributions in capital or under cooperative structures.

**Permits and Approvals Necessary for the Operation of our Plantation Business**

We are required to obtain the following permits and approvals for the operation of our tree plantation business:

- Plantation Rights Certificates in respect of the plantation land use rights and the ownership of our planted trees for our planted tree plantations;
- Plantation Rights Certificates in respect of the ownership of our purchased trees for our purchased tree plantations;
- timber logging permits; and
- timber transportation permits.

***Plantation Rights Certificates for Our Planted Tree Plantations***

The PRC Forestry Law (中華人民共和國森林法) and the Implementation Regulations of the PRC Forestry Law (中華人民共和國森林法實施條例) implement the system of plantation rights registration and issuance of certificates. Pursuant to the Implementation Regulations, all entities should apply to the forestry bureau of the local PRC government at the county level or above for plantation rights registration and the local PRC government at the county level or above is responsible for issuing the plantation rights certificates. Applicants for plantation rights must submit plantation rights registration applications to the forestry bureau at the county level or above and official certificates should be issued to the applicants whose applications have been reviewed and registered by the forestry bureau.

***Plantation Rights Certificates for Our Purchased Tree Plantations***

For our purchased tree plantations, we have applied for the relevant Plantation Rights Certificates with the relevant local forestry bureaus. As the relevant locations where we purchased our purchased tree plantations have not fully implemented the new form Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our purchased tree plantations. Instead, we obtained confirmation of our ownership of our purchased tree plantations from the relevant forestry

bureaus. Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased tree plantations.

*Timber Logging Permits and Logging Quotas*

The Implementation Regulations stipulate that for foreign invested plantation projects, the logging quota will be allocated separately by the provincial forestry department within the annual logging quota approved by the PRC State Council. The WFOEs with planted tree operations will be able to obtain the logging permits within the timber logging quota allocated by the provincial forestry departments.

The logging quota of our purchased tree plantations have been confirmed by the relevant forestry bureaus where the purchased tree plantations are located.

*Timber Transportation Permit*

Upon obtaining the timber logging permit and provision of certain supporting documents required by the local forestry bureaus, such as the quarantine certification, there should not be any legal constraints for the WFOEs to obtain timber transportation permits.

**Manufacturing**

*Engaging in the Timber Business*

The Implementation Regulations stipulate that any entity engaged in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau of the local PRC government at the county level or above. Certain PRC provinces impose further requirements for granting permission to engage in the timber business, which means that any entity engaged in the timber operations and processing business within the relevant provinces must also apply for a timber business permit from the forestry bureau of the appropriate jurisdiction.

*Regulations that Apply Nationwide*

The Implementation Regulations provide that corporations that engage in the timber business (including those processing timber) in forestry areas must obtain approval from the forestry bureau at the county level or above. Any violation of this regulation will result in confiscation of the timber and any illegal gains and payment of a fine of up to twice the amount of the illegal gain.

The Notice on the Enforcement of Management of Forest Resource Protection issued by the General Office of the PRC State Council (國務院辦公廳關於加強森林資源保護管理工作的通知), implemented on May 16, 1994, provides that entities engaging in the timber business and processing of timber in forestry areas and key forestry counties must obtain assessment and approval from the relevant forestry bureaus, then apply for registration with the relevant Administration for Industry and Commerce by obtaining a business license and complying with the business objectives as stated on the license.

The Administration of Standardization of Forestry Regulations (林業標準化管理辦法), implemented on September 1, 2003, provides that the technical requirements of forestry products, quality of timber saplings, safety, hygiene standards, testing, packaging, storing and transportation practices and inspection methods, must be standardized.

In October 2006, the PRC State Forestry Administration promulgated the Notice for Further Strengthening the Administration and Supervision of the Timber Operation and Processing (關於進一步加強木材經營加工監督管理的通知) and adopted a series of rules for the administration and supervision of the timber processing and operating business.

*Eleventh Five-Year Plan*

The Eleventh Five-Year Plan (2006-2010), implemented during the Tenth National People's Congress held in March 2006, stipulated plans to improve "three rural problems" in the agricultural sector in relation to agricultural, rural areas and farmers. Top priority will be given to solving the issues of rural poverty with an aim to narrow the poverty gap between urban and rural dwellers. The Eleventh Five-Year Plan calls for infrastructure improvement, social development in rural areas, and creation of regional markets to promote a "new socialist countryside." On the forestry front, the State Forestry Administration plans to speed up the development of fast-growing, high-yield plantation and forestry integration by creating synergy between upstream tree plantations and downstream pulp mills and manufacturing operations.

## DESCRIPTION OF OTHER INDEBTEDNESS

Our material long-term indebtedness consists of the 2004 Senior Notes, the Syndicated Term Loan and the 2008 Convertible Notes.

### 2004 Senior Notes

We entered into a trust indenture dated as of August 17, 2004 between us, Law Debenture Trust Company of New York, as trustee, and certain of our subsidiaries (the "2004 Indenture").

We are proposing to exchange the Exchange Notes for the 2004 Senior Notes. In addition, we are concurrently seeking the consent of holders of our 2004 Senior Notes to certain amendments to the 2004 Indenture (as defined below) so that, among other things, the covenants therein are not substantially more restrictive than the restrictive covenants under the Exchange Notes, including the limitation on incurrence of indebtedness and on restricted payments. See "Consent Solicitation for the 2004 Senior Notes".

#### *Outstanding 2004 Senior Notes*

As of March 31, 2009, we had US$300.0 million of 9.125% guaranteed senior notes due 2011 outstanding (the "2004 Senior Notes"). The 2004 Senior Notes were issued pursuant to the 2004 Indenture. The 2004 Senior Notes are (i) our general obligations, (ii) guaranteed by certain of our subsidiaries on a senior basis subject to certain limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2004 Senior Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) guaranteed by the pledge of the shares of certain of our subsidiaries.

#### *Maturity*

The maturity date of the 2004 Senior Notes is August 17, 2011.

#### *Interest Rate*

The 2004 Senior Notes bear interest at a rate of 9.125% per annum on their principal amount outstanding, payable by two semi-annual installments on February 17 and August 17 of each year.

#### *Guarantee*

The 2004 Senior Notes are guaranteed on a senior basis, subject to certain limitations, by certain of our subsidiaries named in the 2004 Indenture, as amended and supplemented from time to time, which are also the Subsidiary Guarantors under the Notes (as well as the Initial Non-Guarantor Subsidiaries) and the subsidiary guarantors under the Syndicated Term Loan.

#### *Security*

The 2004 Senior Notes are secured by a security interest in certain of our subsidiaries' shares, ranking *pari passu* with the security interest given by the same subsidiaries under the Syndicated Term Loan and the Exchange Notes. Our payment obligations under the 2004 Senior Notes rank *pari passu* with the claims of all our unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

#### *Covenants*

The 2004 Indenture contains financial covenants. Pursuant to one of these financial covenants, we and certain of our subsidiaries are required, subject to certain exceptions, not to incur new indebtedness

without maintaining a Fixed Charge Coverage Ratio of not less than 3.0:1 at any date on which indebtedness is incurred or a restricted payment is made (each, a "Transaction Date"). Under the 2004 Indenture, "Fixed Charge Coverage Ratio" means the ratio of (i) the aggregate amount of "Consolidated EBITDA" for the then most recent four fiscal quarters prior to such Transaction Date for which our consolidated financial statements are available (the "Four Quarter Period") to (ii) the aggregate consolidated gross interest expense of us and certain of our subsidiaries, for certain cash and non-cash dividends of us and certain of our subsidiaries, accrued or accumulated during such Four Quarter Period.

The 2004 Indenture also contains certain other covenants which include, but are not limited to:

(i) limitations on incurrence of indebtedness;

(ii) limitations on restricted payments;

(iii) limitations on payments of dividends by us and certain of our subsidiaries;

(iv) limitations on issuance of guarantees by certain of our subsidiaries;

(v) limitations on merger, consolidation and asset sales;

(vi) limitations on certain transactions with affiliates;

(vii) limitations on liens, securities or pledges;

(viii) limitations on substantial changes to the general nature of our business; and

(ix) limitations on sale-leaseback transactions.

In addition, pursuant to the 2004 Indenture, in the case of the occurrence of certain changes of control, we may commence an offer to purchase all of the 2004 Senior Notes then outstanding and failure by us to do so within 30 days of the occurrence of such changes of control is an event of default under the 2004 Indenture.

***Events of Default***

The 2004 Indenture provides for events of default customary for indentures of this type, including nonpayment of principal, interest or other amounts; violations of covenants; material adverse effect; certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; and/or failure to commence an offer to purchase the outstanding 2004 Senior Notes within 30 days of the occurrence of certain changes of control. If such events of default were to occur, our payment obligations under the 2004 Senior Notes may immediately become payable to the holders of the 2004 Senior Notes.

The 2004 Indenture also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries.

**Syndicated Term Loan**

We entered into a syndicated term loan facility agreement dated February 24, 2006 between us and a syndication including Barclays Bank PLC, Bayerische Hypo- und Vereinsbank AG, Hong Kong Branch, CITIC Ka Wah Bank Limited, Export Development Canada and Hang Seng Bank Limited.

We are currently in the process of seeking the consent of the lenders under the Syndicated Term Loan to amend certain of its terms, so that, among other things the covenants therein are not substantially more restrictive than the restrictive covenants under the Exchange Notes, including the limitation on incurrence of indebtedness and on restricted payments.

*Availability*

US$150.0 million was made available for drawing under the Syndicated Term Loan facility.

*Interest Rate*

Borrowings under the Syndicated Term Loan bear interest at LIBOR plus an applicable margin. Such margin equals 1.30% per annum, but may vary in the range of 0.80% to 1.50% per annum based on our Consolidated Total Debt to Consolidated EBITDA ratio of the most recently completed of (i) the period of 12 months ending on the last day of our financial year or (ii) the period of 12 months ending on the last day of each period of three months ending on March 31, June 30 and September 30 in each year (the "Relevant Period"). As defined in the Syndicated Term Loan, (i) "Consolidated Total Debt" means the aggregate outstanding principal, capital or notional amount, and any fixed or minimum premium payable on prepayment or redemption, of our indebtedness and any transaction of ours having the commercial effect of a borrowing, on a consolidated basis and (ii) "Consolidated EBITDA" is a measure of EBITDA that starts with our consolidated net income and the consolidated net income of certain of our subsidiaries and adjusts for interest expenses, income taxes, depreciation expense, amortization expense and certain non-cash items.

*Repayment*

25% of the principal amount of the loans to be repaid on the day falling four years and one day from the date on which the loan was drawn under this facility, and the balance outstanding, is to be repaid on the day falling five years and one day from the date on which the loan was drawn under this facility.

*Prepayments*

Loans taken under the Syndicated Term Loan facility may be prepaid at any time in whole or in part (subject to certain minimum amounts if prepaid in part) without premium or penalty. Such loans may also be prepaid by us upon the occurrence of certain changes of control and failure by us to prepay all outstanding loans within 30 days of the occurrence of such changes of control is an event of default under the Syndicated Term Loan facility.

*Guarantee*

The Syndicated Term Loan facility is guaranteed by certain of our subsidiaries, which include the Subsidiary Guarantors under the Notes (and the Initial Non-Guarantor Subsidiaries).

*Security*

The Syndicated Term Loan facility is secured by a security interest in certain of our subsidiaries' shares ranking *pari passu* with the 2004 Senior Notes. Our payment obligations under the Syndicated Term Loan facility rank *pari passu* with the claims of all our unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

*Covenants*

The Syndicated Term Loan facility contains financial covenants that require us and certain of our subsidiaries named therein to maintain:

(i) a Consolidated Total Debt to Consolidated EBITDA ratio for any Relevant Period of not more than

- 4.25:1 for any Relevant Period ending after December 31, 2007 but on or before December 31, 2008;

- 3.75.1 for any Relevant Period ending after December 31, 2008 but on or before December 31, 2009; and
- 3.50.1 for any Relevant Period ending after December 31, 2009;

(ii) our consolidated stockholders' equity and that of certain of our subsidiaries, adjusted for certain class or classes of securities being part of our capital stock (the "Consolidated Net Worth"), shall not at any time be less than US$350.0 million;

(iii) the ratio of Consolidated Total Debt to Consolidated Net Worth at the end of each Relevant Period shall not be more than 1.5:1; and

(iv) the ratio of (x) the remainder of Consolidated EBITDA less our consolidated interest income and that of certain of our subsidiaries to (y) consolidated interest expense less our consolidated interest income and that of certain of our subsidiaries for each of the Relevant Periods, shall not be less than 3.0:1.

In addition, the Syndicated Term Loan facility contains certain other covenants, including, but not limited to:

(i) limitations on incurrence of indebtedness, subject to exceptions;

(ii) limitations on restricted payments;

(iii) limitations on payments of dividends by us and certain of our subsidiaries;

(iv) limitations on merger, consolidation and asset sales;

(v) limitations on investments;

(vi) limitations on liens, securities or pledges; and

(vii) limitations on substantial changes to the general nature of our business.

***Events of Default***

The Syndicated Term Loan facility provides for events of default customary for facilities of this type, including nonpayment of principal, interest or other amounts; misrepresentations; violations of covenants, certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; failure to prepay outstanding loans upon the occurrence of certain changes of control. If such events of default were to occur, our payment obligations under the Syndicated Term Loan facility may immediately become payable to the lenders.

The Syndicated Term Loan facility also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries, including under the 2004 Senior Notes.

**2008 Convertible Notes**

We entered into a trust indenture dated as of July 23, 2008 between us, The Bank of New York Mellon, as trustee, and certain of our subsidiaries (the "2008 Indenture").

***Outstanding 2008 Convertible Notes***

As of March 31, 2009, we had US$345.0 million of 5.0% convertible senior notes due 2013 outstanding (the "2008 Convertible Notes"). The 2008 Convertible Notes were issued pursuant to the 2008 Indenture. The 2008 Convertible Notes are (i) our general senior unsubordinated obligations, (ii) guaranteed by the same subsidiaries as comprise the Subsidiary Guarantors for the 2004 Senior Notes, except for certain of these subsidiaries (the "Initial Non-Guarantor Subsidiaries"), on a senior basis subject to certain

limitations, (iii) senior in right of payment to any of our existing and future obligations which are expressly subordinated in right of payment to the holders of the 2008 Convertible Notes, (iv) at least *pari passu* in right of payment with all other of our unsecured, unsubordinated indebtedness subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law and (v) effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries.

***Maturity***

The maturity date of the 2008 Convertible Notes is August 1, 2013.

***Interest Rate***

The 2008 Convertible Notes bear interest at a rate of 5.0% per annum on their principal amount outstanding, payable by two semi-annual installments on February 1 and August 1 of each year.

***Guarantee***

The 2008 Convertible Notes are guaranteed on a senior basis, subject to certain limitations, by certain of our subsidiaries named in the 2008 Indenture, as amended and supplemented from time to time, which are also the Subsidiary Guarantors under the Notes and the subsidiary guarantors under the Syndicated Term Loan, except for Sino-Capital Inc. (BVI), Dynamic Profit Holdings Limited (BVI), Sino-Forest Investments Limited (BVI), Grandeur Winway Limited (BVI), Sinowood Limited (Cayman Islands), Sino-Wood (Fujian) Limited (H.K.), Sino-Panel (North Sea) Limited (BVI) and Sino-Panel (Huaihua) Limited.

***Conversion***

The 2008 Convertible Notes may be converted at the option of the holder into our common shares, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per US$1,000 principal amount of 2008 Convertible Notes (the conversion rate as at the date hereof remains the same as the initial conversion rate). If the entire US$345.0 million principal amount was converted, it would result in the issuance of 17,007,603 common shares at the initial conversion price.

***Covenants***

The 2008 Indenture contains a limited number of covenants. Pursuant to one of these financial covenants, issuance of guarantees by certain of our subsidiaries is limited and merger, consolidation transactions and sales of assets also have to comply with certain requirements.

In addition, pursuant to the 2008 Indenture, in the case of the occurrence of certain changes of control or other Fundamental Changes (as defined in the 2008 Indenture), we are required to commence an offer to purchase all of the 2008 Convertible Notes then outstanding and failure by us to do so not less than 30 days nor more than 45 days from notice of such change of control of Fundamental Change has been given to holders of the 2008 Convertible Notes (as set forth in the 2008 Indenture) is an event of default under the 2008 Indenture.

***Events of Default***

The 2008 Indenture provides for events of default customary for indentures of this type, including nonpayment of principal, interest or other amounts; violations of covenants, failure to deliver common shares upon conversion; material adverse effect; certain events of bankruptcy or insolvency; certain judgments; invalidity of any loans or security documents; and/or failure to commence an offer to purchase the outstanding 2008 Convertible Notes. If such events of default were to occur, our payment obligations under the 2008 Convertible Notes may immediately become payable to the holders of the 2008 Convertible Notes.

The 2008 Indenture also contains provisions for cross acceleration and cross payment defaults relating to any of our other debt obligations and the debt obligations of certain of our subsidiaries.

## MANAGEMENT

### Directors and Executive Officers

The management of our business and affairs is supervised by our board of directors. Our board of directors has six members, including five independent directors. They were elected at the meeting of shareholders held on May 25, 2009. Our directors are elected to serve from the beginning of their respective terms until the close of the next annual meeting of shareholders or until such director's successor is duly elected or appointed.

The following table sets forth information regarding our current directors and executive officers. Unless otherwise indicated, their business address is c/o Sino-Forest Corporation, 3815-29, 38th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong Special Administrative Region, China.

| Name and Residence | Position | Age |
|---|---|---|
| **Board of Directors** | | |
| Allen T.Y. Chan<br>Hong Kong | Chairman and Director | 57 |
| James M.E. Hyde[(1),(2),(3),(4)]<br>Ontario, Canada | Director | 54 |
| Edmund Mak[(1),(3),(4)]<br>British Columbia, Canada | Director | 61 |
| Judson Martin[(1),(2),(3),(4)]<br>Ontario, Canada | Director | 53 |
| Simon Murray[(2),(4)]<br>Hong Kong | Director | 69 |
| Peter D.H. Wang[(4)]<br>Hong Kong | Director | 57 |
| **Executive Officers** | | |
| Allen T.Y. Chan<br>Hong Kong | Chief Executive Officer | 57 |
| David J. Horsley<br>Ontario, Canada | Senior Vice President and Chief Financial Officer | 49 |
| George Ho<br>Hong Kong | Vice President, Finance, China; Vice President, Finance & CFO, Sino Panel (Asia) Inc. | 48 |
| Chen Hua<br>PRC | Senior Vice President, China Operations and Finance | 47 |
| Alfred Hung<br>Hong Kong | Vice President, Corporate Planning and Banking | 42 |
| Albert Ip<br>Hong Kong | Senior Vice President, Development and Operations, North East and South West China | 49 |
| Richard M. Kimel<br>Ontario, Canada | Corporate Secretary | 42 |
| Thomas M. Maradin<br>Ontario, Canada | Vice President, Risk Management | 48 |

| Name and Residence | Position | Age |
|---|---|---|
| Zhao Wei Mao<br>PRC | Senior Vice President, China Plantation | 51 |
| Xu Ni<br>Hong Kong | Vice President, Legal Affairs | 39 |
| Kai Kit Poon<br>Hong Kong | President | 69 |

Notes:

(1) Member of the Audit Committee.

(2) Member of the Compensation and Nominating Committee.

(3) Member of the Corporate Governance Committee.

(4) Independent Director.

A description of the business experience and present position of each director and executive officer is provided below (in alphabetical order).

***Allen T.Y. Chan*** co-founded our Company in 1992 and has been the Chairman, Chief Executive Officer and a director of our Company since 1994. Mr. Chan is responsible for our overall strategic planning and management. Mr. Chan is a recognized leader in the field of sustainable development. Prior to co-funding our Company, he worked for 12 years as a management consultant and project manager in China. He has also worked for the Hong Kong government in new town development and management programs. He spearheaded the Sustainable Development Leadership Program jointly organized by the School of Forestry and Environmental Studies at Yale University and the Nanjing Forestry University in the PRC. Mr. Chan, under the name of "管仲連," is well known as a writer on culture, history and business issues and has published books in Hong Kong and the PRC. He regularly speaks at Hong Kong and Chinese universities. He graduated from the Sociology Department at the Hong Kong Baptist College (currently the Hong Kong Baptist University) in 1979.

***George Ho*** is currently the Vice President, Finance, China of our Company and the Vice President, Finance and CFO of Sino Panel (Asia), Inc. Prior to joining our Company in October 2007, Mr. Ho was a Senior Manager in BDO McCabe Lo Limited, Certified Public Accountants, an international accounting and audit firm from October 2006 to October 2007. Mr. Ho also served as the Chief Financial Officer, China Operations of a NASDAQ listed merchant bank from January 2004 until September 2006, managing a portfolio of investments in the PRC including joint ventures with PRC hospitals, wind energy development, commodities trading and various merger and acquisition activities, including a potential merger with a major State-owned equipment manufacturing enterprise. Before January 2004, Mr. Ho spent 10 years providing professional services in a Canadian accounting and audit firm and most recently served in the capacity as a principal. The firm is involved in the audit of publicly listed companies on the TSX and TSX Venture Exchange as well as those listed on NASDAQ and quoted on the OTC board.

***David J. Horsley*** is currently the Senior Vice President and Chief Financial Officer of our Company. Prior to joining our Company in 2005, Mr. Horsley was Senior Vice President and Chief Financial Officer of Cygnal Technologies Corporation, a TSX-listed company. Prior to joining Cygnal Technologies Corporation in September 2003, Mr. Horsley spent an 11-year career with Canadian General Capital Limited, a private equity investment vehicle owned by two major Canadian pension funds, where, most recently, he served as Senior Vice President and Corporate Secretary.

***Chen Hua*** is currently the Senior Vice President, China Operations and Finance, of our Company. Prior to joining our Company in 2002, Ms. Chen was board chair of Suzhou New-Development Area Economic Development Group. Ms. Chen has been part of the management of several large corporations.

*Alfred Hung* is currently the Vice President, Corporate Planning, Banking and Sales, of our Company. Prior to joining our Company in 1999, Mr. Hung was involved in investment research and management operations for several international firms.

*James M.E. Hyde* has been a director of our Company since 2004. From December 2006 to November 2008, Mr. Hyde was the Executive Vice President and Chief Financial Officer of Resolve Business Outsourcing Income Fund. Prior to joining our Board of Directors, Mr. Hyde was the Vice President, Finance and Chief Financial Officer of GSW Inc., a manufacturer and distributor of consumer durable products, from October 2002 until April 2006 when GSW Inc. was acquired by A.O. Smith Corporation. From April to December 2006, Mr. Hyde was a Consultant to A.O. Smith Corporation. Before October 2002, Mr. Hyde was with Ernst & Young LLP (an accounting and auditing firm) for 24 years, including 12 years as a Partner.

*Albert Ip* is currently the Senior Vice President, Project, Hong Kong, of our Company. Prior to joining our Company in 1997, Mr. Ip was involved in the marketing, production management, project management and corporate business development and operations in the garment, electronics and wood-related industries for several corporations.

*Richard Kimel* is currently our Corporate Secretary. Mr. Kimel is also a partner of Aird & Berlis LLP, Barristers and Solicitors, and a member of its Corporate/Commercial and Corporate Finance Groups and Mergers & Acquisitions and Venture Capital Teams. He is also the leader of the firm's Biotech/Life Sciences Team. Mr. Kimel practices in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, mergers and acquisitions and ongoing general corporate and commercial activities. Mr. Kimel also acts as corporate counsel for numerous companies listed on the TSX and the TSX Venture Exchange.

*Edmund Mak* has been a director of our Company since 1994. Mr. Mak has 30 years of business and management experience with several multinational corporations in North America and Hong Kong in a variety of industries: real estate, computer and high technology equipment, transportation, construction, oil and gas, textile and trade in the PRC. He is currently an associate broker of Royal Pacific Realty Corporation in Vancouver. He is a graduate of the University of Toronto with an M.B.A. degree.

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

*Judson Martin* has been a director of our Company since 2006. Prior to joining our board of directors, Mr. Martin was Senior Executive Vice President and Chief Financial Officer of Alliance Atlantis Communications Inc. ("Alliance Atlantis") from March 2003 to June 2005 and was Executive Vice President and Chief Financial Officer from May 1999 to November 2002. Mr. Martin was a member of the Board of Directors of Motion Picture Distribution Inc. and an Executive Officer of Movie Distribution Income Fund and Movie Distribution Holding Trust, controlled subsidiaries of Alliance Atlantis, since their launch in October 2003 until June 2005, and also served as Chief Financial Officer until September 2004. From November 2002 until January 2003, Mr. Martin was President and Chief Executive Officer of TGS North American REIT. From July 1995 to September 1997, Mr. Martin was Senior Executive Vice-President and Chief Financial Officer and a Director of MDC Communications Corporation. From October 1982 to July 1995, Mr. Martin was employed by certain subsidiaries of Brascan Corporation, including Trizec Corporation Ltd. as Vice President and Treasurer, Brookfield Development Corporation as Executive Vice President and Chief Financial Officer and Trilon Securities Corporation as President and Chief Executive Officer. Mr. Martin is also a trustee of Somerset Entertainment Income Fund and serves

on its audit committee, and also as Chair of its compensation, nominating and corporate governance committee.

***Simon Murray, CBE*** has been a director of our Company since 1999. Mr. Murray is a co-founder and shareholder of Distacom International Limited. He was the executive chairman in Asia Pacific of the Deutsche Bank group until early 1998, when he established his own business. He is the chairman of General Enterprise Management Services (GEMS), a private equity fund management company sponsored by Simon Murray and Associates. He is also a director of a number of public companies including Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited, Arnold Holdings Limited, USI Holdings Limited, Compagnie Financière Richemont SA, and Vodafone Group Plc. Mr. Murray is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association. In 1994, Mr. Murray was awarded the CBE by Her Majesty Queen Elizabeth II for his contributions to the Hong Kong community.

***Kai Kit Poon*** has been the President of our Company since 1994. Mr. Poon was also a director of our Company from 1994 to May 2009. Mr. Poon is responsible for liaising and coordinating with various PRC provincial government authorities for us. Mr. Poon has more than 20 years of experience in the forestry industry. He is one of our founders and joined us in January 1994.

***Peter D.H. Wang*** has been a director of our Company since 2007. Mr. Wang also serves as Senior Commercial Consultant of Zijin Copper, a subsidiary of Zijin Mining Group, a Hong Kong listed company, and China Far East International Trading Company, one of the PRC's top five import and export companies. Mr. Wang has over 30 years' experience in Sino-foreign projects and business affairs, predominantly related to the petrochemical and mining industries, as well as wood-based panel industries. He was involved in a number of pioneering projects when the PRC first opened up its foreign markets in the late 1970s. He was a member of the Formulation Committee of Chinese-Foreign Contract, Guangdong Province and was also a member of the delegation team travelling with the PRC Premier Wen Jiabao to India in 2005 to execute contracts and projects related to highway and power stations, and to expand Sino-Indian bilateral trade and economic cooperative ties.

***Wei Mao Zhao*** is currently the Senior Vice President, China Plantation, of our Company. Prior to joining our Company in 2002, Mr. Zhao was General Manager of Everbright Group Corp., where he received extensive experience in wood product manufacturing and knowledge of international wood material markets.

***Xu Ni*** is currently the Vice President, Legal Affairs, of our Company. Prior to joining our Company, Ms. Xu was involved in PRC legal advising in connection with investments in the PRC market and worked for several international law firms based in Singapore.

**Directors' Interests**

The directors' total direct and indirect holdings of our common shares as of June 16, 2009 are as follows:

| Name | Number of Common Shares Owned | Percentage of Common Shares Owned[1] |
|---|---|---|
| | | (%) |
| Allen T.Y. Chan | 6,012,753 | 2.7% |
| Edmund Mak | 50,000 | 0.02% |
| Simon Murray | 152,686 | 0.07% |
| James M.E. Hyde | 10,000 | — |
| Judson Martin | 10,000 | — |
| Peter Wang | Nil | — |

Note:

(1) On a non-diluted basis.

**Board Committees**

Our Board of Directors currently has three committees: the Audit Committee, the Corporate Governance Committee, and the Compensation and Nominating Committee. The committees, their mandates and memberships are discussed below. We also maintain a Disclosure Committee made up of senior management.

***Audit Committee***

The Audit Committee's primary purpose is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting and accounting compliance, the audit process, and processes for identifying, evaluating and monitoring the management of our principal risks impacting financial reporting. The committee also assists the Board of Directors with the oversight of financial strategies and overall risk management.

The Audit Committee is composed of Mr. James M.E. Hyde (Chairman), Mr. Edmund Mak and Mr. Judson Martin, each of whom is one of our directors. Each of the members of the Audit Committee is "independent" and "financially literate" as such terms are defined in National Instrument 52-110—Audit Committees.

A copy of the charter of the Audit Committee is attached as an appendix to the Annual Information Form of the Corporation for the year ended December 31, 2008, a copy of which is available electronically at www.sedar.com (the official site providing access to most public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators in the SEDAR filing system). The section of the Annual Information Form entitled "Audit Committee" contains disclosure required by National Instrument 52-110—Audit Committees.

***Corporate Governance Committee***

The role of the Corporate Governance Committee is to develop and recommend standards of performance for the Board of Directors, its committees and individual directors. The Corporate Governance Committee is composed of Mr. James M.E. Hyde (Chairman), Mr. Edmund Mak and Mr. Judson Martin.

*Compensation and Nominating Committee*

The Compensation and Nominating Committee meets on compensation matters as and when required with respect to executive compensation. The primary goal of the Compensation and Nominating Committee as it relates to compensation matters is to ensure that the compensation provided to our executive officers is determined with regard to our business strategies and objectives, such that the financial interest of the executive officers is aligned with the financial interest of shareholders, and to ensure that their compensation is fair and reasonable and sufficient to attract and retain qualified and experienced executives. Our Board of Directors (exclusive of our officers who are also members of the Board of Directors) reviews such recommendations and is responsible for ultimately determining executive compensation.

The Compensation and Nominating Committee is also responsible for coordinating and managing the process of recruiting, interviewing, and recommending candidates to the Board of Directors. This committee has a formal written charter which outlines the committee's responsibilities, requisite qualifications for new directors, the appointment and removal of directors and the reporting obligations to the Board of Directors. In addition, the Compensation and Nominating Committee is given the authority to engage and compensate any outside advisor that it determines to be necessary to carry out its duties.

The Compensation and Nominating Committee is composed of Mr. Judson Martin (Chairman), Mr. James M.E. Hyde and Mr. Simon Murray, all of whom are considered "independent."

*Disclosure Committee*

A Disclosure Committee has been established to assist our executive officers in fulfilling their responsibility for oversight of the completeness, accuracy and timeliness of the disclosures made by us. The current members of the committee are the Vice President, Risk Management; the Vice President, Corporate Planning and Banking; the Senior Manager—Investor Communication & Relations; the Vice President, Finance, China and Vice President, Finance and CFO, Sino-Panel (Asia) Inc.; the Vice President—Legal Affairs PRC; the Senior Manager—Legal Affairs; the Manager Company Secretary and Compliance; and the Assistant Vice President, Finance (Hong Kong).

The Disclosure Committee is responsible for (i) timely disclosure in accordance with applicable regulatory requirements, (ii) determining whether information is material, (iii) designing and establishing controls and other procedures to ensure information required is recorded, processed, summarized and reported to management including the senior officers, (iv) monitoring compliance with the disclosure policy, (v) reviewing in advance all financial and other information to be posted on our website, (vi) educating directors, officers and certain employees about disclosure issues and disclosure policy, (vii) evaluating the effectiveness of the controls and (viii) reviewing and supervising the preparation of our public representations.

**Compensation**

In the year ended December 31, 2008, the aggregate compensation that we paid to our five highest paid officers (i.e., our Chairman and Chief Executive Officer, our President, our Senior Vice-President and Chief Financial Officer, our Vice President, Risk Management and our Senior Vice President, Development and Operations, North East and South West China) and directors in such capacity was US$8.3 million. In the year ended December 31, 2008, such officers were not granted any stock options. The aggregate value of unexercised in-the-money options held by such officers was valued at Cdn.$10.03 million (or approximately US$8.2 million, based on an exchange rate of Cdn.$1.2240:US$1.00, being the applicable exchange rate for December 31, 2008) as at December 31, 2008, based on the difference between the closing price of Cdn.$9.87 for our common shares on the TSX on December 31, 2008 and the exercise price of such options, multiplied by the number of unexercised options held by each such officers.

In addition, the total retainer and meeting fees paid during the year ended December 31, 2008 to our directors for attending Board and Committee meetings are as follows:

| Name | Fees (annual) (Cdn.$) |
|---|---|
| Peter Wang | 29,000 |
| Edmund Mak | 52,292 |
| Simon Murray | 27,000 |
| Judson Martin | 107,000 |
| James M.E. Hyde | 57,000 |

**Corporate Governance Initiatives**

Maintaining a high standard of corporate governance is a top priority for our Board of Directors and our management, as both believe that effective corporate governance will help create and maintain shareholder value in the long term. Our Board of Directors has carefully considered our corporate governance practices against best practices and against the applicable corporate governance guidelines.

**Employment Agreements**

We entered into an employment agreement with David J. Horsley as of October 10, 2005. The agreement provides that Mr. Horsley is to be employed by us for an indefinite period unless terminated by us or Mr. Horsley earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of US$350,000 (which amount is subject to annual review by the Board of Directors) and a monthly car allowance. Mr. Horsley is entitled to participate in our bonus plan for executives as determined on an annual basis. In the event of a termination of employment without cause, Mr. Horsley is entitled to a lump sum equal to his then current annual base salary plus an amount equal to the bonus, if any, paid to Mr. Horsley by us with respect to the prior fiscal year. In the event of a termination without cause within 180 days of a "Change in Control" (as such term is defined in the agreement), Mr. Horsley is entitled to payment of a lump sum equal to two times the severance entitlement described above. He may terminate his employment on three months' prior notice.

We entered into an employment agreement with Thomas M. Maradin dated September 1, 2005, as amended. The agreement provides that Mr. Maradin is to be employed by us for an indefinite period unless terminated by us or Mr. Maradin earlier in accordance with the terms of the agreement. The agreement provides for a base annual salary of US$225,000. Mr. Maradin is also entitled to participate in our employee bonus plan as determined on an annual basis. In the event that Mr. Maradin's employment is terminated without just cause or without reasonable or any notice, he shall be paid an amount equal to the sum of his salary and his bonus (if any) paid in the calendar year immediately preceding the year of such termination.

Albert Ip entered into an employment agreement with Sino-Wood Partners, Limited, one of our subsidiaries, dated July 15, 1997. The agreement provides that one month's prior notice is required by either party in order to terminate Mr. Ip's employment. Mr. Ip's employment was transferred to one of our other subsidiaries, Sino-Panel (Asia) Inc., on December 1, 1999. His employment terms and conditions remained unchanged.

Except as described under "Consulting Agreements" below, no other executive officer or director is a party to a contract providing for benefits upon termination of employment.

**Consulting Agreements**

Allen Chan, our Chairman and Chief Executive Office is a director of Win Fair Holdings Group Limited. Pursuant to the terms of a consulting agreement between one of our subsidiaries and Win Fair

Holdings Group Limited, we may terminate this consulting agreement upon 12-months' prior notice or upon payment of the applicable monthly fees (HK$250,000 per month for the year ended December 31, 2008) for the 12 months following the effective date of written notice. Win Fair Holdings Group Limited may terminate this consulting agreement upon six-months' prior notice.

Kai Kit Poon, our President, is a director of Telstar Enterprises Limited. Pursuant to the terms of a consulting agreement between one of our subsidiaries and Telstar Enterprises Limited, we may terminate this consulting agreement upon 12-months' prior notice or upon payment of the applicable monthly fees (HK$145,000 per month for the year ended December 31, 2008) for the 12 months following the effective date of written notice. Telstar Enterprises Limited may terminate this consultancy agreement upon six-months' prior notice.

For further details on these consulting agreements, see "Related Party Transactions".

**Stock Options**

***Incentive Stock Option Plan***

We have adopted, and currently maintain, an incentive stock option plan (the "Plan") in order to provide effective incentives to our directors, officers, employees and consultants and to enable us to attract and retain experienced and qualified individuals in those positions by permitting such individuals to directly participate in an increase in per share value created for our shareholders. Options under the Plan are typically granted in such numbers as reflect the level of responsibility of the particular optionee and his or her contribution to our business and activities.

The maximum number of common shares issuable pursuant to exercises of options granted under the Plan is 10,000,000. As of June 15, 2009, 4,118,626 common shares, being approximately 1.87% of the currently issued and outstanding number of common shares, were issuable pursuant to unexercised options granted to such date under the Plan and options to purchase a further 1,007,041 common shares, being 0.46% of the currently issued common shares, remained available for grant under the Plan as of such date. During the year ended December 31, 2008 and the three-month period ended March 31, 2009, options to acquire 75,000 and 654,618 common shares, respectively, were granted to officers at exercise prices ranging from Cdn$8.01 to Cdn.$17.70.

## PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the direct and indirect, legal and beneficial ownership and control of our common shares, taking into account the aggregate number of common shares underlying our outstanding options, as of June 15, 2009, by: (i) our directors and executive officers and (ii) each person known by us to own beneficially 10% or more of our common shares. As of June 15, 2009, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control over, 6,422,944 common shares, representing approximately 2.9% of the issued and outstanding common shares.

| Shareholder | Number of Common Shares Owned | Percentage of Common Shares Owned |
|---|---|---|
| | | (%) |
| **Directors and Executive Officers:** | | |
| Allen T.Y. Chan | 6,012,753 | 2.7 |
| Kai Kit Poon | 177,505 | 0.08 |
| Simon Murray | 152,686 | 0.07 |
| Edmund Mak | 50,000 | 0.02 |
| James M.E. Hyde | 10,000 | — |
| Judson Martin | 10,000 | — |
| David J. Horsley | 10,000 | — |
| **Principal Shareholders:** | | |
| Paulson & Co. Inc. | 24,929,000[1] | 11.32 |
| Davis Selected Advisors, L.P. | 30,910,590[1] | 14.03 |

Note:

(1) The above shareholdings are based upon information available on the public record.

## RELATED PARTY TRANSACTIONS

We enter into certain transactions and agreements with our directors and officers.

### Consultancy Fees

The fees related to consulting services provided by our Chairman and Chief Executive Officer and our President to us were determined pursuant to agreements entered into between us and companies controlled by such persons. These consultancy fees for the three-month period ended March 31, 2009 amounted to an aggregate of US$153,000. In 2006, 2007 and 2008, we incurred US$4.1 million, US$4.6 million and US$6.0 million, respectively, in consultancy fees to companies controlled by these persons. These arrangements are reviewed annually by the Compensation and Nominating Committee.

We had other payables and accruals of US$4.0 million, US$4.9 million and US$4.9 million owed to the companies controlled by these persons in 2007, 2008 and the three-month period ended March 31, 2009. For further details on these consulting agreements, see "Management—Consulting Agreements".

In addition, among the vendors of the Omnicorp ordinary shares and convertible bonds we purchased in February 2009 were Mr. Murray (one of our directors) and an entity controlled by him, the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction (or approximately US$1.2 million). See "Business—Other Tree Plantation Contractual Arrangements".

## THE EXCHANGE OFFER

### Purpose of the Exchange Offer

The objective of the Exchange Offer is to extend the maturity profile of our long-term debt by exchanging our existing 2004 Senior Notes, which mature in 2011, for the Exchange Notes which have a maturity date of 2014, as well as to relax the restrictive covenants to which we are subject.

### Eligibility to Participate in the Exchange Offer

We will conduct the Exchange Offer in compliance with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations of the SEC thereunder. We have not registered the Exchange Offer or the issuance of the Exchange Notes under the Securities Act or any other securities laws. We distributed to holders of 2004 Senior Notes a letter explaining that we propose a transaction with such holders and requesting confirmation whether a holder is a QIB, or a person who is not a U.S. person and is acquiring the Exchange Notes in compliance with Regulation S. The letter included an eligibility certification that holders were asked to complete and return. **Only holders of 2004 Senior Notes who have completed and returned the eligibility certification, whom we refer to as "eligible holders," are authorized to receive or review this Memorandum and to participate in the Exchange Offer.**

### Terms of the Exchange Offer

We are offering to eligible holders, upon the terms and subject to the conditions set forth in this Memorandum and the accompanying Tender and Letter of Transmittal, to exchange 2004 Senior Notes for the same principal amount of newly issued 10.25% Guaranteed Senior Notes due 2014, which offer we refer to as the "Exchange Offer." The Exchange Notes will be issued in minimum denominations of US$2,000 and integral multiples of US$1,000 in excess thereof. If, under the terms of the Exchange Offer, any tendering eligible holder is entitled to receive the Exchange Notes in a principal amount that is less than US$2,000 or not an integral multiple of US$1,000 in excess of US$2,000, we will pay cash in lieu of the Exchange Notes or round downward the amount of the Exchange Notes to the nearest integral multiple of US$1,000 and pay the difference in cash, respectively.

If the conditions under "—Conditions to the Exchange Offer" are satisfied or waived by us and the Exchange Offer is consummated, 2004 Senior Notes that are not tendered will remain outstanding.

*Determination of Total Exchange Consideration and Partial Exchange Consideration*

Subject to the terms and conditions set forth in this Memorandum and the accompanying Tender and Letter of Transmittal:

- Eligible holders who validly tender 2004 Senior Notes in the Exchange Offer on or prior to the Early Tender Deadline will receive the Total Exchange Consideration, which means for each US$1,000 principal amount of 2004 Senior Notes tendered and accepted:
  - US$1,000 principal amount of the Exchange Notes, plus
  - the Early Tender Payment;
- Eligible holders who validly tender 2004 Senior Notes in the Exchange Offer after the Early Tender Deadline, but prior to the Expiration Date, will receive the Partial Exchange Consideration, which means for each US$1,000 principal amount of 2004 Senior Notes tendered and accepted:
  - US$1,000 principal amount of the Exchange Notes

In addition, each eligible holder whose 2004 Senior Notes are accepted for exchange will receive a cash payment representing interest that has accrued from the most recent interest payment date of 2004 Senior Notes to, but not including, the Settlement Date.

*The Exchange Notes*

Each Exchange Note issued in exchange for 2004 Senior Notes in the Exchange Offer will have the same interest payment dates as the corresponding 2004 Senior Note but will bear a new interest rate and become due on the new maturity date. The Exchange Notes will accrue interest from the Settlement Date of the Exchange Offer.

**Conditions to the Exchange Offer**

Notwithstanding any other provision of the Exchange Offer, (i) we will not be obligated to accept for exchange any validly tendered 2004 Senior Notes, (ii) we will not be obligated to issue any of the Exchange Notes in exchange for validly tendered 2004 Senior Notes or to complete the Exchange Offer, and (iii) the Subsidiary Guarantors will not be obligated to issue any guarantees of any of the Exchange Notes, unless the following statements are true:

(a) in our reasonable judgment, no action, proceeding or investigation (whether formal or informal) or event has occurred, been proposed, is threatened (including a default under an agreement, indenture or other instrument or obligation to which we or one of our affiliates is a party or by which we or one of our affiliates is bound), or is pending and no statute, rule, regulation, judgment, order, stay, decree or injunction has been sought, proposed, introduced, promulgated, enacted, entered, enforced or deemed applicable to the Exchange Offer by or before any government, court or governmental, regulatory or administrative agency, authority, commission or tribunal, domestic or foreign, which either:

- challenges the Exchange Offer or might, directly or indirectly, prohibit, prevent, restrict or delay consummation of, or might otherwise adversely affect in any material manner, the Exchange Offer or assess or seek any damages as a result thereof, or
- in our reasonable judgment, could materially affect the business, condition (financial or otherwise), income, operations, properties, assets, liabilities or prospects of the Company and its subsidiaries, taken as a whole, or materially impair the contemplated benefits to the Company of the Exchange Offer or might be material to holders of 2004 Senior Notes in deciding whether to accept the Exchange Offer;

(b) none of the following having occurred:

- any general suspension of or general limitation on prices for, or trading in, securities on any United States, Canadian or Hong Kong national securities exchange or in the over-the-counter market (whether or not mandatory),
- any material adverse change in the prices of 2004 Senior Notes,
- a material impairment in the general trading market for debt securities,
- a declaration of a banking moratorium or any suspension of payments in respect of banks by federal or state authorities in the United States, Canada or Hong Kong (whether or not mandatory),
- a commencement or escalation of a war, armed hostilities, terrorist act or other national or international crisis directly or indirectly relating to the United States, Canada, China or Hong Kong,
- any limitation by any governmental authority or agency on, or other event having a reasonable likelihood of affecting, the extension of credit by banks or other lending institutions in the United States, Canada or Hong Kong (whether or not mandatory),
- any material adverse change in United States, Canadian or Hong Kong securities or financial markets generally, or

- in the case of any of the foregoing existing at the time of the commencement of the Exchange Offer, a material acceleration or worsening thereof; and

(c) the Trustee has not objected in any respect to, or taken any action that could in our reasonable judgment adversely affect the consummation of the Exchange Offer, nor has the Trustee taken any action that challenges the validity or effectiveness of the procedures used by us in conducting the Exchange Offer.

The conditions described above are solely for our benefit and may be asserted only by us regardless of the circumstances giving rise to any such condition, including any action or inaction by us, and may be waived by us in whole or in part, at any time and from time to time before the Expiration Date. If any of the foregoing conditions have not been met, we may (but will not be obligated to), at any time before the Expiration Date, subject to applicable law, (a) terminate the Exchange Offer, (b) extend the Exchange Offer, on the same or amended terms, and thereby delay acceptance for exchange of any tendered and not withdrawn 2004 Senior Notes, or (c) waive the unsatisfied condition or conditions with respect to the Exchange Offer.

Subject to applicable law, we expressly reserve the right, in our sole discretion, to terminate the Exchange Offer at any time. If we terminate the Exchange Offer, all of 2004 Senior Notes theretofore tendered pursuant to any such terminated Exchange Offer and not accepted for exchange will be returned promptly to the tendering eligible holders thereof. See "—Withdrawal of Tenders" below.

**Early Tender Deadline; Expiration Date; Extensions; Amendments**

The term "Early Tender Deadline" means 5:00 p.m., New York City time, on July 8, 2009, unless extended by us, in which case the Early Tender Deadline shall be such date and time to which the Early Tender Deadline is extended. The "Expiration Date" means 11:59 p.m., New York City time, on July 22, 2009, unless extended by us, in which case the Expiration Date shall be such date and time to which the Expiration Date is extended. We, in our sole discretion, may extend the Early Tender Deadline or the Expiration Date for any purpose, including in order to permit the satisfaction or waiver of any or all conditions to the Exchange Offer. To extend the Early Tender Deadline or Expiration Date, we will notify the Exchange Agent and will make a public announcement thereof before 9:00 a.m., New York City time, on the next business day after the previously scheduled Early Tender Deadline or Expiration Date, as applicable. Such announcement will state that we are extending the Early Tender Deadline or the Expiration Date, as the case may be, for a specified period or on a daily basis.

We expressly reserve the right, subject to applicable law, to:

- delay accepting any 2004 Senior Notes, extend the Exchange Offer or terminate the Exchange Offer and not accept any 2004 Senior Notes for exchange; and
- amend, supplement, modify or waive at any time, or from time to time, the terms of the Exchange Offer in any respect, including waiver of any conditions to consummation of the Exchange Offer.

If we exercise any such right, we will give written notice thereof to the Exchange Agent and will make a public announcement thereof as promptly as practicable. Without limiting the manner in which we may choose to make a public announcement of any extension, amendment or termination of the Exchange Offer, we will not be obligated to publish, advertise or otherwise communicate any such public announcement, other than by making a timely press release to Business Wire or the Dow Jones News Service.

The minimum period during which the Exchange Offer will remain open following material changes in the terms of such Exchange Offer or in the information concerning such Exchange Offer will depend upon the facts and circumstances of such change, including the relative materiality of the changes. With respect to a change in consideration offered, percentage of 2004 Senior Notes sought or the Dealer Managers' soliciting fees, the Exchange Offer will remain open for a minimum ten business day period following such

change to allow for adequate dissemination of such change in accordance with Rule 14e-1 under the Exchange Act. If the terms of the Exchange Offer are amended in a manner determined by us to constitute a material change, we will promptly disclose any such amendment in a manner reasonably calculated to inform eligible holders of such amendment, and we will extend the Exchange Offer for a time period in accordance with applicable law, depending upon the significance of the amendment and the manner of disclosure to eligible holders, if the Exchange Offer would otherwise expire during such time period.

**Procedures for Tendering**

The following summarizes the procedures to be followed by all eligible holders for tendering their 2004 Senior Notes. For an eligible holder to validly tender 2004 Senior Notes pursuant to the Exchange Offer, a properly completed and duly executed Tender and Letter of Transmittal (or a manually executed facsimile thereof), with any required signature guarantee, or in the case of a book-entry transfer an Agent's Message (as defined below) in lieu of the Tender and Letter of Transmittal, and any other required documents, must be received by the Exchange Agent at its address set forth on the back cover of this Memorandum before the Early Tender Deadline (for such holder to be eligible to receive the Early Tender Payment) or the Expiration Date, as applicable. In addition, before the Early Tender Deadline (for such holder to be eligible to receive the Early Tender Payment) or the Expiration Date, as applicable, either (a) such holder's 2004 Senior Notes must be transferred pursuant to the procedures for book-entry transfer described below and a confirmation of such tender must be received by the Exchange Agent, including an Agent's Message if the tendering holder has not delivered a Tender and Letter of Transmittal, or (b) certificates for tendered 2004 Senior Notes must be received by the Exchange Agent at such address. To tender 2004 Senior Notes that are held through DTC, DTC participants should transmit their acceptance through DTC's ATOP, and DTC will then verify the acceptance, execute a book-entry delivery to the Exchange Agent's account at DTC and send an Agent's Message to the Exchange Agent for its acceptance as described below under "—Book-Entry Transfer." Euroclear and Clearstream, Luxembourg are DTC participants and, if your 2004 Senior Notes are held through Euroclear or Clearstream, Luxembourg, you must comply with the procedures for the Exchange Offer established by Euroclear or Clearstream, Luxembourg, as applicable (as described below).

Euroclear and Clearstream, Luxembourg intend to collect from their direct participants (a) instructions to (1) tender 2004 Senior Notes held by them on behalf of their direct participants in the Exchange Offer, (2) "block" any transfer of 2004 Senior Notes so tendered until the completion of the Exchange Offer and (3) debit their account on the Settlement Date in respect of all 2004 Senior Notes accepted by us and (b) irrevocable authorizations to disclose the name of the direct participants and information about the foregoing instructions. Upon the receipt of these instructions, Euroclear and Clearstream, Luxembourg will advise, indirectly, the Exchange Agent of the amount of 2004 Senior Notes being tendered and other required information. Euroclear and Clearstream, Luxembourg may impose additional deadlines in order to process properly these instructions. As a part of tendering through Euroclear or Clearstream, Luxembourg, you are required to become aware of any such additional deadlines.

If 2004 Senior Notes are registered in the name of a person other than the signer of the Tender and Letter of Transmittal, or if certificates for untendered 2004 Senior Notes are to be issued to a person other than the registered holder, the certificates must be endorsed or accompanied by a written instrument of transfer duly executed by the registered holder with the signature guaranteed as described below and appropriate powers of attorney, signed exactly as the name of the registered holder appears on the certificates. All questions as to adequacy of the form of the writing will be determined by us in our sole discretion.

If the Tender and Letter of Transmittal or any 2004 Senior Notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in

a fiduciary or representative capacity, such persons should so indicate when signing, and unless waived by us, submit evidence satisfactory to us of their authority to so act with the Tender and Letter of Transmittal.

Any beneficial owner whose 2004 Senior Notes are registered in the name of a broker-dealer, commercial bank, trust company or other nominee and who wishes to tender 2004 Senior Notes should contact such registered holder promptly and instruct the holder to tender such 2004 Senior Notes on the beneficial owner's behalf using one of the procedures described above. If such beneficial owner wishes to tender such 2004 Senior Notes itself, such beneficial owner must, before completing and executing the Tender and Letter of Transmittal and delivering such 2004 Senior Notes, either make appropriate arrangements to register ownership of 2004 Senior Notes in such beneficial owner's name or follow the procedures described in the immediately preceding paragraph. The transfer of record ownership may take considerable time. The tender by an eligible holder pursuant to the procedures set forth herein will constitute an agreement between such eligible holder and us in accordance with the terms and subject to the conditions set forth herein. Broker-dealers, commercial banks, trust companies and other nominees that are DTC participants may tender 2004 Senior Notes through DTC's Automated Tender Offer Program ("ATOP").

**By tendering 2004 Senior Notes pursuant to the Exchange Offer, an eligible holder will be deemed to have represented and warranted that such eligible holder has full power and authority to tender, sell, assign and transfer 2004 Senior Notes tendered thereby and that when such 2004 Senior Notes are accepted for exchange and issuance of the Exchange Notes by us, we will acquire good, marketable and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim or right and will cause such 2004 Senior Notes to be delivered in accordance with the terms of any Exchange Offer. The holder will also be deemed to have agreed to, upon request, execute and deliver any additional documents deemed by the Exchange Agent or by us to be necessary or desirable to complete the delivery, assignment and transfer of 2004 Senior Notes tendered thereby. In addition, the eligible holder will be deemed to have released us and our affiliates from any and all claims that eligible holders may have arising out of or relating to 2004 Senior Notes.**

**If you wish to participate in the Exchange Offer, delivery of your 2004 Senior Notes and other required documents are your responsibility. Eligible holders desiring to tender 2004 Senior Notes pursuant to ATOP must allow sufficient time for completion of the ATOP procedures during normal business hours of DTC. Except as otherwise provided herein, delivery of 2004 Senior Notes will be deemed made only when (a) the Agent's Message or (b) the Tender and Letter of Transmittal and certificates of the tendered 2004 Senior Notes are actually received by the Exchange Agent. The method of delivery of 2004 Senior Notes, the Tender and Letter of Transmittal, and all other required documents to the Exchange Agent is at your election and risk. Instead of delivery by mail, you should use an overnight or hand delivery service, properly insured. In all cases, you should allow sufficient time to assure delivery to and receipt by the Exchange Agent on or before the Expiration Date. Send the Tender and Letter of Transmittal or any 2004 Senior Notes only to the Exchange Agent. No document should be sent to us or the Dealer Manager.**

We will determine in our sole discretion all questions as to the validity, form, eligibility, including time of receipt, acceptance and withdrawal of tendered 2004 Senior Notes. Our determination will be final and binding. We reserve the absolute right to reject any 2004 Senior Notes not properly tendered the acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to particular 2004 Senior Notes. Our interpretation of the terms and conditions of the Exchange Offer, including the instructions in the Tender and Letter of Transmittal, will be final and binding on all parties.

Unless waived, any defects or irregularities in connection with tenders of the 2004 Senior Notes must be cured prior to the Expiration Date. Although we intend to notify holders of defects or irregularities with respect to tenders of the 2004 Senior Notes, neither we, the Exchange Agent nor any other person will incur any liability for failure to give notification. Tenders of the 2004 Senior Notes will not be deemed made until those defects or irregularities have been cured or waived.

*Effect of Tender*

Any tender by an eligible holder of 2004 Senior Notes prior to the Expiration Date that is not validly withdrawn prior to the Withdrawal Date will constitute a binding agreement between the eligible holder and us, upon the terms and subject to the conditions of the Exchange Offer and the Tender and Letter of Transmittal.

*Guarantee of Signature*

Signatures on a Tender and Letter of Transmittal must be guaranteed by a recognized participant (a "Medallion Signature Guarantor") in the Securities Transfer Agents' Medallion Program or the Stock Exchange Medallion Program, unless 2004 Senior Notes tendered thereby are tendered (a) by the registered holder of such 2004 Senior Notes who has signed the Tender and Letter of Transmittal and the Exchange Notes to be issued or any 2004 Senior Notes not tendered or not accepted for exchange are to be issued directly to such holder, or (b) for the account of a firm that is a member of a registered national securities exchange or the Financial Industry Regulatory Authority, Inc. or is a commercial bank or trust company having an office in the United States (each, an "Eligible Institution").

*Book-Entry Transfer*

The Exchange Agent will establish an account with respect to 2004 Senior Notes at DTC for purposes of the Exchange Offer and any financial institution that is a participant in DTC may make book-entry delivery of 2004 Senior Notes by causing DTC to transfer such 2004 Senior Notes into the Exchange Agent's account in accordance with DTC's procedures for such transfer and send an Agent's Message to the Exchange Agent for acceptance. However, although delivery of 2004 Senior Notes may be effected through book-entry transfer into the Exchange Agent's account at DTC, an Agent's Message, and any other required documents, must, in any case, be transmitted to and received by the Exchange Agent at its address set forth on the back cover of this Memorandum on or before the Early Tender Deadline (for the relevant holder to be eligible to receive the Early Tender Payment) or the Expiration Date, as applicable. The confirmation of a book-entry transfer into the Exchange Agent's account at DTC as described above is referred to herein as a "Book-Entry Confirmation." **Delivery of documents to DTC does not constitute delivery to the Information and Exchange Agent.**

The term "Agent's Message" means a message transmitted by DTC to and received by the Exchange Agent and forming part of the Book-Entry Confirmation, which states that DTC has received an express acknowledgment from the DTC participant described in such Agent's Message, stating (a) the aggregate principal amount of 2004 Senior Notes that have been tendered by such participant, (b) that such participant has received this Memorandum and the Tender and Letter of Transmittal and agrees to be bound by the terms of the Exchange Offer as described in this Memorandum and the Tender and Letter of Transmittal, and (c) that we may enforce such agreement against such participant.

DTC participants following this procedure should allow sufficient time for completion of the ATOP procedures. Any acceptance of an Agent's Message transmitted through ATOP is at the election and risk of the person transmitting an Agent's Message and delivery will be deemed made only when actually received by the Exchange Agent.

*No Guaranteed Delivery*

There are no guaranteed delivery provisions applicable to the Exchange Offer under the terms of this Memorandum or any other of the offer materials. Eligible holders must tender their 2004 Senior Notes in accordance with the procedures set forth above under "—Procedures for Tendering."

*Lost or Missing Certificates*

If an eligible holder wishes to tender 2004 Senior Notes pursuant to the Exchange Offer, but the certificates evidencing such 2004 Senior Notes have been mutilated, lost, stolen or destroyed, such eligible holder should write to or telephone the trustee for such 2004 Senior Notes at its applicable address or telephone number to find out the procedures for obtaining replacement certificates for such Notes and for arranging for indemnification or any other matter that requires the Trustee to take action.

*Transfer of Ownership of Tendered 2004 Senior Notes*

Eligible holders may not transfer record ownership of any 2004 Senior Notes validly tendered and not validly withdrawn. Beneficial ownership in tendered 2004 Senior Notes may be transferred by the eligible holder by delivering to the Exchange Agent at its address set forth on the back cover of this Memorandum an executed Tender and Letter of Transmittal identifying the name of the person who deposited 2004 Senior Notes to be transferred and completing the "Special Delivery Instructions" box with the name of the transferee (or, if tendered by book-entry transfer, the name of the DTC participant on the security listing position listed as the transferee of such 2004 Senior Notes) and the principal amount of 2004 Senior Notes to be transferred. If certificates have been delivered or otherwise identified (through a Book-Entry Confirmation with respect to such 2004 Senior Notes) to the Exchange Agent, the name of the holder who deposited 2004 Senior Notes, the name of the transferee and the certificate numbers relating to such 2004 Senior Notes should also be provided in the Tender and Letter of Transmittal. A person who succeeds to the beneficial ownership of tendered 2004 Senior Notes pursuant to these procedures will be entitled to receive the Exchange Notes issued in exchange for those tendered 2004 Senior Notes, any Early Tender Payment, if applicable, any applicable accrued and unpaid interest if 2004 Senior Notes are accepted for exchange, or to receipt of the tendered 2004 Senior Notes if the Exchange Offer is terminated, provided, in each case, that we have been given proper and timely instructions as to the identity of such person and the address which to make such delivery.

*Compliance with "Short Tendering" Rule*

It is a violation of Rule 14e-4 under the Exchange Act for a person, directly or indirectly, to tender securities in a partial tender offer for his own account unless the person so tendering such securities (a) has a net long position equal to or greater than the aggregate principal amount of the securities being tendered and (b) will cause such securities to be delivered to the person making the offer within the period specified by the offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person. A tender of 2004 Senior Notes in the Exchange Offer under any of the procedures described above will constitute a binding agreement between the tendering eligible holder and us with respect to any Exchange Offer upon the terms and subject to the conditions of the Exchange Offer, including the tendering eligible holder's acceptance of the terms and conditions of the Exchange Offer, as well as the tendering eligible holder's representation and warranty that (a) such eligible holder has a net long position in 2004 Senior Notes being tendered pursuant to the Exchange Offer within the meaning of Rule 14e-4 under the Exchange Act and (b) the tender of such 2004 Senior Notes complies with Rule 14e-4.

*Other Matters*

Subject to, and effective upon, the acceptance of, and issuance of the Exchange Notes in exchange for, the principal amount of 2004 Senior Notes tendered in accordance with the terms and subject to the conditions of the Exchange Offer, a tendering eligible holder by executing and delivering a Tender and Letter of Transmittal (or agreeing to the terms of a Tender and Letter of Transmittal pursuant to an Agent's Message) will be deemed to:

- have agreed to sell, assign and transfer to, or upon the order of, us, all right, title and interest in and to all of 2004 Senior Notes tendered and accepted for exchange pursuant to the terms hereof;

- waive any and all other rights with respect to such 2004 Senior Notes (including, without limitation, any existing or past defaults and their consequences in respect of 2004 Senior Notes and the Indenture);
- release and discharge us from any and all claims the holder may have now, or may have in the future, arising out of, or related to, such 2004 Senior Notes, including, without limitation, any claims that the holder is entitled to receive additional principal or interest payments with respect to such 2004 Senior Notes or to participate in any repurchase, redemption or defeasance of 2004 Senior Notes; and
- irrevocably constitute and appoint the Exchange Agent the true and lawful agent and attorney-in-fact of such holder (with full knowledge that the Exchange Agent also acts as our agent) with respect to any tendered 2004 Senior Notes, with full power of substitution and resubstitution (such power of attorney being deemed to be an irrevocable power coupled with an interest) to (a) deliver such 2004 Senior Notes or transfer ownership of such 2004 Senior Notes on the account books maintained by DTC together with all accompanying evidence of transfer and authenticity, to, or upon the order of, us (b) present such 2004 Senior Notes for transfer on the register, and (c) receive all benefits or otherwise exercise all rights of beneficial ownership of such 2004 Senior Notes, including receipt of the Exchange Notes issued in exchange therefore and any cash exchange consideration from us for any 2004 Senior Notes tendered pursuant to the Exchange Offer that are exchanged by us and transfer such Exchange Notes and funds to the holder, all in accordance with the terms of the Exchange Offer.

**By tendering 2004 Senior Notes pursuant to the Exchange Offer, the eligible holder will be deemed to have agreed that the delivery and surrender of 2004 Senior Notes is not effective, and the risk of loss of 2004 Senior Notes does not pass to the Exchange Agent, until receipt by the Exchange Agent of (a) a properly transmitted Agent's Message or (b) a properly completed and duly executed Tender and Letter of Transmittal and the certificates of the tendered 2004 Senior Notes accompanying the Tender and Letter of Transmittal together with all accompanying evidences of authority and any other required documents in form satisfactory to us. All questions as to the form of all documents and the validity (including time of receipt) and acceptance of tenders and withdrawals of 2004 Senior Notes will be determined by us, in our sole discretion, which determination shall be final and binding.**

Notwithstanding any other provision of the Exchange Offer, payment of the Partial Exchange Consideration, any Early Tender Payment, if applicable, and accrued and unpaid interest, in exchange for any 2004 Senior Notes tendered and accepted for exchange pursuant to the Exchange Offer will occur only after timely receipt by the Exchange Agent of (a) a Book-Entry Confirmation with respect to such 2004 Senior Notes, together with an Agent's Message and any other required documents or (b) a properly completed and duly executed Tender and Letter of Transmittal (or facsimile thereof), with any required signature guarantee, for 2004 Senior Notes accompanying the Tender and Letter of Transmittal and any other required documentation. The tender of 2004 Senior Notes pursuant to the Exchange Offer by one of the procedures set forth above will constitute an agreement between the tendering holder and us in accordance with the terms and subject to the conditions of the Exchange Offer.

Alternative, conditional or contingent tenders will not be considered valid. We reserve the absolute right to reject any or all tenders of 2004 Senior Notes that are not in proper form or the acceptance of which would, in our opinion, be unlawful. We also reserve the right, subject to applicable law, to waive any defects, irregularities or conditions of tender as to particular 2004 Senior Notes. A waiver of any defect or irregularity with respect to the tender of one note shall not constitute a waiver of the same or any other defect or irregularity with respect to the tender of any other note. Our interpretations of the terms and conditions of the Exchange Offer will be final and binding. Any defect or irregularity in connection with tenders of 2004 Senior Notes must be cured within such time as we determine, unless waived by us. Tenders of 2004 Senior Notes shall not be deemed to have been made until all defects and irregularities have been waived by us or cured. None of us, the Trustee, the Dealer Manager, the Information and

Exchange Agent or any other person will be under any duty to give notice of any defects or irregularities in tenders of 2004 Senior Notes or will incur any liability to holders for failure to give any such notice.

*Acceptance of 2004 Senior Notes for Exchange; Issuance of the Exchange Notes*

Assuming the conditions to the Exchange Offer are satisfied or waived, we will issue the Exchange Notes in book-entry form and pay any cash exchange consideration (as applicable) in connection therewith on the Settlement Date, or as soon as practicable after that date, in exchange for 2004 Senior Notes that are validly tendered and not validly withdrawn and accepted in the Exchange Offer.

We expressly reserve the right, in our sole discretion, but subject to applicable law, to (a) delay acceptance of 2004 Senior Notes for exchange tendered under the Exchange Offer or the issuance of the Exchange Notes in exchange for validly tendered 2004 Senior Notes (subject to Rule 14e-1 under the Exchange Act, which requires that we pay the consideration offered or return 2004 Senior Notes deposited by or on behalf of the holders promptly after the termination or withdrawal of the Exchange Offer) or (b) terminate the Exchange Offer at any time.

For purposes of the Exchange Offer, we will be deemed to have accepted for exchange validly tendered 2004 Senior Notes (or defectively tendered 2004 Senior Notes with respect to which we have waived such defect) if, as and when we give oral (promptly confirmed in writing) or written notice thereof to the Exchange Agent. Subject to the terms and conditions of the Exchange Offer, delivery of Exchange Notes and payment of the cash exchange consideration in connection with the exchange of 2004 Senior Notes accepted by us will be made by the Exchange Agent on the Settlement Date upon receipt of such notice. The Exchange Agent will act as agent for participating holders of 2004 Senior Notes for the purpose of receiving 2004 Senior Notes from and transmitting the Exchange Notes and cash exchange consideration to, if any, such holders. With respect to any tendered 2004 Senior Notes that are to be returned to holders, such 2004 Senior Notes will be returned without expense to the tendering holder (or, in the case of 2004 Senior Notes tendered by book-entry transfer, such 2004 Senior Notes will be credited to the account maintained at DTC from which such 2004 Senior Notes were delivered) promptly after the Expiration Date or the termination of the Exchange Offer.

We will pay the Partial Exchange Consideration or the Total Exchange Consideration, as applicable, in connection with 2004 Senior Notes accepted for purchase in the Exchange Offer by depositing such payment in cash with the Exchange Agent or, at the direction of the Exchange Agent, with DTC, which will act as agent for the tendering eligible holders for the purpose of receiving tenders of 2004 Senior Notes, any Early Tender Payment, if applicable, and accrued and unpaid interest and transmitting any Early Tender Payment, if applicable, and accrued and unpaid interest, to such eligible holders. Upon the terms and subject to the conditions of the Exchange Offer, we will deliver to the Exchange Agent, or, upon its direction, to DTC, any Early Tender Payment, if applicable, and accrued and unpaid interest for 2004 Senior Notes subject to the Exchange Offer tendered and accepted for exchange on the Settlement Date.

If, for any reason, acceptance for exchange of tendered 2004 Senior Notes, or issuance of the Exchange Notes in exchange for validly tendered 2004 Senior Notes, pursuant to the Exchange Offer, is delayed, or we are unable to accept tendered 2004 Senior Notes for exchange or to issue the Exchange Notes in exchange for validly tendered 2004 Senior Notes pursuant to the Exchange Offer, then the Exchange Agent may, nevertheless, on behalf of us, retain the tendered 2004 Senior Notes, without prejudice our rights described under "—Early Tender Payment Deadline; Expiration Date; Extensions; Amendments" and "—Conditions to the Exchange Offer" above and "—Withdrawal of Tenders" below, but subject to Rule 14e-1 under the Exchange Act, which requires that we pay the consideration offered or return 2004 Senior Notes tendered promptly after the termination or withdrawal of any Exchange Offer, and the tendered 2004 Senior Notes may not be withdrawn.

If any tendered 2004 Senior Notes are not accepted for exchange for any reason pursuant to the terms and conditions of the Exchange Offer, such 2004 Senior Notes will be returned without expense to the

tendering holder (or, in the case of 2004 Senior Notes tendered by book-entry transfer, such 2004 Senior Notes will be credited to the account maintained at DTC from which such 2004 Senior Notes were delivered) promptly after the Expiration Date or the termination of the Exchange Offer.

Holders of 2004 Senior Notes tendered and accepted for exchange pursuant to the Exchange Offer will be entitled to accrued and unpaid interest on their 2004 Senior Notes to, but excluding, the Settlement Date payable on the Settlement Date. Under no circumstances will any additional interest be payable because of any delay by the Exchange Agent or DTC in the transmission of funds to the holders of accepted 2004 Senior Notes or otherwise.

Tendering holders of 2004 Senior Notes accepted in the Exchange Offer will not be obligated to pay brokerage commissions or fees to us, the Dealer Manager, the Information and Exchange Agent or, except as set forth below, to pay transfer taxes with respect to the exchange of their 2004 Senior Notes.

**Withdrawal of Tenders**

**2004 Senior Notes subject to the Exchange Offer may be validly withdrawn at any time on or before the Withdrawal Date, but not thereafter, even if the Early Tender Deadline or Expiration Date is extended by us.**

For a withdrawal of a tender of 2004 Senior Notes to be effective, a written or facsimile transmission notice of withdrawal must be timely received by the Exchange Agent at its address set forth on the back cover of this Memorandum on or before the Withdrawal Date, by mail, fax or hand delivery or by a properly transmitted "Request Message" through ATOP. Any such notice of withdrawal must:

(a) specify the name of the person who tendered 2004 Senior Notes to be withdrawn and, if different, the name of the registered holder of such 2004 Senior Notes (or, in the case of 2004 Senior Notes tendered by book-entry transfer, the name of the DTC participant whose name appears on the security position listing as the owner of such 2004 Senior Notes);

(b) include a statement that the holder is withdrawing its election to have its 2004 Senior Notes exchanged and contain the description of 2004 Senior Notes to be withdrawn (including the principal amount of 2004 Senior Notes to be withdrawn and, in the case of 2004 Senior Notes tendered by delivery of certificates rather than book-entry transfer, the certificate numbers thereof);

(c) be signed by the holder of such 2004 Senior Notes in the same manner as the original signature on the Tender and Letter of Transmittal, including any required signature guarantees (or, in the case of 2004 Senior Notes tendered by book-entry transfer, be signed by such participant in the same manner as the DTC participant's name is listed in the applicable Agent's Message), or be accompanied by evidence satisfactory to us that the person withdrawing the tender has succeeded to the beneficial ownership of such 2004 Senior Notes;

(d) if the Tender and Letter of Transmittal was executed by a person other than the registered holder, be accompanied by a properly completed irrevocable proxy that authorized such person to effect such withdrawal on behalf of such holder; and

(e) state that the consent to amend the indenture is revoked.

If the 2004 Senior Notes have been tendered pursuant to the procedure for book-entry transfer, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn 2004 Senior Notes and otherwise comply with the procedures of the facility.

The signature on the notice of withdrawal must be guaranteed by a Medallion Signature Guarantor unless such 2004 Senior Notes have been tendered for the account of an Eligible Institution. If certificates for 2004 Senior Notes to be withdrawn have been delivered or otherwise identified to the Exchange Agent, a signed notice of withdrawal will be effective immediately upon receipt by the Exchange Agent of written or facsimile transmission notice of withdrawal even if physical release is not yet effected.

Withdrawal of tenders of 2004 Senior Notes may not be rescinded, and any 2004 Senior Notes properly withdrawn will thereafter be deemed not validly tendered for purposes of the Exchange Offer. Withdrawal of 2004 Senior Notes may only be accomplished in accordance with the foregoing procedures. 2004 Senior Notes validly withdrawn may thereafter be retendered at any time on or before the Expiration Date by following the procedures described under "—Procedures for Tendering."

We will determine all questions as to the form and validity (including time of receipt) of any notice of withdrawal of a tender, in our sole discretion, which determination shall be final and binding on all parties. None of us, the Dealer Manager, the Information and Exchange Agent or any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal of a tender or incur any liability for failure to give any such notification.

If, for any reason, acceptance for exchange of tendered 2004 Senior Notes, or issuance of the Exchange Notes in exchange for validly tendered 2004 Senior Notes, pursuant to the Exchange Offer is delayed, or we are unable to accept tendered 2004 Senior Notes for exchange or to issue the Exchange Notes in exchange for validly tendered 2004 Senior Notes pursuant to the Exchange Offer, then, subject to certain limitations, the Exchange Agent may, nevertheless, on behalf of us, retain the tendered 2004 Senior Notes, and the tendered 2004 Senior Notes may not be withdrawn. See "—Acceptance of the 2004 Senior Notes for Exchange; Issuance of the Exchange Notes."

**Accounting Treatment of Exchange Offer**

In accordance with CICA Emerging Issues Committee Abstract—88 "Debtors Accounting for a Modification or Exchange of Debt Instruments" management has determined that the Exchange Offer constitutes a modification of the 2004 Senior Notes. As a result, financing costs incurred in connection with the offer of the Exchange Notes will be added to the unamortized deferred financing costs and will be amortized over the term of the debt using the effective interest rate method.

**Transfer Taxes**

We will pay all transfer taxes, if any, applicable to the transfer and exchange of 2004 Senior Notes to us in the Exchange Offer. If transfer taxes are imposed for any other reason other than the transfer and tender to us, the amount of those transfer taxes, whether imposed on the registered holders or any other persons, will be payable by the tendering holder. Other reasons transfer taxes could be imposed include:

- if the Exchange Notes in book-entry form are to be registered in the name of any person other than the person signing the Tender and Letter of Transmittal; or
- if tendered 2004 Senior Notes are registered in the name of any person other than the person signing the Tender and Letter of Transmittal.

If satisfactory evidence of payment of or exemption from those transfer taxes payable by the tendering holder is not submitted with the Tender and Letter of Transmittal, the amount of those transfer taxes will be billed directly to the tendering holder and/or withheld from any payments due with respect to 2004 Senior Notes tendered by such holder.

**U.S. Federal Backup Withholding**

To prevent backup withholding of U.S. federal income tax, you must either (1) provide a completed IRS Form W-9 and indicate either (a) your correct taxpayer identification number, or (b) an adequate basis for an exemption, or (2) provide an applicable completed Form W-8. See "Certain United States Federal Income Tax Consequences—Backup Withholding and Information Reporting" below.

**Information and Exchange Agent**

Global Bondholder Services Corporation has been appointed the Information and Exchange Agent for the Exchange Offer and will receive customary compensation for its services. Consents and Letters of Transmittal and all correspondence in connection with the Exchange Offer should be sent or delivered by each holder of 2004 Senior Notes, or a beneficial owner's custodian bank, depositary, broker, trust company or other nominee, to the Exchange Agent at the addresses and telephone numbers set forth on the back cover page of this Memorandum. We will pay the Exchange Agent reasonable and customary fees for its services and will reimburse it for its reasonable, out-of-pocket expenses in connection therewith.

Delivery of the consent and letter of transmittal to an address other than as shown on the back cover of this Memorandum or transmission via facsimile other than as set forth on the back cover does not constitute a valid delivery of the Tender and Letter of Transmittal.

Questions concerning tender procedures and requests for additional copies of this Memorandum or the Tender and Letter of Transmittal should be directed to the Information and Exchange Agent at the address and telephone numbers set forth on the back cover page of this Memorandum. Holders of 2004 Senior Notes may also contact their custodian bank, depositary, broker, trust company or other nominee for assistance concerning the Exchange Offer.

**Dealer Manager**

We have retained Credit Suisse Securities (USA) LLC to act as the Dealer Manager in connection with the Exchange Offer and will pay the Dealer Manager a customary fee for soliciting tenders in the Exchange Offer. We will also reimburse the Dealer Manager for its reasonable out-of-pocket expenses. The obligations of the Dealer Manager to perform such function are subject to certain conditions. We have agreed to indemnify the Dealer Manager against certain liabilities, including liabilities under applicable federal securities laws in connection with its services. Questions regarding the terms of the Exchange Offer may be directed to the Dealer Manager at the addresses and telephone numbers set forth on the back cover page of this Memorandum.

From time to time, the Dealer Manager has provided, and may provide in the future, investment banking and other services for us and our affiliates. The Dealer Manager is also advising us in connection with our preliminary discussions with Mandra Forestry and certain holders of Mandra Notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Mandra Forestry." The Dealer Manager, in the ordinary course of its business, may make markets in our debt securities. As a result, from time to time, the Dealer Manager may own certain of our debt securities, and may tender 2004 Senior Notes in the Exchange Offer.

We have also retained Credit Suisse Securities (USA) LLC to act as the Solicitation Agent, in connection with a concurrent consent solicitation regarding the 2004 Senior Notes. See "Concurrent Consent Solicitation for the 2004 Senior Notes."

**Other Fees and Expenses**

The expenses of soliciting tenders of 2004 Senior Notes will be borne by us. The principal solicitation is being made by mail; however, additional solicitations may be made by fax, telephone or in person by the Dealer Manager and the Information and Exchange Agent, as well as by officers and other employees of us and our affiliates.

Tendering holders of 2004 Senior Notes will not be required to pay any fee or commission to the Dealer Manager. However, if a tendering holder handles the transaction through its broker, dealer, commercial bank, trust company or other institution, such holder may be required to pay brokerage fees or commissions.

## DESCRIPTION OF MATERIAL DIFFERENCES BETWEEN THE 2004 SENIOR NOTES AND THE EXCHANGE NOTES

For purposes of this "Description of Material Differences Between the 2004 Senior Notes and the Exchange Notes," terms used and not otherwise defined herein (a) with respect to the 2004 Senior Notes, have the meaning ascribed to such terms in the indenture for the 2004 Senior Notes and (b) with respect to the Exchange Notes, have the meaning ascribed to such terms in "Description of the Exchange Notes."

The following is a summary comparison of the material differences between the 2004 Senior Notes and the Exchange Notes. This summary does not purport to be complete and is qualified in its entirety by reference to the provisions of the Indenture and the form of Exchange Notes attached to the Indenture. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee in New York. For a more detailed description of the Exchange Notes, see "Description of the Exchange Notes."

| 2004 Senior Notes | Exchange Notes |
|---|---|
| **Aggregate Principal Amount Outstanding**<br>U.S.$300,000,000 | **Aggregate Principal Amount Outstanding**<br>Up to U.S.$300,000,000 |
| **Interest Rate**<br>9.125% | **Interest Rate**<br>10.25% |
| **Maturity**<br>August 17, 2011 | **Maturity**<br>July 28, 2014 |
| **Subsidiary Guarantors**<br>The full and prompt payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the 2004 Senior Notes are jointly and severally guaranteed by the certain direct or indirect subsidiaries of the Company.<br><br>The Company will cause each of its future Restricted Subsidiaries (other than Subsidiaries organized under the laws of the PRC), immediately upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the 2004 Senior Notes. | **Subsidiary Guarantors**<br>Upon issuance, the full and prompt payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Exchange Notes will be jointly and severally guaranteed by most of the subsidiaries that currently guarantee the 2004 Senior Notes and certain additional direct or indirect subsidiaries of the Company.<br><br>The Company will cause each of its future Restricted Subsidiaries (other than Subsidiaries organized under the laws of the PRC or another jurisdiction that prohibits such Restricted Subsidiary from guaranteeing the payment of the Exchange Notes), immediately upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Exchange Notes. |

| 2004 Senior Notes | Exchange Notes |
| --- | --- |
| | Certain entities will not provide a guarantee at the time of issuance of the Exchange Notes (referred to as "Initial Non-Guarantor Subsidiaries"). Initial Non-Guarantor Subsidiaries may provide a guarantee in the future if they would not be required to register as an investment company under the U.S. Investment Company Act of 1940, as amended. In addition, if the Non-consolidated Cash of all Initial Non-Guarantor Subsidiaries that are not, at the relevant time, Subsidiary Guarantors accounts for more than 10% of the Consolidated Cash of the Company (based on the most recently available non-consolidated financial statements of such Initial Non-Guarantor Subsidiaries and the consolidated financial statements of the Company), the Company will cause one or more of the Initial Non-Guarantor Subsidiaries to provide a guarantee.<br>• "Non-consolidated Cash" of an Initial Non-Guarantor Subsidiary means cash and cash equivalents held by such person on a non-consolidated basis, and not including, for the avoidance of doubt, cash and cash equivalents held by Subsidiaries of such person.<br>• "Consolidated Cash" of the Company means cash and cash equivalents of the Company on a consolidated basis. |
| **Release of the Subsidiary Guarantees**<br>A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:<br>• upon repayment in full of the 2004 Senior Notes;<br>• upon a defeasance as described under "—Defeasance;"<br>• upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with terms of the Indenture; or | **Release of the Subsidiary Guarantees**<br>The Exchange Notes contain an identical provision and an additional requirement that the sale of a Subsidiary Guarantor be in compliance with the covenant regarding "Consolidation, Merger and Sale of Assets" in order for a Subsidiary Guarantee to be released. |

| 2004 Senior Notes | Exchange Notes |
|---|---|
| • upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under the captions "Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" and "Certain Covenants—Limitation on Asset Sales") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture. | |
| **Security**<br>The obligations under the 2004 Senior Notes and the Subsidiary Guarantees are secured by a pledge of the Capital Stock held by the Company and the Subsidiary Guarantor Pledgors. | **Security**<br>The obligations under the Exchange Notes and the Subsidiary Guarantees are secured by the Capital Stock held by the Company and the Subsidiary Guarantor Pledgors. The Capital Stock of certain of the Company's Restricted Subsidiaries that are owned by any Initial Non-Guarantor Subsidiary, unless such Initial Non-Guarantor Subsidiary becomes a Subsidiary Guarantor, are excluded from the collateral. |
| **Further Issues**<br>The Company may, from time to time, without notice to or the consent of the Holders, create and issue further debt securities having the same terms and conditions as the 2004 Senior Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for issue date, issue price, and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such subsequently issued debt securities may be consolidated and form a single series with the previously outstanding 2004 Senior Notes; provided that the further debt securities shall not have a stated maturity less than five years from the date of their issuance and shall not be issued at any time after the date which is five years from the Stated Maturity of the 2004 Senior Notes; provided further that the issuance of any such further debt securities shall then be permitted under the first paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant described below. | **Further Issues**<br>The Exchange Notes indenture contains an identical provision, except it includes a proviso that any Additional Exchange Notes will be issued with no more than a *de minimis* amount of original issue discount or be part of a qualified reopening for U.S. federal income tax purposes. |

| 2004 Senior Notes | Exchange Notes |
|---|---|
| **Optional Redemption**<br>At any time prior to August 17, 2007, the Company may redeem up to 35% of the principal amount of the 2004 Senior Notes with the Net Cash Proceeds of one or more sales of its Common Stock in an Equity Offering at a redemption price of 109.125% of the principal amount of the 2004 Senior Notes, plus accrued and unpaid interest, if any, to the redemption date; provided that at least 65% of the aggregate principal amount of the 2004 Senior Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related sale of Capital Stock.<br><br>The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the 2004 Senior Notes are to be redeemed, selection of the 2004 Senior Notes for redemption will be made by the Trustee by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.<br><br>However, no 2004 Senior Note of US$1,000 in principal amount or less shall be redeemed in part. If any 2004 Senior Note is to be redeemed in part only, the notice of redemption relating to such 2004 Senior Note will state the portion of the principal amount to be redeemed. A new 2004 Senior Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original 2004 Senior Note. | **Optional Redemption**<br>The Exchange Notes indenture contains an identical provision, except that:<br><br>• at any time prior to January 26, 2011, the Company may redeem up to 35% of the principal amount of the Exchange Notes with the Net Cash Proceeds of one or more sales of its Common Stock in an Equity Offering at a redemption price of 110.25% of the principal amount of the Exchange Notes, plus accrued and unpaid interest, if any, to the redemption date, subject to the same conditions as the optional redemption of the 2004 Senior Notes; and<br><br>• at any time prior to the Maturity Date, the Company may at its option redeem the Exchange Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Exchange Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.<br><br>  • "Applicable Premium" means with respect to an Exchange Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Exchange Note and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount of such Exchange Note, plus all required remaining scheduled interest payments due on such Exchange Note (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Exchange Note on such redemption date.<br><br>  • "Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. |

- "Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to the remaining term of the Exchange Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Exchange Notes.
- "Comparable Treasury Price" means, with respect to any redemption date:

  (1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities;" or

  (2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.
- "Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.
- "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

| 2004 Senior Notes | Exchange Notes |
|---|---|
| **Repurchase of Exchange Notes Upon a Change of Control Triggering Event**<br>The Company must commence, within 30 days of the occurrence of a Change of Control Triggering Event, and consummate an Offer to Purchase for all Exchange Notes then outstanding (a "Change of Control Offer"), at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Payment Date.<br><br>Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit or require the Company to repurchase or redeem the Exchange Notes in the event of a takeover, recapitalization or similar transaction.<br><br>If a Change of Control Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the purchase price for all the Exchange Notes that might be tendered by the Holders seeking to accept the Change of Control Offer. In the event that the Company purchases Exchange Notes pursuant to a Change of Control Offer, the Company expects that it would seek third party financing to the extent it does not have available funds to purchase the Exchange Notes. However, there can be no assurance that the Company would be able to obtain such financing.<br><br>In order to repurchase the Exchange Notes in an Offer to Purchase, the Company will, unless consents are obtained, be required to repay all Indebtedness then outstanding which by its terms would prohibit such Note repurchase, either prior to or concurrently with such Note repurchase. | **Repurchase of Exchange Notes Upon a Change of Control Triggering Event**<br>The Exchange Notes indenture contains identical provisions, except that the second paragraph includes the following sentence:<br><br>Holders may not be entitled to require the Company to purchase their Exchange Notes in certain circumstances involving a significant change in the composition of Board of Directors, including in connection with a proxy contest where the Board of Directors does not approve a dissident slate of directors but approves them as continuing directors, even if the Board of Directors initially opposed the directors. |

| 2004 Senior Notes | Exchange Notes |
|---|---|
| **Additional Amounts**<br>All payments of, or in respect of, principal of, and premium (if any) and interest in respect of the 2004 Senior Notes or the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "—Consolidation, Merger and Sale of Assets) or the applicable Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the holder of each 2004 Senior Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:<br>(a) for or on account of:<br>(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:<br>(A) the existence of any present or former connection between the holder of such 2004 Senior Note or Subsidiary Guarantee and the Relevant Jurisdiction other than merely holding such 2004 Senior Note or Subsidiary Guarantee, including such holder being or having been a national, domiciliary or resident of or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein; | **Additional Amounts**<br>The Exchange Notes indenture contains an identical provision, except that, in addition, no Additional Amounts will be payable for or on account of any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2004/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives. |

(B) the presentation of such 2004 Senior Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such 2004 Senior Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such 2004 Senior Note for payment on any date within such 30 day period;

(C) the failure of the Holder, despite being required by law, to comply with a timely request of the Company addressed to the Holder or beneficial owner to provide information concerning such Holder's nationality, residence, identity or connection with Canada or any political subdivision or authority thereof, or other Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any taxes as to which Additional Amounts would have otherwise been payable to such holder; or

(D) the presentation of such 2004 Senior Note for payment in the Relevant Jurisdiction, unless such 2004 Senior Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or

(iii) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i) and (ii);

(b) with respect to any payment of the principal of, or any premium, if any, or interest on, such 2004 Senior Note to such holder if such holder, together with any persons related to such holder, owns greater than 50% of the voting securities of the Company or such holder otherwise has de facto control of the Company; or

(c) with respect to any payment of the principal of, or any premium, if any, or interest on, such 2004 Senior Note or any payment under any Subsidiary Guarantee to such holder, if the holder is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of the Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor, with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner, person or beneficial owner been the registered holder thereof.

Whenever there is mentioned in any context the payment of principal, any premium or interest, in respect of any 2004 Senior Note or Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

| 2004 Senior Notes | Exchange Notes |
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| **Redemption for Taxation Reasons**<br>The 2004 Senior Notes may be redeemed, at the option of the Company, as a whole but not in part, at any time, upon giving not less than 30 nor more than 60 days notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption (the "Tax Redemption Date") if, as a result of:<br>(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or<br>(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment, or order by a court of competent jurisdiction),<br>which change, amendment, application or interpretation becomes effective on or after the Original Issue Date, with respect to any payment due or to become due under the 2004 Senior Notes or the Indenture, the Company or a Subsidiary Guarantor, as the case may be, is, or on the next interest payment date would be, required to withhold or deduct any tax, duty, assessment or other governmental charge imposed levied, collected, withheld or assessed by a Relevant Jurisdiction and to pay Additional Amounts, and in each case, such requirement to withhold or deduct cannot be avoided by the taking of reasonable measures by the Company or a Subsidiary Guarantor; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the 2004 Senior Notes were then due.<br>Prior to the publication and mailing of any notice of redemption of the 2004 Senior Notes pursuant to the foregoing, the Company will deliver to the Trustee an Opinion of Counsel or tax consultant of recognized standing to the effect that the circumstances referred to in the prior paragraph exist. The Trustee shall accept such opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.<br>Any 2004 Senior Notes that are redeemed will be cancelled. | **Redemption for Taxation Reasons**<br>The Exchange Notes indenture contains an identical provision, except that:<br>• the Exchange Notes may also be redeemed at the option of a Surviving Person of the Company; and<br>• if as a result of a change, amendment application or interpretation referred to in clause (1) or (2) of the covenant that:<br>(a) in the case of the Company, Surviving Person and any initial Subsidiary Guarantor, becomes effective on or after the Original Issue Date; and<br>(b) in the case of any successor to a Subsidiary Guarantor or a future Subsidiary Guarantor becomes effective after such Subsidiary Guarantor assumes the obligations under the Indenture or becomes a Subsidiary Guarantor,<br>with respect to any payment due or to become due under the Exchange Notes or the Indenture, the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next interest payment date would be, required to withhold or deduct any tax, duty, assessment or other governmental charge imposed levied, collected, withheld or assessed by a Relevant Jurisdiction and to pay Additional Amounts, and in each case, such requirement to withhold or deduct cannot be avoided by the taking of reasonable measures by the Company, Surviving Person or a Subsidiary Guarantor; provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Exchange Notes were then due. |

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| **Limitation on Indebtedness and Disqualified or Preferred Stock**<br>(a) The Company will not Incur any Indebtedness or Disqualified Stock, provided, that the Company may Incur Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio would be not less than 2.75 to 1.0 on or prior to December 31, 2005, 2.85 to 1.0 on or prior to December 31, 2006, and 3.0 to 1.0 thereafter. The Company will not permit any Restricted Subsidiary to Incur any Indebtedness (including Acquired Indebtedness), Disqualified Stock or Preferred Stock (other than Disqualified Stock or Preferred Stock of Restricted Subsidiaries held by the Company or a Subsidiary Guarantor, so long as it is so held).<br><br>Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):<br><br>(1) Indebtedness under the 2004 Senior Notes (excluding any Additional 2004 Senior Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;<br><br>(2) any Pari Passu Subsidiary Guarantees by Subsidiary Guarantors;<br><br>(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clauses (4) and (5); | **Limitation on Indebtedness and Disqualified or Preferred Stock**<br>The Exchange Notes indenture contains an identical covenant, except that:<br><br>• the Company may Incur Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0;<br><br>• clause (5) of the definition of "Permitted Indebtedness" reads:<br><br>Indebtedness of the Company or any Restricted Subsidiary the aggregate principal amount of which at any time outstanding does not exceed an amount equal to 10.0% of Total Assets of the Company, but in any case not in excess of US$400.0 million, less any amount of such Indebtedness permanently repaid as provided under the covenant under the caption "—Limitation on Asset Sales";<br><br>• clause 6(c) of the definition of "Permitted Indebtedness" reads:<br><br>in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this Clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;<br><br>• the covenant contains the following additional categories of "Permitted Indebtedness":<br><br>(8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 90 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement; and |

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| (4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Wholly-Owned Restricted Subsidiary; provided that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Wholly-Owned Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (4) and (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the 2004 Senior Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor; | (9) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (5), (7) or (8) above. |
| (5) Indebtedness of the Company or any Restricted Subsidiary (i) with a maturity of less than one year used by the Company or such Restricted Subsidiary for working capital, and (ii) with respect to letters of credit or similar instruments issued in the ordinary course of business in connection with trading activities of the Company or any Restricted Subsidiary, repaid within 120 Business Days following Incurrence of such Indebtedness, and not supporting any other Indebtedness; provided that the aggregate principal amount of Indebtedness permitted by this clause (5) at any time outstanding does not exceed US$100 million (or the Dollar Equivalent thereof), less any amount of such Indebtedness permanently repaid as provided under the covenant under the caption "—Limitation on Asset Sales;" | |

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| (6) Indebtedness issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph or clauses (1) or (2) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); provided that (a) Indebtedness the proceeds of which are used to refinance or refund the 2004 Senior Notes or Indebtedness that is pari passu with, or subordinated in right of payment to, the 2004 Senior Notes or a Subsidiary Guarantee shall only be permitted under this clause (6) if (x) in case the 2004 Senior Notes are refinanced in part or the Indebtedness to be refinanced is pari passu with the 2004 Senior Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made pari passu with, or subordinate in right of payment to, the remaining 2004 Senior Notes or such Subsidiary Guarantee, or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the 2004 Senior Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the 2004 Senior Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the 2004 Senior Notes or such Subsidiary Guarantee, (b) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (c) such new Indebtedness is Incurred by the Company or by any of its Restricted Subsidiaries who is the obligor on the Indebtedness to be refinanced or refunded; and | |

(7) the Incurrence by the Company or any Restricted Subsidiaries of Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation.

(b) For purposes of determining compliance with this "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (a), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness.

(c) The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is subordinate in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also subordinate in right of payment to the 2004 Senior Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

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| **Limitation on Restricted Payments**<br>The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):<br>(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of its Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any of its Restricted Subsidiaries' Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly-Owned Restricted Subsidiary;<br>(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly-Owned Restricted Subsidiary;<br>(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the 2004 Senior Notes or any of the Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Wholly-Owned Restricted Subsidiaries); or<br>(4) make any Investment, other than a Permitted Investment, in any Person;<br>if, at the time of, and after giving effect to, the proposed Restricted Payment:<br>(A) a Default shall have occurred and be continuing; | **Limitation on Restricted Payments**<br>The Exchange Notes indenture contains an identical covenant, except that:<br>• in clause (2) of the definition of "Restricted Payments," senior debt securities issued by the Company or any Restricted Subsidiary convertible into Capital Stock of the Company are excluded from the restriction on the purchase, redemption or retirement of shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock);<br>• the amount in clause (C)(4) is US$350.0 million (or the Dollar Equivalent thereof) instead of US$20 million (or the Dollar Equivalent thereof);<br>• the covenant does not include clause (6) of the 2004 Senior Notes covenant with respect to the repurchase of shares of Sino-Wood Partners, Limited; and<br>• the Company must obtain a fairness opinion and deliver an officer's certificate to the Trustee if the Fair Market Value of a Restricted Payment (other than cash) exceeds US$10.0 million (or the Dollar Equivalent thereof) instead of US$5 million (or the Dollar Equivalent thereof). |

(B) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;" or

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of

(1) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter immediately following the Original Issue Date and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment; plus

(2) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Company, including any such Net Cash Proceeds received upon (x) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Restricted Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

(3) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (a) payments of interest on Indebtedness, dividends or repayments of loans or advances, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), or (b) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus
(4) US$20 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the 2004 Senior Notes or to any Subsidiary Guarantee with the Net Cash Proceeds of, or in exchange for, Indebtedness Incurred under clause (6)(y) of the second paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;"

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a capital contribution or a substantially concurrent sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); provided that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the 2004 Senior Notes or to any Subsidiary Guarantee in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent offering of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); provided that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly, through Restricted Subsidiaries by the Company;

(6) repurchase of any Class B shares of Sino-Wood Partners, Limited, in accordance with agreements as in effect on the Original Issue Date; or

(7) payments or distributions to holders of any class or series of Disqualified Stock outstanding on the Original Issue Date in accordance with the terms of such class or series on the Original Issue Date;

provided that, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clauses (1), (5), (6) and (7) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of international standing if the Fair Market Value exceeds US$5 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in an amount in excess of US$5 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant under the caption "—Limitation on Restricted Payments" were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

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| **Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries**<br>The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:<br>(1) to the Company or a Wholly-Owned Restricted Subsidiary;<br>(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly-Owned Restricted Subsidiary; and<br>(3) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "—Limitation on Asset Sales" covenant. | **Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries**<br>The Exchange Notes indenture includes the following exception, not included in the 2004 Senior Notes, to the covenant restricting sales and issuances of Capital Stock in Restricted Subsidiaries:<br>(4) the issuance and sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); provided that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "—Limitation on Asset Sales" covenant. |

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| **Limitation on Issuances of Guarantees by Restricted Subsidiaries**<br>The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the 2004 Senior Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the 2004 Senior Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (a) (3), (4) or (5) under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock."<br><br>If the Guaranteed Indebtedness (A) ranks pari passu in right of payment with the 2004 Senior Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank pari passu in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the 2004 Senior Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the 2004 Senior Notes or the Subsidiary Guarantee. | **Limitation on Issuances of Guarantees by Restricted Subsidiaries**<br>The Exchange Notes indenture contains an identical provision, except that clause (2) reads as follows:<br><br>such Guarantee and such Guaranteed Indebtedness are permitted by clauses (a) (3), (4), (5) or (9)(ii) (other than, in the case of clause 9(ii), a Guarantee by a Restricted Subsidiary organized under the laws of the PRC of the Indebtedness of a non-PRC Restricted Subsidiary) under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock." |

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| **Limitation on Transactions with Shareholders and Affiliates**<br>The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 5% or more of any class of Capital Stock of the Company or (y) with any Affiliate of the Company or any Restricted Subsidiary (each an "Affiliate Transaction"), unless:<br>(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with an unrelated Person; and<br>(2) the Company delivers to the Trustee:<br>(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$1 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and<br>(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5 million (or the Dollar Equivalent thereof), an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. | **Limitation on Transactions with Shareholders and Affiliates**<br>The Exchange Notes indenture contains identical provisions, except that:<br>• the amount in clause (2)(a) is US$5.0 million (or the Dollar Equivalent thereof) instead of US$1.0 million (or the Dollar Equivalent thereof);<br>• the amount in clause (2)(b) is US$10.0 million (or the Dollar Equivalent thereof) instead of US$5.0 million (or the Dollar Equivalent thereof); and<br>• the last paragraph of the covenant reads as follows:<br>In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) transactions between or among the Company and any of its Restricted Subsidiaries that is not a Wholly-Owned Restricted Subsidiary to the extent entered into in the ordinary course of business, (ii) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (iii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Exchange Offer Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date; provided that, in the case of (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary). |

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any of its Wholly-Owned Restricted Subsidiaries or between or among Wholly-Owned Restricted Subsidiaries;

(3) issuances or sales of Capital Stock (other than Disqualified Stock) of the Company or options, warrants or other rights to acquire such Capital Stock;

(4) transactions or payments pursuant to any employee, officer or director compensation or benefit plans or similar arrangements (including consultancy agreements pursuant to which officers and directors are compensated) entered into in the ordinary course; and

(5) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption "—Limitation on Restricted Payments" if permitted by that covenant.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to transactions between or among the Company and any of its Restricted Subsidiaries that is not a Wholly-Owned Restricted Subsidiary to the extent entered into in the ordinary course of business; provided that, in the case of a Restricted Subsidiary that is a PRC CJV, the PRC CJV Partner of such PRC CJV is not a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such PRC CJV Partner being an officer or director of the PRC CJV).

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| **Limitation on Asset Sales**<br>The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:<br><br>(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;<br><br>(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;<br><br>(3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock" after giving pro forma effect to such Asset Disposition;<br><br>(4) at least 75% of the consideration received consists of cash. For purposes of this provision, each of the following will be deemed to be cash:<br><br>(a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the 2004 Senior Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary, assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and<br><br>(b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion. | **Limitation on Asset Sales**<br>The Exchange Notes indenture contains an identical covenant, except that:<br><br>• the first sentence of clause (4) reads as follows:<br><br>at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; provided that in case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets (i) the Company delivers to the Trustee an Officer's Certificate stating that (a) the Company's chief executive officer or chief financial officer has approved such Asset Sale, (b) such Asset Sale is on fair and reasonable terms on an arm's length basis, and (c) the Fair Market Value of the Replacement Assets, together with any cash consideration is no less than the Fair Market Value of the assets subject to such Asset Sale, and (ii) any such Asset Sale involving an aggregate consideration with a Fair Market Value in excess of US$25 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing.<br><br>• In the third to last paragraph of the covenant:<br><br>• the amount is US$15 million (or the Dollar Equivalent thereof) instead of US$5 million (or the Dollar Equivalent thereof); and<br><br>• the Company must make an Offer to Purchase within 10 days of receiving more than US$15 million (or the Dollar Equivalent thereof) of Excess Proceeds. |

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| Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:<br><br>(1) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or<br><br>(2) make an Investment in properties and assets that replace the properties and assets that were the subject to such Asset Sale or in properties or assets that will be used in the Permitted Businesses ("Replacement Assets").<br><br>Pending the final application of any Net Cash Proceeds, the Company may temporarily reduce revolving credit borrowings or otherwise invest the Net Cash Proceeds in any manner that is not prohibited by the Indenture.<br><br>Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "Excess Proceeds." Excess proceeds of less than US$5 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When the aggregate amount of Excess Proceeds exceeds US$5 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company may make an Offer to Purchase to all Holders (and, with respect to Indebtedness of the Company,that ranks equally with the 2004 Senior Notes, containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets, to the holders of such Indebtedness, including any Permitted Pari Passu Indebtedness) to purchase the maximum principal amount of 2004 Senior Notes (and any such other pari passu Indebtedness) that may be purchased out of the Excess Proceeds. The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash; provided that if the Company does not make such an Offer to Purchase, it will be an Event of Default. | |

| 2004 Senior Notes | Exchange Notes |
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| Notwithstanding the foregoing, the Company will not, and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of any shares of Capital Stock of Sino-Forest (China) Investments Limited or of any Restricted Subsidiary that owns directly or indirectly any shares of Capital Stock of Sino-Forest (China) Investments Limited. | |
| If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of 2004 Senior Notes (and any other pari passu Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the 2004 Senior Notes (and such other pari passu Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero. | |

| 2004 Senior Notes | Exchange Notes |
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| **Provision of Financial Statements and Reports**<br>The Company will provide to the Trustee its annual reports within 120 days after the close of each fiscal year and its interim reports within 60 days after the close of each of the first three quarters of each fiscal year. | **Provision of Financial Statements and Reports**<br>The Company will file with the Trustee and provide the holders of the Exchange Notes with the documents required to be sent to the Company's shareholders pursuant to applicable securities laws in the Provinces of Canada in which the Company is a reporting issuer and within the time prescribed by such applicable securities laws. In the event the Company is no longer subject to such applicable securities laws, it will continue to provide the Trustee and the holders of the Exchange Notes (i) within 90 days after the end of each fiscal year, copies of its annual audited report and annual consolidated financial statements, (ii) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, interim unaudited consolidated financial statements which shall, at a minimum, contain such information required to be provided in quarterly reports under the applicable securities laws of the Province of Ontario, and (iii) an Officer's Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation.<br><br>In addition, the Company will provide the Trustee and the holders of the Exchange Notes (i) within 120 days after the end of each fiscal year, copies of annual non-consolidated financial statements of each Initial Non-Guarantor Subsidiary and (ii) within 60 days after the end of each of the first three quarters of each fiscal year, interim non-consolidated financial statements of such Initial Non-Guarantor Subsidiary. |

| 2004 Senior Notes | Exchange Notes |
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| | Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting standards as such standards may be applicable to the Company or an Initial Non-Guarantor Subsidiary, as the case may be.<br><br>The foregoing reporting obligations shall terminate with respect to any Initial Non-Guarantor Subsidiary that becomes a Subsidiary Guarantor pursuant to the terms of the Indenture. |
| **Events of Default**<br>The following events are included in the definition of "Events of Default":<br><br>• There occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$5 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (B) the failure to make a principal payment when due.<br><br>• Any final judgment or order for the payment of money in excess of US$5 million (or the Dollar Equivalent thereof) in the aggregate for all such final judgments or orders shall be rendered against the Company or any Restricted Subsidiary and shall not be paid or discharged for a period of 60 days during which a stay of enforcement of such final judgment or order shall not be in effect; | **Events of Default**<br>The "Events of Default" in the Exchange Notes indenture are identical, except that:<br><br>• the cross-default threshold amount is US$10.0 million (or the Dollar Equivalent thereof instead of US$5 million (or the Dollar Equivalent thereof); and<br><br>• the judgment default threshold amount is US$10.0 million (or the Dollar Equivalent thereof instead of US$5 million (or the Dollar Equivalent thereof). |

| 2004 Senior Notes | Exchange Notes |
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| **Defeasance of Certain Covenants**<br>Provisions of the Indenture will no longer be in effect with respect to clauses (3), (4) and (5)(x) under the first paragraph under "Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Covenants," clause (c) under "Events of Default" with respect to such clauses (3), (4) and (5)(x) under the first paragraph under "Consolidation, Merger and Sale of Assets," clause (d) under "Events of Default" with respect to such other covenants and clauses (e), (f), (i), (j) and (k) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the 2004 Senior Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the 2004 Senior Notes, the satisfaction of the provisions described in clause (B)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel to the effect that, among other things, the Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred. | **Defeasance of Certain Covenants**<br>The Exchange Notes indenture contains an identical covenant, except that upon the occurrence of the events described in the covenant:<br>• the provisions of the Indenture that will no longer be in effect are clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets"; and<br>• all the covenants described in the Indenture under "Covenants," clause (c) under "Events of Default" with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets," clause (d) under "Events of Default" with respect to such other covenants and clauses (e), (f), (i), (j) and (k) under "Events of Default" will be deemed not to be Events of Default. |
| **Amendments Without Consent of Holders**<br>The Indenture or any Security Document may be amended, without the consent of any Holder, to:<br>(1) cure any ambiguity, defect or inconsistency in the Indenture, the 2004 Senior Notes or any Security Document;<br>(2) comply with the provisions described under "Consolidation, Merger and Sale of Assets;"<br>(3) evidence and provide for the acceptance of appointment by a successor Trustee; | **Amendments Without Consent of Holders**<br>The Exchange Notes indenture contains an identical provision and, in addition, permits amendments, without the consent of Holders, to effect a change to the Indenture in a manner necessary to comply with the procedures of DTC. |

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| (4) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture; | |
| (5) provide for the issuance of Additional 2004 Senior Notes in accordance with the limitations set forth in the Indenture; | |
| (6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture; | |
| (7) add additional Collateral to secure the 2004 Senior Notes or any Subsidiary Guarantee; | |
| (8) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture); or | |
| (9) make any other change that does not materially and adversely affect the rights of any Holder. | |
| **Definition of "Asset Sale"**<br>"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including Capital Stock) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person other than the Company or any Wholly-Owned Restricted Subsidiary; provided that "Asset Sale" shall not include:<br>(a) sales or other dispositions of inventory, receivables and other current assets (including, but not limited to wood chips, logs, lumber, and manufactured wood and wood panel products) or standing timber in the ordinary course of business, | **Definition of "Asset Sale"**<br>The definition of "Asset Sale" in the Exchange Notes indenture is identical, except that transactions covered by the covenant under the caption "—Consolidation, Merger and Sale of Assets" are excluded. |

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| (b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the "Limitation on Restricted Payments" covenant, | |
| (c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions, | |
| (d) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries, or | |
| (e) any, transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien. | |
| **Definition of "Capital Stock"**<br>"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock. | **Definition of "Capital Stock"**<br>The definition of "Capital Stock" in the Exchange Notes indenture is identical, except that convertible debt securities are excluded. |
| **Definition of "Consolidated EBITDA"**<br>"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income: | **Definition of "Consolidated EBITDA"**<br>The definition of "Consolidated EBITDA" in the Exchange Notes indenture is identical, except it does not include clause (ii) of the proviso in the definition for the 2004 Senior Notes. |
| (1) Consolidated Interest Expense, | |
| (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), | |
| (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than depletion of timber holdings or non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income, | |

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| all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP, provided that (i) if any Restricted Subsidiary is not a Wholly-Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries and (ii) in the case of any PRC CJV, Consolidated EBIDTA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC JV to the PRC JV Partner, or to which the PRC JV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV. | |
| **Definition of "Fair Market Value"**<br>"Fair Market Value" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution. | **Definition of "Fair Market Value"**<br>The definition of "Fair Market Value" in the Exchange Notes indenture is identical, except that it includes the following exception to the requirement that a determination be made by the Board of Directors:<br>• *provided*, however, that for purposes of clause (4)(i) of "Certain Covenants—Limitation on Asset Sales", such determination may instead be made by the Company's Chief Executive Officer or Chief Financial Officer. |
| **Definition of "Fixed Charge Coverage Ratio"**<br>"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Four Quarter Period") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation: | **Definition of "Fixed Charge Coverage Ratio"**<br>The definition of "Fixed Charge Coverage Ratio" in the Exchange Notes indenture is identical, except that it includes the following clause:<br>(C) pro forma effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period; |

(A) pro forma effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) pro forma effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

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| (D) pro forma effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period; | |
| provided that to the extent that clause (C) or (D) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available. | **Definition of "Foreign Subsidiary"**<br>The definition of Foreign Subsidiary is a new definition and read as follows:<br>"Foreign Subsidiary" means any Restricted Subsidiary of the Company organized under the laws of a jurisdiction that prohibits such Subsidiary from guaranteeing payments under the Exchange Notes. |
| **Definition of "Indebtedness"**<br>"Indebtedness" means, with respect to any Person at any date of determination (without duplication):<br>(1) all indebtedness of such Person for borrowed money;<br>(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;<br>(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;<br>(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;<br>(5) all Capitalized Lease Obligations; | **Definition of "Indebtedness"**<br>The definition of "Indebtedness" in the Exchange Notes indenture is identical, except that the proviso in the second paragraph includes the following additional clause:<br>(C) that the amount of Indebtedness with respect to any Commodity Agreements, Currency Agreements and Interest Rate Agreements shall be equal to the net amount payable if such agreements terminated at that time due to default by such Person. |

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| (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness; | |
| (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person; and | |
| (8) to the extent not otherwise included in this definition, obligations under Commodity Agreements, Currency Agreements and Interest Rate Agreements. | |
| The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, provided | |
| (A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP, and | |
| (B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest. | |
| **Definition of "Investment"**<br>"Investment" means: | **Definition of "Investment"**<br>The definition of "Investment" in the Exchange Notes indenture is identical, except it provides that an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of common equity securities of the Company shall not be deemed to be an Investment. |
| (i) any direct or indirect advance, loan or other extension of credit (other than Trade Payables that are, in conformity with GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the Company or its Restricted Subsidiaries) to another Person, | |

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| (ii) capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),<br><br>(iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or<br><br>(iv) any Guarantee of any obligation of another Person.<br><br>For the purposes of the provisions of the "Designation of Restricted and Unrestricted Subsidiaries" and "Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors. | |
| **Definition of "Permitted Forestry Plantation Business"**<br>"Permitted Forestry Plantation Business" means the operation of forestry plantations and the processing, distribution, transportation, cultivation and development of wood fibers and lots, and other similar products, the operation of plantation nurseries, and the sale and distribution of seeds and saplings, inputs and similar products, or intermediate products and by-products used or produced in connection with such activities, the planting of saplings and trees in city greening and urban landscaping projects, including the design and implementation of such projects, the import and export of logs, lumber and other wood and wood-based products, trading agency activities related to the foregoing, and related businesses and activities incidental to any of the foregoing activities. | **Definition of "Permitted Forestry Plantation Business"**<br>The definition of "Permitted Forestry Plantation Business" in the Exchange Notes indenture is identical, except that it includes the operation of production and processing facilities and the sale, distribution, transportation, cultivation and development of wood fibers and lots and other similar wood and wood-based products, including bio-fuels. |

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| **Definition of "Restricted Subsidiary"**<br>"Restricted Subsidiary" is defined in the 2004 Senior Notes indenture to mean Guangdong Jiayao Wood Products Development Co., Ltd. (WFOE), Jiafeng Wood (Suzhou) Co., Ltd. (WFOE), SFR Suzhou Co., Ltd. (WFOE), Guangxi Guijia Forestry Company Limited (CJV), Jiangxi Jiachang Forestry Development Co. Ltd. (CJV), Heyuan City Jiahe Forestry Development Ltd. (CJV), Gaoyao City Jiayao Forestry Development Ltd. (CJV), Zhangzhou City Jia Min Forestry Development Ltd. (WFOE), Sino-Forest (China) Investments Limited (WFOE), Sinowin Plantings (Suzhou) Co., Ltd. (WFOE), Sino-Maple (Shanghai) Trading Limited (WFOE), Sino-Panel Holdings Limited (BVI), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), SFR (China) Inc. (BVI), Sino-Wood Partners, Limited (H.K.), Sino-Forest Resources Inc. (BVI), Suri-Wood Inc. (BVI), Sino-Plantation Limited (H.K.), Sino-Wood (Guangxi) Limited (H.K.), Sino-Wood (Jiangxi) Limited (H.K.), Sino-Wood (Guangdong) Limited (H.K.), Sino-Wood (Fujian) Limited (H.K.), Dynamic Profit Holdings Ltd. (BVI), Sino-Forest Investments Ltd. (BVI), Sino-Capital Global Inc. (BVI), Sino-Global Holdings Inc. (BVI), Grandeur Winway Limited (BVI), Sinowin Investments Limited (BVI), Sinowood Limited (Cayman), Sinowood Holdings Limited (Cayman) and Sino-Two Limited (BVI), and any Unrestricted Subsidiary that has been designated as a Restricted Subsidiary after the Original Issue Date in accordance with the provisions described under the caption "—Designation of Restricted and Unrestricted Subsidiaries" (unless any of such Subsidiaries shall have been subsequently designated an Unrestricted Subsidiary in accordance with such provisions). | **Definition of "Restricted Subsidiary"**<br>"Restricted Subsidiary" is defined in the Exchange Notes indenture as any Subsidiary of the Company other than an Unrestricted Subsidiary. |

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| Notwithstanding anything to the contrary herein, any Subsidiary of the Company organized after the Original Issue Date shall, as of the date of such organization, be designated a Restricted Subsidiary without further action by the Company unless otherwise designated as an Unrestricted Subsidiary pursuant to the Indenture; provided, however, that if such new Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall take such actions to become a Subsidiary Guarantor, and all Capital Stock of such Restricted Subsidiary shall be pledged, as may otherwise be required. | |
| **Definition of "Temporary Cash Investment"** | **Definition of "Temporary Cash Investment"** |
| (1) direct obligations of the United States of America or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America or any agency thereof, in each case maturing within one year; | The Exchange Notes indenture contains identical provisions, except that:<br>• the period of time in clause (1) is 24 months; |
| (2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, Hong Kong, Singapore or Canada, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor; | • clause (2) reads as follows:<br>time deposit accounts, certificates of deposit and money market deposits maturing within 24 months of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, Hong Kong, Singapore or Canada, and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor; |
| (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above; | • Canada has been added to the list of jurisdictions and the ratings are P-3 (or higher) according to Moody's or A-3 according to S&P;<br>• the period of time in clause (5) is 24 months; and<br>• the list of banks at clause (7) (i) includes Shanghai Pudong Development Bank and at clause (7)(iii) deposits in the aggregate do not exceed US$75 million at any time of determination. |

(4) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-2" (or higher) according to Moody's or "A-2" (or higher) according to S&P;

(5) securities with maturities of six months or less from the date of acquisition issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit and money market deposits with (i) Bank of China, Industrial Commercial Bank of China, Construction Bank of China, Bank of Shanghai, (ii) any other bank or trust company organized under the laws of the PRC whose long term debt is rated as high or higher than any of those banks or (iii) any other bank organized under the laws of the PRC, *provided* that, in the case of clause (iii), such deposits do not exceed US$5.0 million (or the Dollar Equivalent thereof) with any single bank or US$20.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination.

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| | **Definition of "Total Assets" is new and reads as follows:** |
| | "Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP, other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting standards as such standards may be applicable to the Company, as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company are available; provided, that Total Assets shall be calculated after giving effect to include the cumulative value of all real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefore or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institution lender providing such Indebtedness. |

## CONCURRENT CONSENT SOLICITATION FOR THE 2004 SENIOR NOTES

Concurrently with the Exchange Offer, we are separately conducting a consent solicitation in connection with the 2004 Senior Notes. The proposed amendments to the 2004 Indenture and terms of the 2004 Senior Notes, if approved and effected, would result in the 2004 Senior Notes having substantially the same terms as the Exchange Notes, in particular with respect to restrictive covenants related to incurrence of indebtedness and the making of restricted payments. The amended 2004 Senior Notes, however, would continue to have the same maturity date, principal amount, interest, security and redemption rights. 2004 Senior Notes that are not tendered and accepted pursuant to the Exchange Offer will be subject to such amendments, if accepted and effected.

Additional information on the concurrent consent solicitation as well as a consent solicitation statement prepared in connection with this consent solicitation is made available to holders of 2004 Senior Notes upon request to Global Bondholder Services Corporation, as Information and Exchange Agent. The telephone number of the Information and Exchange Agent is set forth on the back cover of this Memorandum.

## DESCRIPTION OF THE EXCHANGE NOTES

For purposes of this "Description of the Exchange Notes," the term "Company", "we" and "our" refers to Sino-Forest Corporation, and any successor obligor on the Exchange Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which Guarantees the Exchange Notes is referred to as a "Subsidiary Guarantor," and each such Guarantee is referred to as a "Subsidiary Guarantee."

The Exchange Notes are to be issued under an Indenture, to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Law Debenture Trust Company of New York, as trustee (the "Trustee").

The following is a summary of certain material provisions of the Indenture, the Exchange Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Exchange Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee in New York.

### Brief Description of the Exchange Notes

The Exchange Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "—The Subsidiary Guarantees" and in "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral;"
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Exchange Notes;
- 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
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

In addition, on the Original Issue Date, subject to the limitations described in "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral" and the terms and conditions of the Intercreditor Agreement (as defined below), the Exchange Notes will be secured by a pledge of the Collateral as described below under the caption "—Security" and will:

- be entitled to a first priority lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Exchange Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Exchange Notes will mature on July 28, 2014, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Exchange Notes to be issued from time to time (the "Additional Exchange Notes"), subject to certain limitations described under "—Further Issues." Unless the context requires otherwise, references to the "Exchange Notes" for all purposes of the Indenture and this "Description of Exchange Notes" include any Additional Exchange Notes that are actually issued. The Exchange Notes will initially bear interest at 10.25% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided

for, payable semiannually in arrears on January 26 and July 26 of each year (each an "Interest Payment Date"), commencing January 26, 2010.

Interest will be paid to Holders of record at the close of business on January 12 or July 12 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or interest on the Exchange Notes shall not be a Business Day in the relevant place of payment, then payment of principal or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Exchange Notes shall accrue for the period after such date. Interest on the Exchange Notes will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The Exchange Notes will be issued only in fully registered form, without coupons, in denominations of US$2,000 of principal amount and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Exchange Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Exchange Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in the Borough of Manhattan, The City of New York (which initially will be the corporate trust administration office of the Trustee, currently located at 767 Third Avenue, 31st floor, New York, NY 10017), and the Exchange Notes may be presented for registration of transfer or exchange at such office or agency; *provided that*, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register. Interest payable on the Exchange Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

**The Subsidiary Guarantees**

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to priority rights of such unsubordinated Indebtedness pursuant to applicable law).

In addition, subject to the limitations described therein and in "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral," the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption "—Security;" and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to priority rights of such unsecured obligations pursuant to applicable law).

Under the Indenture, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Exchange Notes. The Subsidiary Guarantors have (1) agreed that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Exchange Notes or the Indenture and (2) waived their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees will be made in U.S. dollars.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will be Sino-Panel Holdings Limited (BVI), Sino-Global Holdings Inc. (BVI), Sino-Wood Partners, Limited (HK), Grandeur Winway Ltd. (BVI), Sinowin Investments Ltd. (BVI), Sinowood Limited (Cayman Islands), Sino-Forest Bio-Science Limited (formerly known as: Sino-Two Limited) (BVI), Sino-Forest Resources Inc. (BVI), Sino-Plantation Limited (HK), Suri-Wood Inc. (BVI), Sino-Forest Investments Limited (BVI), Sino-Wood (Guangxi) Limited (HK), Sino-Wood (Jiangxi) Limited (HK), Sino-Wood (Guangdong) Limited (HK), Sino-Wood (Fujian) Limited (HK), Sino-Panel (Asia) Inc. (BVI), Sino-Panel (Guangxi) Limited (BVI), Sino-Panel (Yunnan) Limited (BVI), Sino-Panel (North East China) Limited (BVI), Sino-Panel (Xiangxi) Limited (formerly known as: Rich Base Worldwide Limited) (BVI), Sino-Panel (Hunan) Limited (formerly known as Comtech Universal Limited) (BVI), SFR (China) Inc. (BVI), Sino-Panel (Suzhou) Limited (formerly known as: Pacific Harvest Holdings Limited) (BVI), Sino-Panel (Gaoyao) Ltd. (BVI), Sino-Panel (Guangzhou) Limited (BVI), Sino-Panel (North Sea) Limited (BVI), Sino-Panel (Guizhou) Limited (BVI), Sino-Panel (Huaihua) Limited (BVI), Sino-Panel (Qinzhou) Limited (formerly known as Sino-Panel (Jiayu) Ltd.) (BVI), Sino-Panel (Yongzhou) Limited (BVI), Sino-Panel (Fujian) Limited (BVI), Sino-Panel (Shaoyang) Limited (BVI), Amplemax Worldwide Limited (BVI), Ace Supreme International Limited (BVI), Express Point Holdings Limited (BVI), Glory Billion International Limited (BVI), Smart Sure Enterprises Limited (BVI) and Expert Bonus Investment Limited (BVI).

Not all of the Company's Restricted Subsidiaries will guarantee the Exchange Notes. Sino-Capital Global Inc. (BVI) and Dynamic Profit Holdings Limited (BVI) (the "Initial Non-Guarantor Subsidiaries"), which are among the Company's Subsidiaries that have guaranteed the 2004 Senior Notes and the Syndicated Term Loan, will not be Subsidiary Guarantors at the date of issue of the Exchange Notes. As a result, certain of the Company's Initial Non-Guarantor Subsidiaries are guarantors of the Company's obligations under the 2004 Senior Notes, the Syndicated Term Loan and/or 2008 Convertible Notes. In addition, none of the Company's over 35 significant current operating or other PRC Subsidiaries will provide a Subsidiary Guarantee. See "Corporate Structure." Each of the Company's Subsidiaries that do not guarantee the Exchange Notes, including the Initial Non-Guarantor Subsidiaries, are referred to as a "Non-Guarantor Subsidiary." In addition, no future Subsidiaries of the Company that may be organized under the laws of the PRC or another jurisdiction that prohibits such Subsidiary from guaranteeing the payment of the Exchange Notes will provide a Subsidiary Guarantee, such Subsidiaries referred to herein as "Foreign Subsidiaries." In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors including, in the case of an Initial Non-Guarantor Subsidiary, holders of the 2004 Senior Notes, holders of the 2008 Convertible Notes and/or lenders under the Syndicated Term Loan, before it will be able to distribute any of its assets to the Company or a subsidiary of the Company, as the case may be. See "Risk Factors—Risks Related to the Exchange Notes—We are a holding company and payments with respect to the Exchange Notes are structurally subordinated to liabilities, contingent liabilities and obligations of certain of our subsidiaries."

If any Initial Non-Guarantor Subsidiary would not be required to register as an investment company under the U.S. Investment Company Act of 1940, as amended, as determined in good faith by us within 30 days after the date on which the most recently available non-consolidated financial statements of such Initial Non-Guarantor Subsidiary and consolidated financial statements of the Company have been provided to the Trustee (or if not timely provided, would have been required to be provided) pursuant to the Indenture, the Company will promptly cause such Initial Non-Guarantor Subsidiary to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Initial Non-Guarantor Subsidiary will guarantee the payment of the Exchange Notes.

In addition, if the Non-consolidated Cash of all Initial Non-Guarantor Subsidiaries that are not, at the relevant time, Subsidiary Guarantors accounts for more than 10% of the Consolidated Cash of the Company, based on the most recently available non-consolidated financial statements of such Initial Non-Guarantor Subsidiaries and consolidated financial statements of the Company which have been provided to the Trustee (or if not timely provided, required to be provided) pursuant to the Indenture, the Company will, within 30 days after the date on which such financial statements are available and have been so provided (or if not timely provided, required to be provided), cause one or more of such Initial Non-Guarantor Subsidiaries that are not, at the relevant time, Subsidiary Guarantors to execute and deliver to the Trustee a supplemental indenture to the Indenture, pursuant to which such Initial Non-Guarantor Subsidiary or Initial Non-Guarantor Subsidiaries will guarantee the payment of the Notes, to ensure that after giving effect to such new Subsidiary Guarantees, the foregoing condition with respect to the Consolidated Cash of the Company will cease to exist.

For the purposes of the foregoing paragraph:

"Non-consolidated Cash" of an Initial Non-Guarantor Subsidiary means cash and cash equivalents held by such person on a non-consolidated basis, and not including, for the avoidance of doubt, cash and cash equivalents held by Subsidiaries of such person.

"Consolidated Cash" of the Company means cash and cash equivalents of the Company on a consolidated basis.

The Company will cause each of its future Restricted Subsidiaries (other than Subsidiaries organized under the laws of the PRC or Foreign Subsidiaries), immediately upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Exchange Notes.

Under the Indenture, and any supplemental indenture thereto, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to insolvency, fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally or the ability of related parties to provide guarantees. If a Subsidiary Guarantee were to be rendered void or voidable, it could be rendered ineffective or subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

***Release of the Subsidiary Guarantees***

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Exchange Notes;
- upon a defeasance as described under "—Defeasance;"

- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with terms of the Indenture; or
- upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under the captions "Certain Covenants—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries", "Certain Covenants—Limitation on Asset Sales" and "Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

***Limitations on Subsidiary Guarantees and Enforcement of Security***

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee and the enforceability of the Collateral granted in respect of such Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. Certain of the Subsidiary Guarantors have significant loans or other obligations due to other subsidiaries within the Sino-Forest group. The guarantee of a Subsidiary Guarantor's may be voided or subject to review under applicable insolvency or fraudulent transfer laws, or subject to a lawsuit by or on behalf of creditors of such Subsidiary Guarantor. See "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral—The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the caption "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Exchange Notes.

**Security**

Subject to the arrangements described under the caption "—Intercreditor Agreement" below, the Company has agreed, for the benefit of the Holders of the Exchange Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of the initial Subsidiary Guarantors (the "Collateral") on a first priority basis (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Exchange Notes and the Indenture and of such initial Subsidiary Guarantor Pledgors under their respective Subsidiary Guarantee.

The initial Subsidiary Guarantor Pledgors will be Sino-Panel Holdings Limited (BVI), Sino-Panel (Asia) Inc. (BVI), Sino-Wood Partners, Limited (H.K.), Sino-Plantation Limited (H.K.), Sino-Global Holdings Inc. (BVI), Suri-Wood Inc. (BVI), and Sinowood Limited (Cayman Islands).

The Company has also agreed, for the benefit of the Holders of the Exchange Notes, to pledge, or cause each Subsidiary Guarantor, including each Initial Non-Guarantor Subsidiary that becomes a Subsidiary Guarantor, to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that is a Restricted Subsidiary or becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC or any other jurisdiction that prohibits the Capital Stock of such Restricted Subsidiaries from being pledged to secure the obligations of the Company or such Subsidiary Guarantor) after the Original Issue Date, promptly upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Exchange Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

The value of the Collateral securing the Exchange Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may not be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Exchange Notes, and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Exchange Notes and such Subsidiary Guarantee may be reduced or diluted under certain circumstances, including the issuance of Additional Exchange Notes and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See "—Release of Security" and "Risk Factors—Risks Related to the Subsidiary Guarantees and the Collateral—The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Exchange Notes."

No appraisals of the Collateral have been prepared in connection with this exchange offer and offering of the Exchange Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Exchange Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Default has occurred and is continuing, and subject to the terms of the Security Documents, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive and retain any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

***Permitted Pari Passu Secured Indebtedness***

The Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral pari passu with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Exchange Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, "Permitted Pari Passu Secured Indebtedness"); *provided that* (i) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption "Limitation on Indebtedness and Disqualified or Preferred Stock," (ii) the holders of such Indebtedness (or their representative) become party to an Intercreditor Agreement referred to below, (iii) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents and (iv) the Company and such Subsidiary Guarantor Pledgor deliver to the Security Trustee an Opinion of Counsel with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under an Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Exchange Notes then outstanding.

*Intercreditor Agreement*

As of the date of this Exchange Offer Memorandum, the Collateral was pledged to secure the obligations of the Company and the subsidiary guarantors under the 2004 Senior Notes and the Syndicated Term Loan, pursuant to the terms of such Indebtedness, the security documents related thereto (the "Existing Security Documents") and an intercreditor agreement (the "Existing Intercreditor Agreement") between Law Debenture Trust Company of New York as trustee for the holders of 2004 Senior Notes, Barclays Bank PLC as facility agent, Law Debenture Trust Company of New York as security trustee for the benefit of the holders of the 2004 Senior Notes and the Finance Parties (as defined in the Syndicated Term Loan), and acknowledged by the Company. This Existing Intercreditor Agreement, together with the Existing Security Documents, provide, among other things, that (1) the parties thereto (excluding the Security Trustee) share equal priority and pro rata entitlement in and to the Collateral; (2) the conditions under which the parties thereto will consent to the release of or granting of any lien on such Collateral; and (3) the conditions under which the parties thereto will enforce their rights with respect to such Collateral and the Indebtedness secured thereby. The collateral securing the obligations of the Company and the subsidiary guarantors under the 2004 Senior Notes and the Syndicated Term Loan (the "Existing Collateral") includes the Collateral, as well as Capital Stock of certain of the Company's Restricted Subsidiaries that are owned by Initial Non-Guarantor Subsidiaries (the "Excluded Collateral").

The Company is currently seeking the consent of the Lenders (as defined in the Syndicated Term Loan) to, among other things, enable the Holders of the Exchange Notes to share equal priority and pro rata entitlement in and to the Collateral. See "Description of Other Indebtedness—Syndicated Term Loan". If the Company obtains such consent from the Majority Lenders (as defined in the Syndicated Term Loan), the Trustee on behalf of the Holders of the Exchange Notes will enter into an amended Intercreditor Agreement (the "Amended Intercreditor Agreement"), amend the Existing Security Documents and Law Debenture Trust Company of New York will act as Security Trustee for the Holders of the Exchange Notes (as well as for the holders of any 2004 Senior Notes remaining outstanding after the Original Issue Date and the Finance Parties under the Syndicated Term Loan), such that the Holders of the Exchange Notes will share equal priority and pro rata entitlement in and to the Collateral (but not with respect to the Excluded Collateral) with the holders of any 2004 Senior Notes remaining outstanding after the Original Issue Date and the Finance Parties under the Syndicated Term Loan.

The Amended Intercreditor Agreement would also provide that when the Capital Stock of any Person that is or becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC or any other jurisdiction that prohibits such Restricted Subsidiaries from guaranteeing the payment of the Exchange Notes) is delivered as security as described in the third paragraph of "—Security" above, such Capital Stock would also be deemed to be Collateral, and subject to the sharing of interest in such security by the Holders of the Exchange Notes, under the terms of such intercreditor agreement.

Prior to the first Incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Exchange Notes), the Amended Intercreditor Agreement which shall be in a form satisfactory to the parties thereto and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative), shall be amended to include the holders of such Permitted Pari Passu Secured Indebtedness as parties to the agreement.

*Enforcement of Security*

The First Priority Lien securing the Exchange Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Security Trustee. The Security Trustee will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority as directed by the Trustee to exercise remedies under the Security Documents. The Security Trustee will agree to act as secured party on behalf of the Trustee under the applicable Security Documents, to follow the instructions provided to it by the Trustee under the Security Documents and to carry out certain other

duties. The Trustee will give instructions to the Security Trustee in accordance with instructions it receives from the Holders under the Indenture.

The Indenture and/or the Security Documents will principally provide that, at any time while the Exchange Notes are outstanding, the Security Trustee will have the exclusive right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of a Default under the Indenture.

All payments received and all amounts held by the Security Trustee in respect of the Collateral under the Security Documents will be applied as follows:

*first*, to the Security Trustee to the extent necessary to reimburse the Security Trustee for any expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and preserving the Collateral and all amounts for which the Security Trustee is entitled to indemnification under the Security Documents;

*second*, to the Trustee for the benefit of Holders and to the extent applicable, to holders of Permitted Pari Passu Indebtedness (or their representative); and

*third*, any surplus remaining after such payments will be paid to the Company or the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Security Trustee may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification to its satisfaction. In addition, the Security Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Security Trustee's Liens on the Collateral. Neither the Security Trustee nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Exchange Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents will provide that the Company and the Subsidiary Guarantor Pledgors will Indemnify the Security Trustee for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Security Trustee arising out of the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the negligence or willful misconduct of the Security Trustee.

This section, "—Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "—Permitted Pari Passu Secured Indebtedness" above.

***Release of Security***

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Exchange Notes;
- upon defeasance and discharge of the Exchange Notes as provided below under the caption "—Defeasance;"

- upon certain dispositions of the Collateral in compliance with the covenants under the captions "—Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "—Limitation on Asset Sales" or in accordance with the provision under the caption "—Consolidation, Merger and Sale of Assets;" and
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture.

**Further Issues**

The Company may, from time to time, without notice to or the consent of the Holders, create and issue further debt securities having the same terms and conditions as the Exchange Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for issue date, issue price, and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such subsequently issued debt securities may be consolidated and form a single series with the previously outstanding Exchange Notes; *provided that* the issuance of any such further debt securities shall then be permitted under the first paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant described below, *provided* further that both the Exchange Notes and any Additional Exchange Notes are issued with no more than a de minimis amount of original issue discount or the Exchange Notes are part of a qualified reopening for U.S. federal income tax purposes.

**Optional Redemption**

At any time prior to the Maturity Date, the Company may at its option redeem the Exchange Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Exchange Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the redemption date.

At any time prior to January 26, 2011, the Company may redeem up to 35% of the principal amount of the Exchange Notes with the Net Cash Proceeds of one or more sales of its Common Stock in an Equity Offering at a redemption price of 110.25% of the principal amount of the Exchange Notes, plus accrued and unpaid interest, if any, to the redemption date; *provided that* at least 65% of the aggregate principal amount of the Exchange Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related sale of Capital Stock.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Exchange Notes are to be redeemed, selection of the Exchange Notes for redemption will be made by the Trustee by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.

However, no Note of US$1,000 in principal amount or less shall be redeemed in part. If any Exchange Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note.

**Repurchase of Exchange Notes Upon a Change of Control Triggering Event**

The Company must commence, within 30 days of the occurrence of a Change of Control Triggering Event, and consummate an Offer to Purchase for all Exchange Notes then outstanding (a "Change of Control Offer"), at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Payment Date.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit or require the Company to repurchase or redeem the Exchange Notes in the event of a takeover, recapitalization or similar transaction. Holders may not be entitled to require the Company to purchase their Exchange Notes in certain circumstances involving a significant change in the composition of Board of Directors, including in connection with a proxy contest where the Board of Directors does not approve a dissident slate of directors but approves them as continuing directors, even if the Board of Directors initially opposed the directors.

If a Change of Control Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the purchase price for all the Exchange Notes that might be tendered by the Holders seeking to accept the Change of Control Offer. In the event that the Company purchases Exchange Notes pursuant to a Change of Control Offer, the Company expects that it would seek third party financing to the extent it does not have available funds to purchase the Exchange Notes. However, there can be no assurance that the Company would be able to obtain such financing.

In order to repurchase the Exchange Notes in an Offer to Purchase, the Company will, unless consents are obtained, be required to repay all Indebtedness then outstanding which by its terms would prohibit such Note repurchase, either prior to or concurrently with such Note repurchase.

**Sinking Fund**

There will be no sinking fund payments for the Exchange Notes.

**Additional Amounts**

All payments of, or in respect of, principal of, and premium (if any) and interest in respect of the Exchange Notes or the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "—Consolidation, Merger and Sale of Assets") or the applicable Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder of such Note or Subsidiary Guarantee and the Relevant Jurisdiction other than merely holding such Note or Subsidiary Guarantee, including such Holder being or having been a national, domiciliary or resident of or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would

have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;

(C) the failure of the Holder, despite being required by law, to comply with a timely request of the Company addressed to the Holder or beneficial owner to provide information concerning such Holder's nationality, residence, identity or connection with Canada or any political subdivision or authority thereof, or other Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any taxes as to which Additional Amounts would have otherwise been payable to such Holder; or

(D) the presentation of such Note (where presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or

(iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2004/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives; or

(iv) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii) and (iii);

(b) with respect to any payment of the principal of, or any premium, if any, or interest on, such Note to such Holder if such Holder, together with any persons related to such Holder, owns greater than 50% of the voting securities of the Company or such Holder otherwise has de facto control of the Company; or

(c) with respect to any payment of the principal of, or any premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee to the Holder, if such Holder is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of the Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor, with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner, person or beneficial owner been the registered Holder thereof.

Whenever there is mentioned in any context the payment of principal, any premium or interest, in respect of any Exschange Note or Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

**Redemption for Taxation Reasons**

The Exchange Notes may be redeemed, at the option of the Company or Surviving Person, as a whole but not in part, at any time, upon giving not less than 30 nor more than 60 days notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment, or order by a court of competent jurisdiction),

which change, amendment, application or interpretation (a) in the case of the Company, Surviving Person and any initial Subsidiary Guarantor becomes effective on or after the Original Issue Date and (b) in the case of any successor to a Subsidiary Guarantor or a future Subsidiary Guarantor becomes effective after such Subsidiary Guarantor assumes the obligations under the Indenture or becomes a Subsidiary Guarantor, with respect to any payment due or to become due under the Exchange Notes or the Indenture, the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next interest payment date would be, required to withhold or deduct any tax, duty, assessment or other governmental charge imposed levied, collected, withheld or assessed by a Relevant Jurisdiction and to pay Additional Amounts, and in each case, such requirement to withhold or deduct cannot be avoided by the taking of reasonable measures by the Company, Surviving Person or a Subsidiary Guarantor; *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Exchange Notes were then due.

Prior to the publication and mailing of any notice of redemption of the Exchange Notes pursuant to the foregoing, the Company or Surviving Person will deliver to the Trustee (a) a certificate signed by a duly authorized officer stating that the Company or Surviving Person is entitled to effect the redemption under the Indenture and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred and (b) an Opinion of Counsel or tax consultant of recognized standing to the effect that based on such statement of facts the circumstances referred to in the prior paragraph exist. The Trustee shall accept such opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Exchange Notes that are redeemed will be cancelled.

**Certain Covenants**

Set forth below are summaries of certain covenants contained in the Indenture.

***Limitation on Indebtedness and Disqualified or Preferred Stock***

(a) The Company will not Incur any Indebtedness or Disqualified Stock, *provided*, that the Company may Incur Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0. The Company will not permit any Restricted Subsidiary to Incur any Indebtedness (including Acquired Indebtedness), Disqualified Stock or Preferred Stock (other than Disqualified Stock or Preferred Stock of Restricted Subsidiaries held by the Company or a Subsidiary Guarantor, so long as it is so held).

Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):

(1) Indebtedness under the Exchange Notes (excluding any Additional Exchange Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;

(2) any Pari Passu Subsidiary Guarantees by Subsidiary Guarantors;

(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clauses (4) and (5);

(4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Wholly-Owned Restricted Subsidiary; provided that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Wholly-Owned Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (4) and (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Exchange Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor;

(5) Indebtedness of the Company or any Restricted Subsidiary the aggregate principal amount of which at any time outstanding does not exceed an amount equal to 10.0% of Total Assets of the Company, but in any case not in excess of US$400.0 million, less any amount of such Indebtedness permanently repaid as provided under the covenant under the caption "—Limitation on Asset Sales";

(6) Indebtedness issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph or clauses (1) or (2) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); provided that (a) Indebtedness the proceeds of which are used to refinance or refund the Exchange Notes or Indebtedness that is pari passu with, or subordinated in right of payment to, the Exchange Notes or a Subsidiary Guarantee shall only be permitted under this clause (6) if (x) in case the Exchange Notes are refinanced in part or the Indebtedness to be refinanced is pari passu with the Exchange Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made pari passu with, or subordinate in right of payment to, the remaining Exchange Notes or such Subsidiary Guarantee, or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Exchange Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Exchange Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Exchange Notes or such Subsidiary Guarantee, (b) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (c) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this Clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(7) the Incurrence by the Company or any Restricted Subsidiaries of Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 90 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement; and

(9) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (5), (7) or (8) above.

(b) For purposes of determining compliance with this "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (a), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness.

(c) The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is subordinate in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also subordinate in right of payment to the Exchange Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

***Limitation on Restricted Payments***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of its Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any of its Restricted Subsidiaries' Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly-Owned Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock, but excluding any Indebtedness of the Company or any Restricted Subsidiary that is not subordinated in right of payment to the Exchange Notes or any Subsidiary Guarantee that is convertible into Capital Stock of the Company) held by any Persons other than the Company or any Wholly-Owned Restricted Subsidiary;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Exchange Notes or any of the Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Wholly-Owned Restricted Subsidiaries); or

(4) make any Investment, other than a Permitted Investment, in any Person;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) a Default shall have occurred and be continuing;

(B) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;" or

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of

(1) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter immediately following the Original Issue Date and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment; *plus*

(2) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Company, including any such Net Cash Proceeds received upon (x) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Restricted Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; *plus*

(3) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (a) payments of interest on Indebtedness, dividends or repayments of loans or advances, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), or (b) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; *plus*

(4) US$350.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the Exchange Notes or to any Subsidiary Guarantee with the Net Cash Proceeds of, or in exchange for, Indebtedness Incurred under clause (6)(y) of the second paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;"

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a capital contribution or a substantially concurrent sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options,

warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the Exchange Notes or to any Subsidiary Guarantee in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent offering of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided that* the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly, through Restricted Subsidiaries by the Company; or

(6) payments or distributions to holders of any class or series of Disqualified Stock outstanding on the Original Issue Date in accordance with the terms of such class or series on the Original Issue Date;

*provided that*, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clauses (1), (5), and (6) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of international standing if the Fair Market Value exceeds US$10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in an amount in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant under the caption "—Limitation on Restricted Payments" were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

The Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to (1) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary, (2) pay any Indebtedness owed to the Company or any other Restricted Subsidiary, (3) make loans or advances to the Company or any other Restricted Subsidiary or (4) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

The foregoing provisions shall not restrict any encumbrances or restrictions:

(1) existing in agreements as in effect on the Original Issue Date, in the Exchange Notes, the Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, and any extensions, refinancings, renewals, supplements, amendments or replacements of any of the foregoing agreements; *provided that* the encumbrances and restrictions in any such extension, refinancing, renewal, supplement, amendment or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(2) existing under or by reason of applicable law;

(3) existing with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided that* the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no less favorable in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(4) in the case of clause (4) of the first paragraph of this covenant, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is a lease, license, conveyance or contract or similar property or asset, or (ii) exist by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) arise or are agreed to in the ordinary course of business, not relating to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(5) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "Limitation on Indebtedness and Disqualified or Preferred Stock" and "Limitation on Asset Sales" covenants.

***Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries***

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly-Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly-Owned Restricted Subsidiary;

(3) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "—Limitation on Asset Sales" covenant; and

(4) the issuance and sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided that* the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "—Limitation on Asset Sales" covenant.

***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (1)(a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Exchange Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Exchange Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (a) (3), (4), (5) or (9)(ii) (other than, in the case of clause 9(ii), a Guarantee by a Restricted Subsidiary organized under the laws of the PRC of the Indebtedness of a non-PRC Restricted Subsidiary) under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock."

If the Guaranteed Indebtedness (A) ranks pari passu in right of payment with the Exchange Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank pari passu in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Exchange Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Exchange Notes or the Subsidiary Guarantee.

***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 5% or more of any class of Capital Stock of the Company or (y) with any Affiliate of the Company or any Restricted Subsidiary (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with an unrelated Person; and

(2) the Company delivers to the Trustee:

   (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

   (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any of its Wholly-Owned Restricted Subsidiaries or between or among Wholly-Owned Restricted Subsidiaries;

(3) issuances or sales of Capital Stock (other than Disqualified Stock) of the Company or options, warrants or other rights to acquire such Capital Stock;

(4) transactions or payments pursuant to any employee, officer or director compensation or benefit plans or similar arrangements (including consultancy agreements pursuant to which officers and directors are compensated) entered into in the ordinary course; and

(5) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption "—Limitation on Restricted Payments" if permitted by that covenant.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) transactions between or among the Company and any of its Restricted Subsidiaries that is not a Wholly-Owned Restricted Subsidiary to the extent entered into in the ordinary course of business, (ii) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (iii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Exchange Offer Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date; *provided that*, in the case of (iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

***Limitation on Liens***

The Company will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or suffer to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any of its Restricted Subsidiaries to create, incur, assume or suffer to exist any Lien on any of its assets or properties of any kind (other than the Collateral), now owned or hereafter acquired, except Permitted Liens, unless the Exchange Notes are equally and ratably secured by such Lien.

***Limitation on Sale-Leaseback Transactions***

The Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided that* the Company may enter into a Sale and Leaseback Transaction if:

(1) the Company could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of the covenant described above under "—Limitation on Indebtedness and Disqualified or Preferred Stock" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "—Limitation on Liens;"

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company applies the proceeds of such transaction in compliance with, the covenant described below under the caption "—Limitation on Asset Sales."

***Limitation on Asset Sales***

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock" after giving *pro forma* effect to such Asset Disposition; and

(4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided that* in case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets (i) the Company delivers to the Trustee an Officer's Certificate stating that (a) the Company's chief executive officer or chief financial officer has approved such Asset Sale, (b) such Asset Sale is on fair and reasonable terms on an arm's length basis, and (c) the Fair Market Value of the Replacement Assets, together with any cash consideration is no less than the Fair Market Value of the assets subject to such Asset Sale, and (ii) with respect to any such Asset Sale involving an aggregate consideration with a Fair Market Value in excess of US$25.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Exchange Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary, assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

(b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

(1) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(2) make an Investment in Replacement Assets.

Pending the final application of any Net Cash Proceeds, the Company may temporarily reduce revolving credit borrowings or otherwise invest the Net Cash Proceeds in any manner that is not prohibited by the Indenture.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "Excess Proceeds." Excess proceeds of less than US$15.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When the aggregate amount of Excess Proceeds exceeds US$15.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase to all Holders (and, with respect to Indebtedness of the Company, that ranks equally with the Exchange Notes, containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets, to the holders of such Indebtedness, including any Permitted Pari Passu Indebtedness) to purchase the maximum principal amount of Exchange Notes (and any such other pari passu Indebtedness) that may be purchased out of the Excess Proceeds. The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

Notwithstanding the foregoing, the Company will not, and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of any shares of Capital Stock of Sino-Forest (China) Investments Limited or of any Restricted Subsidiary that owns directly or indirectly any shares of Capital Stock of Sino-Forest (China) Investments Limited.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Exchange Notes (and any other pari passu Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Exchange Notes (and such other pari passu Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

***Limitation on the Company's Business Activities***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided*, however, that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made by the covenant under the caption "—Limitation on Restricted Payments."

***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary, unless a Subsidiary of such Restricted Subsidiary is a Restricted Subsidiary (and is not concurrently being designated as an Unrestricted Subsidiary); *provided that* (i) Sino-Forest (China) Investments Limited shall always be a Restricted Subsidiary, (ii) such designation would not cause a Default, (iii) a Restricted Subsidiary cannot be a Subsidiary of an Unrestricted Subsidiary and (iv) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary would be permitted to be made by the covenant described under "—Limitation on Restricted Payments."

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided that* (i) such designation shall not cause a Default, (ii) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;" (iii) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption "—Limitation on Liens;" (iv) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary), (v) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor, and (vi) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under "—Security."

***Government Approvals and Licenses; Compliance with Law***

The Company will, and will cause each Restricted Subsidiary to, (i) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses, (ii) preserve and maintain good and valid title to its properties and assets (including land use rights) free and clear of any Liens other than Permitted Liens and (iii) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (A) the business, results of operations or prospects of the Company and its Restricted Subsidiaries taken as a whole or (B) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Exchange Notes, the relevant Subsidiary Guarantee or the Indenture.

**Provision of Financial Statements and Reports**

The Company will file with the Trustee and provide the holders of the Exchange Notes with the documents required to be sent to the Company's shareholders pursuant to applicable securities laws in the Provinces of Canada in which the Company is a reporting issuer and within the time prescribed by such applicable securities laws. In the event the Company is no longer subject to such applicable securities laws, it will continue to provide the Trustee and the holders of the Exchange Notes (i) within 90 days after the end of each fiscal year, copies of its annual audited report and annual consolidated financial statements, (ii) within 45 days after the end of each of the first three fiscal quarters of each fiscal year, interim unaudited consolidated financial statements which shall, at a minimum, contain such information required to be provided in quarterly reports under the applicable securities laws of the Province of Ontario, and (iii) an Officer's Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation.

In addition, the Company will provide the Trustee and the holders of the Exchange Notes (i) within 120 days after the end of each fiscal year, copies of annual non-consolidated financial statements of each Initial Non-Guarantor Subsidiary and (ii) within 60 days after the end of each of the first three quarters of each fiscal year, interim non-consolidated financial statements of such Initial Non-Guarantor Subsidiary.

Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting

standards as such standards may be applicable to the Company or an Initial Non-Guarantor Subsidiary, as the case may be.

The foregoing reporting obligations shall terminate with respect to any Initial Non-Guarantor Subsidiary that becomes a Subsidiary Guarantor pursuant to the terms of the Indenture.

In addition, the Company and each Subsidiary Guarantor has agreed that, for as long as any Exchange Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company or such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

**Events of Default**

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Exchange Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Exchange Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenants described under "—Consolidation, Merger and Sale of Assets," "—Limitation on Indebtedness and Disqualified or Preferred Stock," "—Limitation on Restricted Payments," "—Limitation on Liens," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "—Repurchase of Exchange Notes upon a Change of Control Triggering Event" or "—Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create a First Priority Lien on the Collateral (subject to any Permitted Liens) in accordance or otherwise comply with the covenant described under the caption "—Security;"

(d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Exchange Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Exchange Notes;

(e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (B) the failure to make a principal payment when due;

(f) any final judgment or order for the payment of money in excess of US$10.0 million (or the Dollar Equivalent thereof) in the aggregate for all such final judgments or orders shall be rendered against the Company or any Restricted Subsidiary and shall not be paid or discharged for a period of 60 days during which a stay of enforcement of such final judgment or order shall not be in effect;

(g) a court having jurisdiction in the premises enters a decree or order for (A) relief in respect of the Company or any Restricted Subsidiary in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (including any proceeding under any corporate law seeking an arrangement of, or stay of proceedings to enforce, some or all

of its debts), (B) appointment of a receiver, liquidator, assignee, custodian, monitor, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (C) the winding up or liquidation of the affairs of the Company or any Restricted Subsidiary and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

(h) the Company or any Restricted Subsidiary (A) commences a voluntary case or proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or proceeding under any such law, (B) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, monitor, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (C) effects any general assignment for the benefit of creditors;

(i) any Subsidiary Guarantor repudiates its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

(j) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect;

(k) the Company or any Subsidiary Guarantor Pledgor repudiates its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens); or

(l) (i) the occurrence and continuation of an "Event of Default" (as such term is defined in the Syndicated Term Loan) under Syndicated Term Loan that has caused the Finance Parties thereunder to declare Indebtedness under the Syndicated Term Loan to be due and payable prior to its Stated Maturity and/or (ii) any of the Finance Parties, or any agents acting on behalf of such Finance Parties, take any enforcement action in respect of the Collateral.

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Exchange Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Exchange Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. In the event of a declaration of acceleration because an Event of Default set forth in clause (e) above has occurred and is continuing, such declaration of acceleration shall be automatically rescinded and annulled if the event of default triggering such Event of Default pursuant to clause (e) shall be remedied or cured by the Company or the relevant Restricted Subsidiary or waived by the holders of the relevant Indebtedness within 60 days after the declaration of acceleration with respect thereto. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Exchange Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of at least a majority in principal amount of the outstanding Exchange Notes by written notice to the Company and to the Trustee, may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if (x) all existing Events of Default, other than the nonpayment of the

principal of, premium, if any, and interest on the Exchange Notes that have become due solely by such declaration of acceleration, have been cured or waived and (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction. For information as to the waiver of defaults, see "—Amendments and Waiver."

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Exchange Notes, instruct the Security Trustee to foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Exchange Notes with respect to the Collateral as the Trustee deems appropriate. See "—Security."

The Holders of at least a majority in aggregate principal amount of the outstanding Exchange Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. A Holder may not pursue any remedy with respect to the Indenture or the Exchange Notes unless:

(1) the Holder gives the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Exchange Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Exchange Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Exchange Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture.

**Consolidation, Merger and Sale of Assets**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and

its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of Canada and shall expressly assume, by a supplemental indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Exchange Notes and the Security Documents, as the case may be, and the Indenture, the Exchange Notes and the Security Documents, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the first paragraph of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;"

(5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with;

(6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under the caption "—Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Exchange Notes and the Indenture; and

(7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

(1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US$1.00 of Indebtedness under the first paragraph of the covenant under the caption "—Limitation on Indebtedness and Disqualified or Preferred Stock;"

(5) the Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for herein relating to such transaction have been complied with; and

(6) no Rating Decline shall have occurred;

*provided that* this paragraph shall not apply to any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "The Subsidiary Guarantees—Release of Subsidiary Guarantees."

The foregoing provisions would not necessarily afford holders of the Exchange Notes protection in the event of highly leveraged or other transactions involving the Company that may adversely affect holders of the Exchange Notes.

**No Payments for Consents**

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder of any Exchange Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indentures or the Exchange Notes unless such consideration is offered to be paid or is paid to all Holders of the Exchange Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

**Defeasance**

***Defeasance and Discharge***

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Exchange Notes on the 365th day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Exchange Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Exchange Notes, to replace stolen, lost or mutilated Exchange Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(A) the Company has deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Exchange Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Exchange Notes,

(B) the Company has delivered to the Trustee (1) either (x) an Opinion of Counsel to the effect that, as a result of a change occurring after the Original Issue Date in applicable U.S. federal income tax law, Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance" provision and will be subject to United States federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (2) an

Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 365 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law, and

(C) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 365th day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees will terminate.

***Defeasance of Certain Covenants***

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Covenants," clause (c) under "Events of Default" with respect to such clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets," clause (d) under "Events of Default" with respect to such other covenants and clauses (e), (f), (i), (j) and (k) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Exchange Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Exchange Notes, the satisfaction of the provisions described in clause (B)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel to the effect that, among other things, the Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

***Defeasance and Certain Other Events of Default***

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Exchange Notes as described in the immediately preceding paragraph and the Exchange Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Exchange Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Exchange Notes at the time of the acceleration resulting from such Event of Default. However, the Company will remain liable for such payments.

**Amendments and Waiver**

*Amendments Without Consent of Holders*

The Indenture or any Security Document may be amended, without the consent of any Holder, to:

(1) cure any ambiguity, defect or inconsistency in the Indenture, the Exchange Notes or any Security Document;

(2) comply with the provisions described under "Consolidation, Merger and Sale of Assets;"

(3) evidence and provide for the acceptance of appointment by a successor Trustee;

(4) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(5) provide for the issuance of Additional Exchange Notes in accordance with the limitations set forth in the Indenture;

(6) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;

(7) add additional Collateral to secure the Exchange Notes or any Subsidiary Guarantee;

(8) effect any change to the Indenture in a manner necessary to comply with the procedures of DTC;

(9) permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture); or

(10) make any other change that does not materially and adversely affect the rights of any Holder.

*Amendments with Consent of Holders*

Amendments of the Indenture or any Security Document may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Exchange Notes; *provided, however*, that no such modification or amendment may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Exchange Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Exchange Note;

(3) change the currency of payment of principal of, or premium, if any, or interest on, any Exchange Note;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Exchange Note;

(5) reduce the above stated percentage of outstanding Exchange Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Exchange Notes;

(7) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(8) release any Collateral, except as provided in the Indenture and the Security Documents;

(9) reduce the percentage or aggregate principal amount of outstanding Exchange Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(10) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(11) amend, change or modify any provision of any Security Document, or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture;

(12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or, change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale must be made or by which the Exchange Notes may be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;

(13) change the redemption date or the redemption price of the Exchange Notes from that stated under the captions "Optional Redemption" or "Redemption for Taxation Reasons;"

(14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Exchange Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

**Unclaimed Money**

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Exchange Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

**No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Exchange Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Exchange Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Exchange Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Exchange Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

**Concerning the Trustee and the Paying Agent**

Law Debenture Trust Company of New York is to be appointed as Trustee under the Indenture and Citibank, N.A. is to be appointed as registrar and paying agent (the "Paying Agent") with regard to the Exchange Notes. Except during the continuance of a Default, the Trustee will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights

and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions; *provided*, however, that if it acquires any conflicting interest, it must eliminate such conflict or resign.

Law Debenture Trust Company of New York will initially act as Security Trustee under the Security Documents in respect of the Security over the Collateral. The Security Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Security Trustee may have obligations under the Security Documents that are in conflict with the interests of the Holders. The Trustee and the Security Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders unless such Holders have offered to the Trustee and the Security Trustee indemnity or security reasonably satisfactory to the Trustee and the Security Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Exchange Notes will agree, for the benefit of the Trustee and the Security Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee or the Security Trustee in respect of such risks.

**Book-Entry; Delivery and Form**

The certificates representing the Exchange Notes will be issued in fully registered form without interest coupons. Exchange Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with Citibank, N.A. as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Exchange Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Exchange Notes, the "Global Exchange Notes") and will be deposited with Citibank, N.A. as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Exchange Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Qualified institutional buyers may hold their interests in a Restricted Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Investors may hold their interests in a Regulation S Global Note directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such system. Euroclear and Clearstream will hold interests in the Regulation S Global Exchange Notes on behalf of their participants through DTC.

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Exchange Notes

represented by such Global Note for all purposes under the Indenture and the Exchange Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company, nor any of the Subsidiary Guarantors, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

The Company expects that DTC will take any action permitted to be taken by a Holder (including the presentation of Exchange Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Exchange Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Exchange Notes, DTC will exchange the applicable Global Note for Certificated Exchange Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Exchange Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Exchange Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Exchange Notes. Holders of an interest in a Global Note may receive Certificated Exchange Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

**The Clearing Systems**

***General***

DTC, Euroclear and Clearstream have advised the Company as follows:

*DTC.* DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a

"clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the dealer manager. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Transfers of ownership or other interests in Exchange Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Exchange Notes in DTC will receive all distributions of principal of and interest on the Exchange Notes from the Trustee through such DTC participant.

*Euroclear and Clearstream.* Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

***Initial Settlement***

Initial settlement for the Exchange Notes will be made in immediately available funds. All Exchange Notes issued in the form of global notes will be deposited with Citibank, N.A. as custodian for DTC. Investors' interests in Exchange Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will initially hold positions on behalf of their participants through DTC.

Investors electing to hold their Exchange Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date. Investors electing to hold their Exchange Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Exchange Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the business day following the settlement date against payment for value on the settlement date.

***Secondary Market Trading***

Because the purchaser determines the place of delivery, it is important to establish at the time of trading of any Exchange Notes where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

*Trading between DTC Participants.* Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in same-day funds using DTC's Same Day Funds Settlement System.

*Trading between Euroclear and Clearstream Participants.* Secondary market trading between Euroclear participants and Clearstream participants will occur in the ordinary way in accordance with the

applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

*Trading between DTC Seller and Euroclear or Clearstream Purchaser.* When Exchange Notes are to be transferred from the account of a DTC participant to the account of a Euroclear participant or a Clearstream participant, the purchaser must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will receive the Exchange Notes against payment. Payment will then be made to the DTC participant's account against delivery of the Exchange Notes. Payment will include interest accrued on the Exchange Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to and excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Exchange Notes. After settlement has been completed, the Exchange Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream participant's account. Credit for the Exchange Notes will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Exchange Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade date fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear participants or Clearstream participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the Exchange Notes are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream participants purchasing Exchange Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the Exchange Notes were credited to their accounts. However, interest on the Exchange Notes would accrue from the value date. Therefore, in many cases, the investment income on Exchange Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC participant, a cross-market transaction will settle no differently than a trade between two DTC participants.

Finally, day traders that use Euroclear or Clearstream and that purchase Exchange Notes from DTC participants for credit to Euroclear participants or Clearstream participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear account or Clearstream account) in accordance with the clearing system's customary procedures;

(2) borrowing the Exchange Notes in the United States from a DTC participant no later than one day prior to settlement, which would give the Exchange Notes sufficient time to be reflected in the borrower's Euroclear account or Clearstream account in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Euroclear participants or Clearstream participants.

*Trading between Euroclear or Clearstream Seller and DTC Purchaser.* Due to the time zone differences in their favor, Euroclear participants or Clearstream participants may employ their customary procedures for transactions in which Exchange Notes are to be transferred by the respective clearing system to another DTC participant. The seller must send instructions to Euroclear or Clearstream through a participant at least one business day prior to settlement. In these cases, Euroclear or Clearstream will credit the Exchange Notes to the DTC participant's account against payment. Payment will include interest accrued on the Exchange Notes from and including the last interest payment date to and excluding the settlement date, on the basis of a calendar year consisting of twelve 30-day calendar months. For transactions settling on the 31st day of the month, payment will include interest accrued to the Exchange Notes excluding the first day of the following month. Payment will then be made to the DTC participant's account against delivery of the Exchange Notes. The payment will then be reflected in the account of the Euroclear participant or Clearstream participant the following day, and receipt of the cash proceeds in the Euroclear or Clearstream participant's account will be back-valued to the value date (which would be the preceding day when settlement occurs in New York). If the Euroclear participant or Clearstream participant has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over the one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream participant's account would instead be valued as of the actual settlement date.

As in the case with respect to sales by a DTC participant to a Euroclear or Clearstream participant, participants in Euroclear and Clearstream will have their accounts credited the day after their settlement date. See "—Trading between DTC Seller and Euroclear or Clearstream Purchaser" above.

None of the Company, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

**Notices**

All notices or demands required or permitted by the terms of the Exchange Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

**Consent to Jurisdiction; Service of Process**

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. Federal or New York State court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Exchange Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Services, Inc. for receipt of service of process in any such suit, action or proceeding.

**Governing Law**

Each of the Exchange Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

**Definitions**

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Exchange Notes" for which no definition is provided.

"2004 Senior Notes" means any and all outstanding US$300.0 million 9.125% Guaranteed Senior Notes due 2011 of the Company.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Affiliate" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person or (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Premium" means with respect to an Exchange Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Exchange Note and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount of such Exchange Note, plus all required remaining scheduled interest payments due on such Exchange Note (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 50 basis points, over (B) the principal amount of such Exchange Note on such redemption date.

"Asset Acquisition" means (1) an investment by the Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any of its Restricted Subsidiaries, or (2) an acquisition by the Company or any of its Restricted Subsidiaries of the property and assets of any Person other than the Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

"Asset Disposition" means the sale or other disposition by the Company or any of its Restricted Subsidiaries (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any of its Restricted Subsidiaries.

"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted

Subsidiaries to any Person other than the Company or any Wholly-Owned Restricted Subsidiary; *provided that* "Asset Sale" shall not include:

(a) sales or other dispositions of inventory, receivables and other current assets (including, but not limited to wood chips, logs, lumber, and manufactured wood and wood panel products) or standing timber in the ordinary course of business,

(b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the "Limitation on Restricted Payments" covenant,

(c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions,

(d) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries,

(e) any, transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien, or

(f) a transaction covered by the covenant under the caption "—Consolidation, Merger and Sale of Assets".

"Attributable Indebtedness" means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

"Average Life" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"Board of Directors" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"Business Day" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in London (or in any other place in which payments on the Exchange Notes are to be made) are authorized by law or governmental regulation to close.

"Capitalized Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"Capitalized Lease Obligations" means the discounted present value of the rental obligations under a Capitalized Lease.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding any debt securities convertible into such equity.

"Change of Control" means the occurrence of one or more of the following events:

(1) the merger, amalgamation, or consolidation of the Company with or into another Person or the merger or amalgamation of another Person with or into the Company, or the sale of all or substantially all the assets of the Company to another Person;

(2) any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 35% of the total voting power of the Voting Stock of the Company;

(3) individuals who on the Original Issue Date constituted the board of directors of the Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Company then in office; or

(4) the adoption of a plan relating to the liquidation or dissolution of the Company.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Rating Decline.

"Clearstream" means Clearstream Banking, *société anonyme*, Luxembourg.

"Collateral" means all collateral securing, or purported to be securing, directly or indirectly, the Exchange Notes, any Subsidiary Guarantee, Permitted Pari Passu Secured Indebtedness or any Pari Passu Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of all Capital Stock of the Initial Subsidiary Guarantors held by the Company or a Subsidiary Guarantor Pledgor, and may include any other Capital Stock of any Person owned by the Company or any Subsidiary Guarantor Pledgor that becomes a Restricted Subsidiary (other than those organized under the laws of the PRC, or are a Foreign Subsidiary) as may be pledged by the Company or the Subsidiary Guarantor Pledgors from time to time pursuant to the section "Security."

"Commodity Agreement" means any forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to the remaining term of the Exchange Notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Exchange Notes.

"Comparable Treasury Price" means, with respect to any redemption date:

(1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities;" or

(2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b)

if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense,

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets),

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than depletion of timber holdings or non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP, *provided that* if any Restricted Subsidiary is not a Wholly-Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries.

"Consolidated Fixed Charges" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non cash dividends, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly-Owned Restricted Subsidiary.

"Consolidated Interest Expense" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, *plus*, to the extent not included in such gross interest expense, and to the extent incurred or paid during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations, (ii) amortization of debt issuance costs and original issue discount expense and non cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the interest equivalent costs associated with Interest Rate Agreements, (vi) interest actually paid by the Company or any Restricted Subsidiary on Indebtedness of any other Person that is Guaranteed by the Company or any Restricted Subsidiary and (vii) any capitalized interest, *provided that* interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"Consolidated Net Income" means, with respect to any specified Person for any period, the aggregate of the net income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided that* the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except to the extent of the amount of dividends or similar distributions actually paid in cash to the specified Person or a Restricted Subsidiary of the Person during such period;

(2) the net income (and loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of its Restricted

Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of its Restricted Subsidiaries;

(3) the net income of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles will be excluded;

(5) any net after tax gains (or losses) realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or other Restricted Subsidiaries);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains (or losses).

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available quarterly or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, *plus*, to the extent not included, any Preferred Stock of the Company, *less* any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Exchange Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Exchange Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Exchange Notes; *provided that* any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the Exchange Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "Limitation on Asset Sales" and "Repurchase of Exchange Notes upon a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of such Exchange Notes as are required to be repurchased pursuant to the "Limitation on Asset Sales" and "Repurchase of Exchange Notes upon a Change of Control Triggering Event" covenants.

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"DTC" means The Depository Trust Company, a New York corporation, and its successors.

"Equity Offering" means any primary private or public offering of Common Stock of the Company after the Original Issue Date; *provided that* the aggregate gross cash proceeds received by the Company from such offering shall be no less than US$25.0 million (or the Dollar Equivalent thereof).

"Euroclear" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"Fair Market Value" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Four Quarter Period") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

(A) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(D) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

(E) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

*provided that* to the extent that clause (D) or (E)of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of

the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"Foreign Subsidiary" means any Restricted Subsidiary of the Company organized under the laws of a jurisdiction that prohibits such Subsidiary from guaranteeing payments under the Exchange Notes.

"GAAP" means generally accepted accounting principles in Canada as set out in the Handbook of the Canadian Institute of Chartered Accountants, as amended from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided that* the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Incur" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided that* (1) any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided that* the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person; and

(8) to the extent not otherwise included in this definition, obligations under Commodity Agreements, Currency Agreements and Interest Rate Agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, *provided*

(A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP,

(B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest, and

(C) that the amount of Indebtedness with respect to any Commodity Agreements, Currency Agreements and Interest Rate Agreements shall be equal to the net amount payable if such agreements terminated at that time due to default by such Person.

"Intercreditor Agreement" has the meaning set forth under "—Security."

"Interest Rate Agreement" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement.

"Investment" means:

(i) any direct or indirect advance, loan or other extension of credit (other than Trade Payables that are, in conformity with GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the Company or its Restricted Subsidiaries) to another Person,

(ii) capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(iv) any Guarantee of any obligation of another Person;

*provided that* an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of common equity securities of the Company shall not be deemed to be an Investment.

For the purposes of the provisions of the "Designation of Restricted and Unrestricted Subsidiaries" and "Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "−" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's, or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody's or both, as the case may be.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Moody's" means Moody's Investors Service and its affiliates.

"Net Cash Proceeds" means:

(a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of

(1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;

(2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

(3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorney's fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Offer to Purchase" means an offer to purchase Exchange Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the covenant pursuant to which the offer is being made and that all Exchange Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Payment Date");

(3) that any Exchange Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Exchange Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Exchange Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Exchange Notes purchased; and

(7) that Holders whose Exchange Notes are being purchased only in part will be issued new Exchange Notes equal in principal amount to the unpurchased portion of the Exchange Notes surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US$2,000 or integral multiples of US$1,000.

On the Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Exchange Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Exchange Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Exchange Notes or portions thereof so accepted together with an Officers' Certificate specifying the Exchange Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US$2,000 or integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Exchange Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Exchange Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company.

"Officer's Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Trustee. The counsel may be an employee of or counsel to the Trustee.

"Original Issue Date" means the date on which the Exchange Notes are originally issued under the Indenture.

"Pari Passu Subsidiary Guarantee" means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Exchange Notes); *provided that* (i) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant under the caption "Limitation on Indebtedness and Disqualified or Preferred Stock" and (ii) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor.

"Permitted Businesses" means the Permitted Forestry Plantation Business and the manufacturing of wood and wood-based products and related businesses and activities incidental to such activities.

"Permitted Forestry Plantation Business" means the operation of forestry plantations and production and processing facilities, the processing, sale, distribution, transportation, cultivation and development of wood fibers and logs, and other similar wood and wood-based products, including bio-fuels, the operation of plantation nurseries, and the sale and distribution of seeds and saplings, inputs and similar products, or intermediate products and by-products used or produced in connection with such activities, the planting of saplings and trees in city greening and urban landscaping projects, including the design and implementation of such projects, the import and export of logs, lumber and other wood and wood-based products, trading agency activities related to the foregoing, and related businesses and activities incidental to any of the foregoing activities.

"Permitted Investment" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business;

(2) Temporary Cash Investments;

(3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) Commodity Agreements, Interest Rate Agreements and Currency Agreements designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;

(7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) any securities, non-cash consideration or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under "—Limitation on Asset Sales;"

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "—Limitation on Liens;"

(10) loans or advances to employees made in the ordinary course of business and consistent with past practices of the Company or past practices of a Restricted Subsidiary, as the case may be, in an aggregate amount outstanding not to exceed at any one time US$500,000 (or the Dollar Equivalent thereof); and

(11) loans to employees, directors and officers not exceeding the amount required to exercise an option to purchase the Company's Capital Stock held by such individual, *provided that* the Capital Stock issued upon exercise of such option is pledged to the Company as security for such loan.

"Permitted Liens" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(6) any interest or title of a lessor in the property subject to any operating lease;

(7) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided that* such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired;

(8) Liens in favor of the Company or any Wholly-Owned Restricted Subsidiary;

(9) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(10) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(11) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(12) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities;

(13) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business in accordance with the past practices of the Company and its Restricted Subsidiaries prior to the Original Issue Date;

(14) Liens existing on the Original Issue Date;

(15) Liens on real property, trees or current assets securing Indebtedness which is permitted to be Incurred under clause (5) or (8) of the second paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant;

(16) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (6) of the second paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(17) Liens under the Security Documents; and

(18) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "Security—Permitted Pari Passu Secured Indebtedness."

"Permitted Pari Passu Secured Indebtedness" has the meaning set forth under "Security—Permitted Pari Passu Secured Indebtedness."

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Rating Agencies" means (i) S&P and (ii) Moody's and (iii) if S&P or Moody's or both shall not make a rating of the Exchange Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody's or both, as the case may be.

"Rating Category" means (i) with respect to S&P, any of the following categories: BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody's used by another Rating Agency. In determining whether the rating of the Exchange Notes has decreased by one or more gradations, gradations within Rating Categories (+ and − for S&P; 1, 2 and 3 for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from BB+ to BB, as well as from BB− to B+, will constitute a decrease of one gradation).

"Rating Date" means (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control, or (ii) in connection with actions contemplated under the caption "—Consolidation, Merger and Sale of Assets", that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"Rating Decline" means (i) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any member or members of management of the Company to effect a Change of Control (which period shall be extended so long as the rating of the Exchange Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (ii) in connection with actions contemplated under the caption "—Consolidation, Merger and

Sale of Assets", the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Exchange Notes are rated by both Moody's and S&P on the Rating Date as Investment Grade, the rating of the Exchange Notes by either Rating Agency shall be below Investment Grade;

(b) in the event the Exchange Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Exchange Notes by such Rating Agency shall be below Investment Grade; or

(c) in the event the Exchange Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Exchange Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

"Replacement Assets" means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business and for the purposes of clause 2 of the first paragraph of the covenant under the caption "Limitation on Asset Sales", shall include Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business and will upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, become a Restricted Subsidiary.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Group and its affiliates.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"Security Documents" means, collectively, the pledge agreements and any other agreements or instruments that may evidence or create any security interest in favor of the Security Trustee, the Trustee and/or any Holders in any or all of the Collateral.

"Security Trustee" means Law Debenture Trust Company of New York.

"Senior Indebtedness" of the Company or a Subsidiary Guarantor, as the case may be, means all Indebtedness of the Company or the Subsidiary Guarantor, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be not senior in right of payment to the Exchange Notes or, in respect of such Subsidiary Guarantor, its Subsidiary Guarantee; *provided that* Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set

forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"Subordinated Indebtedness" means any Indebtedness of the Company which is subordinated or junior in right of payment to the Exchange Notes pursuant to a written agreement to such effect.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"Subsidiary Guarantee" means any Guarantee of the obligations of the Company under the Indenture and the Exchange Notes by any Subsidiary Guarantor.

"Subsidiary Guarantor" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which is required to guarantee the payment of the Exchange Notes pursuant to the Indenture and the Exchange Notes; *provided that* Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Exchange Notes.

"Subsidiary Guarantor Pledgor" means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which is required to pledge Collateral to secure the obligations of the Company under the Exchange Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided that* a Subsidiary Guarantor Pledgor will not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Exchange Notes.

"Syndicated Term Loan" means the term loan pursuant to the facility agreement dated February 24, 2004 for Sino-Forest Corporation arranged by Barclays Capital, Bayrische Hypo- und Vereinsbank AG, Hong Kong Branch, CITIC Ka Wah Bank Limited, Export Development Canada, Hang Seng Bank Limited as Mandated Lead Arrangers with Barclays Bank PLC acting as Agent.

"Temporary Cash Investment" means any of the following:

(1) direct obligations of the United States of America or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America or any agency thereof, in each case maturing within 24 months;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within 24 months of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, Hong Kong, Singapore or Canada, and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof, Canada or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-3" (or higher) according to Moody's or "A-3" (or higher) according to S&P;

(5) securities with maturities of 24 months or less from the date of acquisition issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of

America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit and money market deposits with (i) Bank of China, Industrial Commercial Bank of China, Construction Bank of China, Shanghai Pudong Development Bank, Bank of Shanghai, (ii) any other bank or trust company organized under the laws of the PRC whose long term debt is rated as high or higher than any of those banks or (iii) any other bank organized under the laws of the PRC, *provided that*, in the case of clause (iii), such deposits do not exceed US$5.0 million (or the Dollar Equivalent thereof) with any single bank or US$75.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP, other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting standards as such standards may be applicable to the Company, as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company are available; *provided*, that Total Assets shall be calculated after giving effect to include the cumulative value of all real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefore or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institution lender providing such Indebtedness.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Transaction Date" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"Unrestricted Subsidiary" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided herein; and (2) any Subsidiary of an Unrestricted Subsidiary.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the Company thereof at any time prior to the Stated Maturity of the Exchange Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided that* (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wholly-Owned" means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly-Owned Subsidiaries of such Person.

## TAXATION

The statements herein regarding taxation are based on the laws in force as of the date of this Memorandum and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision of a prospective purchaser to acquire or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. You are advised to consult your own tax advisors concerning the overall tax consequences of the purchase, ownership and disposition of the Notes.

### Canada

The following is a general summary of the principal Canadian federal income tax considerations generally applicable to a US Resident who tenders 2004 Senior Notes and receives Exchange Notes pursuant to the Exchange Offer.

In this summary, the term "US Resident" means a holder of Exchange Notes who for the purposes of the *Income Tax Act* (Canada) (the "Tax Act") and at all relevant times:

(i) is not, has not been, and will not be, or be deemed to be, resident in Canada at any time while holding the 2004 Senior Notes or the Exchange Notes;

(ii) deals at arm's length with us and is not affiliated with us;

(iii) holds the 2004 Senior Notes and the Exchange Notes as capital property;

(iv) has never used or held, does not use or hold, and will never use or hold either the 2004 Senior Notes or the Exchange Notes in carrying on a business in Canada; and

(v) is not an insurer who carries on an insurance business in Canada and elsewhere.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals to amend the Tax Act and the Regulations announced by or on behalf of the Minister of Finance (Canada) prior to the date of this offering memorandum and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA").

This summary is not exhaustive of all potential Canadian tax consequences to a US Resident and does not otherwise take into account or anticipate any prospective or retrospective changes in the law or in administrative or assessing practices and policies, whether by judicial, governmental, administrative or legislative decision or action, nor does it take into account any tax legislation or considerations of any Canadian province, Canadian territory or non-Canadian jurisdiction which may be different from those described in this summary.

The payment or crediting of an Early Tender Payment by the Company to a US Resident will not be subject to Canadian non-resident withholding tax. The tender by a US Resident of a 2004 Senior Note and the receipt of an Exchange Note from the Company pursuant to the terms of the Exchange Offer will not be subject to Canadian non-resident withholding tax. No other tax on income (including capital gains) will be payable under the Tax Act by a US Resident as a consequence of either the receipt of an Early Tender Payment or the tender of a 2004 Senior Note and the receipt of an Exchange Note pursuant to the terms of the Exchange Offer. Any principal, interest or premium paid or credited by the Company to a US Resident in respect of an Exchange Note will not be subject to Canadian non-resident withholding tax.

**Certain US Federal Income Tax Considerations**

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS EXCHANGE OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

* * * * *

The following is a summary of certain material U.S. federal income tax consequences of the exchange offer and the ownership and disposition of the Exchange Notes by U.S. Holders (as defined below) that will hold the Exchange Notes as capital assets. References to 2004 Senior Notes include notes of both U.S. Holders participating and not participating in the Consent Solicitation. Please refer to the Certain U.S. Federal Income Tax Considerations in the Consent Solicitation Statement for information in relation to certain U.S. federal income tax consequences to U.S. Holders of participating in the Consent Solicitation. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Exchange Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as certain financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Exchange Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Exchange Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Exchange Notes will depend on the status of the partner and the activities of the partnership. Prospective participants that are partnerships should consult their tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Exchange Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, (the "Code") its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PARTICIPANTS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE**

**EXCHANGE NOTES, INCLUDING, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

***Consequences of Exchanging 2004 Senior Notes for Exchange Notes***

The exchange should qualify as a recapitalization for U.S. federal income tax purposes. Whether the exchange constitutes a recapitalization will depend, in part, on whether the Exchange Notes constitute "securities" for U.S. federal income tax purposes. The Exchange Notes should constitute securities for U.S. federal income tax purposes, and the exchange should therefore qualify as a recapitalization.

Provided that the exchange is treated as a recapitalization, a U.S. Holder should not recognize any gain or loss upon the exchange. In that case, a U.S. Holder's tax basis in Exchange Notes will generally be the same as the U.S. Holder's tax basis in the 2004 Senior Notes. A U.S. Holder's holding period in the Exchange Note will include the holding period in the 2004 Senior Note with respect to which the Exchange Notes were distributed.

The following discussion assumes that the exchange qualifies as a recapitalization. However, there can be no assurance that the IRS will agree that the exchange qualifies as a recapitalization. If the exchange does not qualify as a recapitalization for U.S. federal income tax purposes, then the exchange would be a taxable transaction for U.S. federal income tax purposes.

U.S holders are urged to consult their own tax advisors regarding the application of the recapitalization rules.

*Treatment of Early Tender Payment to U.S. Holders*

The receipt of the Early Tender Payment by a U.S. Holder should be additional consideration received in the exchange of 2004 Senior Notes for Exchange Notes in the recapitalization. In this case, a U.S. Holder generally would recognize gain, but not loss, equal to the lesser of (i) the excess of (a) the sum of the issue price of the Exchange Notes and the Early Tender Payment received over (b) the U.S. Holder's adjusted tax basis in the 2004 Senior Notes immediately prior to the deemed exchange and (ii) the amount of the Early Tender Payment. This gain would generally be treated as capital gain for the U.S. Holders (except to the extent of accrued market discount not previously included in the U.S. Holder's income).

U.S. Holders should consult their tax advisors regarding the U.S. federal income tax consequences of the receipt of the Early Tender Payment in their particular circumstances.

**Exchange Notes**

***Payments of Interest***

Interest paid on an Exchange Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Exchange Notes and original issue discount ("OID"), if any, accrued with respect to the Exchange Notes (as described below under "Original Issue Discount") constitutes income from sources outside the United States. Prospective participants should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Exchange Notes.

***Original Issue Discount***

*General* The Exchange Notes will be considered to be issued with OID if the issue price is 98.75 percent or less of the principal amount. If the Exchange Notes are "publicly traded", then the issue price of an Exchange Note will be the fair market value of the Exchange Notes on the first date on which a substantial amount of the 2004 Senior Notes are exchanged for Exchange Notes. If the Exchange Notes are

not "publicly traded" but 2004 Senior Notes are "publicly traded" then the issue price of an Exchange Note will be the fair market value of the 2004 Senior Notes on the first date on which a substantial amount of the 2004 Senior Notes are exchanged for Exchange Notes. If neither the 2004 Senior Notes nor the Exchange Notes are "publicly traded" then the issue price of an Exchange Note will be its stated redemption price at maturity. For this purpose a note will be treated as publicly traded if at any time during the 60-day period ending 30 days after the issue date, the note either (i) appears on a system of general circulation that provides a reasonable basis to determine fair market value by disseminating either (a) recent price quotations of one or more identified brokers, dealers or traders, or (b) actual prices of recent sales transactions, or (ii) price quotations are readily available from dealers brokers or traders. If the issue price is greater than 98.75 percent on this basis, the OID will be treated as zero.

If the Exchange Notes were to be considered to be issued with OID, a U.S. Holder must include a portion of the OID in gross income as interest in each taxable year or portion thereof in which the U.S. Holder holds the Exchange Notes even if the U.S. Holder has not received a cash payment in respect of the OID. The amount of an Exchange Note's OID is the excess of the Exchange Note's principal amount over its issue price.

U.S. Holders of Exchange Notes must include OID in income calculated using a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Exchange Notes. The amount of OID includible in income by a U.S. Holder of an Exchange Note is the sum of the daily portions of OID with respect to the Exchange Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Exchange Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to an Exchange Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Exchange Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Exchange Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Exchange Note's adjusted issue price at the beginning of the accrual period and the Exchange Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of interest on the Exchange Note allocable to the accrual period. The "adjusted issue price" of an Exchange Note at the beginning of any accrual period is the issue price of the Exchange Note increased by the amount of accrued OID for each prior accrual period.

*Acquisition Premium.* A U.S. Holder whose tax basis in an Exchange Note on the Settlement Date is less than or equal to the Exchange Note's principal amount but is in excess of its adjusted issue price (this excess being "acquisition premium") and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount" is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's initial tax basis in the Exchange Note over the Exchange Note's adjusted issue price, and the denominator of which is the excess of the Exchange Note's principal amount over the Exchange Note's adjusted issue price.

*Market Discount.* An Exchange Note generally will be treated as acquired at a market discount (a "Market Discount Note") if the Exchange Note's issue price exceeds the U.S. Holder's tax basis in the Exchange Note on the Settlement Date by at least 0.25 per cent. of the Exchange Note's issue price multiplied by the number of complete years from the date acquired by the U.S. Holder to the Exchange Note's maturity. If this excess is not sufficient to cause the Exchange Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount".

Any accrued market discount in respect of the 2004 Senior Notes should not be currently includible in income on the Settlement Date. Instead, this accrued market discount should carry over to the Exchange Notes received in the exchange. However, the matter is not entirely clear in the absence of specific

Treasury regulations implementing this rule. Any market discount on an Exchange Note in excess of the accrued market discount carried over from the exchanged 2004 Senior Note should accrue over the remaining term of the Exchange Note.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Exchange Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Exchange Note. This election applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the Internal Revenue Service (the "IRS"). A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Exchange Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount on a Market Discount Note will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Exchange Note with respect to which it is made and is irrevocable.

*Election to Treat All Interest as Original Issue Discount.* A U.S. Holder may elect to include in gross income all interest that accrues on an Exchange Note using the constant-yield method described above under "Original Issue Discount—General", with certain modifications. For purposes of this election, interest includes interest, OID, market discount and *de minimis* market discount, as adjusted by any amortisable bond premium (described below under the "Amortisable Bond Premium") or acquisition premium. This election generally applies only to the Exchange Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant yield method to all interest on an Exchange Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election described above under "Market Discount" to include market discount in income currently over the life of all debt instruments held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

***Amortisable Bond Premium***

A U.S. Holder whose adjusted tax basis in an Exchange Note on the Settlement Date is greater than its principal amount may elect to treat the excess as "amortisable bond premium", in which case the amount of interest on the Exchange Note required to be included in the U.S. Holder's income each year will be reduced by the amount of amortisable bond premium allocable (based on the Exchange Note's yield to maturity) to that year. The amount of amortisable bond premium for each taxable year is the sum of the daily portions of bond premium with respect to the Exchange Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Exchange Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the bond premium allocable to that accrual period. Accrual periods with respect to an Exchange Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Exchange Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Exchange Note occurs on either the final or first day of an accrual period. The amount of bond premium allocable to an accrual period equals the excess of (a) the sum of the payments of interest on the Exchange Note allocable to the accrual period over (b) the product of the Exchange Note's adjusted acquisition price at the beginning of the accrual period and the Exchange Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The "adjusted acquisition price" of an Exchange Note at the beginning of any accrual period will

be the U.S. Holder's original tax basis of the Exchange Note, decreased by the amount of bond premium for each prior accrual period. Any election to amortise bond premium applies to all bonds (other than bonds the interest on which is excludible from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the U.S. Internal Revenue Service.

***Sale and Retirement of the Exchange Notes***

A U.S. Holder will generally recognise gain or loss on the sale or retirement of an Exchange Note equal to the difference between the amount realised on the sale or retirement and the adjusted tax basis of the Exchange Note. A U.S. Holder's adjusted tax basis in an Exchange Note will generally be its original tax basis increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Exchange Note and reduced by the amount of any amortisable bond premium applied to reduce interest on the Exchange Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income.

Except to the extent described under "Market Discount" above, gain or loss recognised by a U.S. Holder on the sale or retirement of an Exchange Note will be capital gain or loss and will be long-term capital gain or loss if the Exchange Note was held by the U.S. Holder for more than one year.

Gain or loss realised by a U.S. Holder on the sale or retirement of an Exchange Note generally will be U.S. source.

***Backup Withholding and Information Reporting***

Payments of principal and interest and accrued OID on, and the proceeds of sale or other disposition (including exchange) of the Exchange Notes, as well as, the Early Tender Payment, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any resale, pledge or transfer of the Exchange Notes.

### United States Restrictions

The offer and issuance of the Exchange Notes is being made pursuant to Rule 144A and Regulation S under the Securities Act. The Exchange Notes (including the Subsidiary Guarantees attached thereto) have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state in the United States or other jurisdiction. Accordingly, the Exchange Notes are being offered and issued only (a) to "qualified institutional buyers" within the meaning of Rule 144A ("QIBs") in reliance on the exemption from the registration requirements of the Securities Act or (b) outside the United States in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any other applicable law.

In addition, until 40 days after the commencement of the offering of the Exchange Notes (including the Subsidiary Guarantees attached thereto), an offer or sale of the Exchange Notes (including the Subsidiary Guarantees attached thereto) within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

#### *Transfer Restrictions on the 144A Notes*

If you tender your 2004 Senior Notes in exchange for Rule 144A Exchange Notes pursuant to Rule 144A (such Notes, the "Rule 144A Exchange Notes"), you will, by your acceptance thereof, be deemed to have acknowledged, represented to and agreed with us, the Trustee and the Dealer Manager that:

1. The Rule 144A Exchange Notes (and the Subsidiary Guarantees attached thereto) have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;
2. You are a QIB purchasing the Rule 144A Exchange Notes for your own account, or for the accounts of one or more QIBs with respect to which account you exercise sole investment discretion or an account which is a QIB, and you are aware, and each beneficial owner of such Rule 144A Exchange Notes has been advised that we are relying on the exemption from registration under the Securities Act provided by Rule 144A for the issue;
3. You will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A Exchange Notes except as permitted by the legend set forth in paragraph 4 below;
4. The Rule 144A Exchange Notes will bear a legend to the following effect, unless we determine otherwise in compliance with applicable law, and that you will observe the transfer restrictions contained therein:

   THE EXCHANGE NOTES (THE "SECURITIES") EVIDENCED HEREBY AND THE SUBSIDIARY GUARANTEES ATTACHED THERETO HAVE NOT BEEN, AND ARE NOT EXPECTED TO BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT IS (A) A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN

RULE 144A) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A NEW NOTE OR AN INTEREST IN THE SECURITIES EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS RULE 144A NEW NOTE;

5. The Rule 144A Exchange Notes offered in this offering will initially be evidenced by a Rule 144A Global Exchange Note and before any beneficial interest in the Rule 144A Exchange Notes evidenced by such Rule 144A Global Exchange Note may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Exchange Notes evidenced by the Regulation S Global Exchange Note, the transferor will be required to provide a written certification, as described below in "Other Provisions Regarding Transfer of the Notes"; and

6. Any resale or other transfer, or attempted resale or other transfer, of the Rule 144A Exchange Notes made other than in compliance with the above-stated restrictions shall not be recognized by us in respect of the Rule 144A Exchange Notes.

***Transfer Restrictions on the Regulation S Exchange Notes***

If you tender Regulation S Exchange Notes outside the United States pursuant to Regulation S, you will, by your acceptance thereof be deemed to have acknowledged and represented to and agreed with us, the Trustee and the Dealer Manager that:

1. The Regulation S Exchange Notes (and the Subsidiary Guarantees attached thereto) have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state of the United States; and

2. You are purchasing the Regulation S Exchange Notes in an offshore transaction meeting the requirements of Regulation S, and you are not an affiliate of us or a person acting on behalf of such affiliate.

***Other Provisions Regarding Transfer of the Notes***

The above legends and the certifications as further described in the Exchange Note Indenture prohibit or restrict certain transfers as summarized below. Interests in Exchange Notes evidenced by the Rule 144A Global Exchange Note may be transferred to a person whose interest in such Exchange Notes is subsequently represented by the Regulation S Global Exchange Note only upon receipt by the transfer agent of such written certifications from the transferor and the transferee to the effect that such transfer is being made in accordance with Regulation S. Interests in Exchange Notes represented by the Regulation S Global Exchange Note may be transferred to a person whose interest in such Exchange Notes is subsequently evidenced by the Rule 144A Global Exchange Note only upon receipt by the transfer agent of such written certifications from the transferor and the transferee to the effect that such transfer is being

made in accordance with Rule 144A. Any interest in Exchange Notes evidenced by one of the Global Exchange Notes that is transferred to a person whose interest in such Exchange Note is subsequently evidenced by an interest in the other Global Exchange Note will, upon transfer, cease to be an interest in the Exchange Notes evidenced by such first Global Exchange Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in Exchange Notes evidenced by the such other global note for so long as it remains such an interest.

Except in the limited circumstances described in the Exchange Note Indenture, no person will be entitled to receive physical delivery of definitive Exchange Notes. The Exchange Notes are not issuable in bearer form.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us.

**Canadian Restrictions**

If you tender your 2004 Senior Notes in exchange for Exchange Notes, you will, by your acceptance thereof, be deemed to have acknowledged and represented to and agreed with us, the Trustee and the Dealer Manager that you will not transfer, sell, or otherwise dispose of Exchange Notes (or any legal or beneficial interest in those securities), in, or to a resident of, Canada, or through a Canadian stock exchange or over-the-counter trading market operating in Canada, until the date that is four months and one day following the closing of the Exchange Offer, unless such transfer, sale, or other disposition is made to a person that is an "accredited investor" within the meaning of applicable Canadian securities laws or unless the principal amount of Exchange Notes transferred, sold or otherwise disposed of is in a principal amount that is not less than Cdn.$150,000.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

Our audited consolidated financial statements for the years ended December 31, 2005, 2006 and 2007, the auditors' report of BDO McCabe Lo Limited dated March 19, 2007 with respect to our audited consolidated financial statements for the years ended December 31, 2005 and 2006 and the auditors' report of Ernst & Young LLP dated March 12, 2008, except as to notes 2, 18 and 23 which are as of July 17, 2008, with respect to our consolidated financial statements for the year ended December 31, 2007, in the final offering memorandum dated July 17, 2008 with respect to US$300,000,000 5.00% convertible senior notes due 2013 included as Schedule D to our material change report dated July 25, 2008 filed with the provincial securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this Memorandum.

Our audited financial statements for the years ended December 31, 2007 and 2008 and the auditors' report of Ernst & Young LLP dated March 13, 2009 and our unaudited interim consolidated financial statements for the three-month periods ended March 31, 2008 and 2009 are also specifically incorporated by reference in and form an integral part of this Memorandum.

A copy of each of these documents is available electronically at www.sedar.com (the official site providing access to most public securities documents and information filed by public companies and investment funds with the Canadian Securities Administrators in the SEDAR filing system).

Any statement contained in this Memorandum or a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Memorandum to the extent that a statement contained herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an

untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except in its modified or superseded form, to constitute part of this Memorandum.

## LEGAL MATTERS

Certain legal matters will be passed upon for us by Aird & Berlis LLP as to Canadian law and Linklaters as to United States federal and New York law, and for the Dealer Manager by Stikeman Elliott LLP as to Canadian law and by Davis Polk & Wardwell as to United States federal and New York law.

Certain legal matters as to the law of the People's Republic of China will be passed upon for us by Jingtian & Gongcheng, and for the Initial Purchasers by Commerce & Finance Law Offices.

## INDEPENDENT AUDITORS

Our consolidated financial statements for the year ended December 31, 2006 were audited by the audit firm BDO McCabe Lo Limited, independent auditors, as stated in their report incorporated by reference therein, and our consolidated financial statements for the years ended December 31, 2007 and 2008, as well as adjustments to our consolidated financial statements for the year ended December 31, 2006 were audited by Ernst & Young LLP, independent auditors, as stated in their report incorporated by reference herein.

## CHANGE OF AUDITORS

On August 13, 2007, we announced the appointment of Ernst & Young LLP as our auditor, replacing BDO McCabe Lo Limited (now known as BDO Limited). The decision to change auditors was approved by our Board of Directors and its Audit Committee.

The change of auditors was primarily due to our rapid growth in operations since BDO McCabe Lo Limited's engagement as our auditor in 2005, and such change was not prompted by any discovery of any accounting or other irregularities with respect to us or any of our subsidiaries. In connection with our financial statements for the years ended December 31, 2006 and through March 31, 2007, there were no disagreements with BDO McCabe Lo Limited on any matter of accounting principles or practices, financial disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of BDO McCabe Lo Limited, would have caused BDO McCabe Lo Limited to make reference to the subject matter of the disagreement in connection with its audit report on our financial statements for such years.

Ernst & Young LLP previously acted as our auditor for the three years ended December 31, 2004.

*The Information and Exchange Agent for the Exchange Offer is:*

**Global Bondholder Services Corporation**

65 Broadway—Suite 723
New York, New York 10006

Tel: +1 (212) 430-3774
Fax: +1 (212) 430-3775/3779
Attention: Corporate Actions

Any questions or requests for assistance or additional copies of this Memorandum, and the consent solicitation statement relating to our concurrent consent solicitation in connection with the 2004 Senior Notes, may be directed to the Information and Exchange Agent at the address and telephone number set forth above.

Any questions regarding the Exchange Offer may be directed to the Dealer Manager at the addresses and telephone numbers set forth below.

*The Dealer Manager for the Exchange Offer is:*

**Credit Suisse**

11 Madison Avenue
New York, New York 10010
United States
+1 (800) 820-1653 (toll free)
+1 (212) 538-1862 (collect)
Attention: Liability Management Group

One Cabot Square
London E14 4QJ
+44 20 7883 6748
Attention: Liability Management Group

Two Exchange Square
8 Connaught Place Central
Hong Kong
+852 2101 6050
Attention: Syndicate Group

## GENERAL INFORMATION

1. **Clearing Systems:** The Exchange Notes through the DTC, Euroclear and Clearstream. Certain trading information with respect to the Exchange Notes will be provided to holders of the Exchange Notes on or prior to the Expiration Date.

2. **Authorizations:** We have obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Exchange Notes.

3. **No Material Adverse Change:** Except as disclosed in this Memorandum, there has been no material adverse change in our financial or trading position or prospect since March 31, 2009.

4. **Litigation:** Save as disclosed in this Memorandum, neither we nor any of our subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Exchange Notes nor are we aware that any such proceedings are pending or threatened.

5. **Available Documents:** For so long as the Exchange Notes are outstanding, our latest annual report and consolidated financial statements and our latest unaudited interim consolidated financial statements, as well as the indenture and the dealer manager agreement relating to the issue and offering of the Exchange Notes, will be available for inspection at the specified office of the payment agents at 21st Floor, Citigroup Centre, Canada Square Canary Wharf, London E14 5LB, United Kingdon, during normal business hours.

6. **Auditors:** Our consolidated financial statements for the year ended December 31, 2006 were audited by the audit firm BDO McCabe Lo Limited, independent auditors, as stated in their reports incorporated by reference therein, and our consolidated financial statements for the years ended December 31, 2007 and 2008, as well as adjustments to our consolidated financial statements for the year ended December 31, 2006 were audited by Ernst & Young LLP, independent auditors, as stated in their report incorporated by reference herein.

7. **Certain Reporting Obligations in Canada:** As a result of our status as a reporting issuer in all of the provinces of Canada and our common shares being listed on the TSX, we are subject to certain ongoing reporting obligations. Among other things, we publicly disclose and file with the Canadian securities regulatory authorities (i) annual audited financial statements and related management's discussion and analysis of financial conditions and results of operations within 90 days of the end of our financial year, (ii) interim quarterly unaudited financial statements and related management's discussion and analysis of financial conditions and results of operations within 45 days of the end of the respective interim period and (iii) an annual information form within 90 days of the end of our financial year setting out all material information with respect to our business (e.g., information with respect to our business, operations and capital structure).

## ANNEX A:
## AUDITORS' CONSENT

We have read the exchange offer memorandum of Sino-Forest Corporation (the "Company") dated June 24, 2009 relating to the offer to exchange any and all outstanding US$300,000,000 9.125% Guaranteed Senior Notes Due 2011 issued by the Company. We have complied with Canadian generally accepted standards for an auditor's involvment with offering documents.

We consent to the incorporation by reference in the above-mentioned exchange offer memorandum of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended; our report is dated March 13, 2009. We also consent to the incorporation by reference in the above-mentioned exchange offer memorandum of our report to the directors of the Company on the consolidated balance sheet of the Company as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year ended December 31, 2007; our report is dated March 12, 2008 except as to notes 2, 18 and 23 which are as of July 17, 2008.

Vancouver, Canada
June 24, 2009.

Chartered Accountants

## ANNEX B:
## AUDITORS' CONSENT

We consent to the incorporation by reference in the exchange offer memorandum dated June 24, 2009 relating to the offers to exchange 10.25% Guaranteed Senior Notes due 2014 for any and all outstanding US$300,000,000 9.125% Guaranteed Senior Notes due 2011 issued by Sino-Forest Corporation (the "Company"), of our report dated March 19, 2007 to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2006 and 2005 and the consolidated statements of income and retained earnings and cash flows for the two years then ended.

Hong Kong,
June 24, 2009

BDO Limited
Certified Public Accountants

## PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

**Sino-Forest Corporation**
3815-29, 38th Floor
Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong, SAR

**Sino-Forest Corporation**
Suite 1208, 90 Burnhamthorpe Road West
Mississauga, Ontario
Canada L5B 3C3

## AUDITORS

**Ernst & Young LLP**
Chartered Accountants
700 West Georgia Street
PO Box 10101
Vancouver, British Columbia
Canada V7Y 1C7

## TRUSTEE

**Law Debenture Trust Co. of New York**
400 Madison Avenue, 4th Floor
New York, NY 10017
United States

## PAYING AGENT, TRANSFER AGENT AND REGISTRAR

**Citibank, N.A., London Branch**
21st Floor, Citigroup Centre, Canada Square
Canary Wharf, London E19 5L8
United Kingdom
Attention: Agency and Trust,
Bond Paying Agency Department

## LEGAL ADVISORS TO THE COMPANY

*As to United States law*

**Linklaters**
10th Floor, Alexandra House
18 Chater Road
Central, Hong Kong, SAR

*As to Canadian law*

**Aird & Berlis LLP**
Brookfield Place, Suite 1800
Box 754
181 Bay Street
Toronto, Ontario
Canada M5J 2T9

*As to PRC law*

**Jingtian & Gongcheng**
15th Floor, The Union Plaza
20 Chaoyangmenwai Dajie
Beijing 100020
People's Republic of China

## LEGAL ADVISORS TO THE DEALER MANAGER

*As to Canadian law*

**Stikeman Elliott LLP**
5300 Commerce Court West
199 Bay Street
Toronto, Ontario
Canada M5L 1B9

*As to United States law*

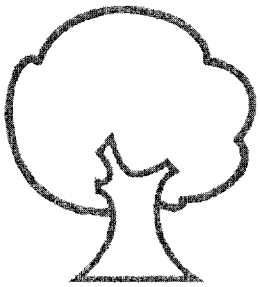
**Davis Polk & Wardwell**
18th Floor
The Hong Kong Club Building
3A Chater Road
Central, Hong Kong, SAR

*As to PRC law*

**Commerce & Finance Law Offices**
6F NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing, 100022
People's Republic of China

**SCHEDULE "C"**

See attached.



# Sino-Forest Corporation

**(a company existing under the laws of Canada with limited liability)**

**CONSENT SOLICITATION STATEMENT**

## Credit Suisse

**June 24, 2009**

**CONSENT SOLICITATION STATEMENT**

# Sino-Forest Corporation

**Solicitation of Consents to Amend the Indenture**
**Relating to the Company's US$300 million 9.125% Guaranteed Senior Notes due 2011**
**(CUSIP NOS. 82934HAA9; C83912AA0)**

**Consent Payment: US$10.00 per US$1,000 Principal Amount**

Sino-Forest Corporation (the "**Company**") is soliciting consents (the "**Consents**") from all holders of record as of June 23, 2009 (the "**Noteholders**") of its US$300 million 9.125% Guaranteed Senior Notes due 2011 ("**2004 Senior Notes**"), upon the terms and subject to the conditions set forth in this consent solicitation statement (the "**Consent Solicitation Statement**") and the accompanying Letter of Consent, to certain proposed amendments (the "**Proposed Amendments**") to the indenture (the "**Indenture**") governing 2004 Senior Notes including, without limitation, amendments to modify certain restrictive covenants, modify other related provisions and make certain other modifications as described in "The Proposed Amendments", which we refer to as the "**Consent Solicitations.**"

If the Proposed Amendments are approved and a supplemental indenture (the "**Supplemental Indenture**") implementing such Proposed Amendments is validly executed and properly delivered, the Company will pay, or procure to be paid, a cash payment of US$10.00 for each US$1,000 of 2004 Senior Notes (the "**Consent Payment**") to Noteholders of record on June 23, 2009 (the "**Record Date**") who have properly delivered valid Consents with respect to 2004 Senior Notes on or prior to the Expiration Date (as defined below), such cash payment to be made on July 27, 2009 (the "**Settlement Date**"). If the Proposed Amendments are not approved, or a Supplemental Indenture implementing such Proposed Amendments is not duly executed and properly delivered, no Consent Payment will be paid to any of the Noteholders, irrespective of whether or not such Noteholder has delivered a valid Consent.

**In order to receive the Consent Payment, you must deliver your Consent by 5:00 p.m., New York City time, on July 8, 2009, unless such date and time is extended by us (such date and time, as it may be extended, the "Expiration Date"). Consents may not be revoked at any time once delivered.**

Subject to applicable law, the Company may, in its discretion, amend (subject as provided herein), terminate or withdraw this Consent Solicitation at any time prior to the Expiration Date. The Company shall notify the Noteholders of such amendment, termination or withdrawal as set out below. In the event the Company has not received the requisite number of Consents on or before the Expiration Date, as explained herein, the Proposed Amendments will be deemed withdrawn. As described in this document, an acceptance by a Noteholder of this Consent Solicitation is irrevocable. The Proposed Amendments, which are the subject of this Consent Solicitation, will become effective upon due execution and delivery by the Company, the Subsidiary Guarantors and the Trustee of a Supplemental Indenture implementing the Proposed Amendments, which is expected to occur on the Execution Date (as defined below).

None of the Company, the Information and Tabulation Agent (as defined below), the Trustee under the Indenture or the Solicitation Agent (as defined below) makes any recommendation as to whether Noteholders should consent to the Proposed Amendments.

*The Solicitation Agent for the Consent Solicitation is:*

## Credit Suisse

The date of this Consent Solicitation Statement is June 24, 2009.

## IMPORTANT DATES

Please take note of the following important dates and times in connection with the Consent Solicitations. These dates assume no extension of the Expiration Date.

| Date | Calendar Date and Time | Event |
|---|---|---|
| **Record Date** | 5:00 p.m., New York City time, June 23, 2009. | The date by which all persons in whose names 2004 Senior Notes must have been registered, in their capacity as beneficial owners, in order to be a recipient of the Consent Solicitation Statement.<br><br>As of the Record Date, all of the 2004 Senior Notes were held through the Depositary Trust Company ("DTC") by participants in DTC ("DTC Participants"). |
| **Expiration Date** | 5:00 p.m., New York City time, July 8, 2009. | The last day for holders to deliver their Consent. |
| **Execution Date** | The thirteenth business day after the Expiration Date (expected to be July 27, 2009). | The day for the execution of the Supplemental Indenture if the Requisite Consents (as defined herein) have been received and certain conditions contained herein have been satisfied. |
| **Settlement Date** | The thirteenth business day after the Expiration Date (expected to be July 27, 2009). | Subject to the Company receiving the Requisite Consents (as defined herein) on or before the Expiration Date and to certain conditions described herein, delivery of the Consent Payment to such Noteholders who have properly delivered their valid Consent prior to the Expiration Date. |

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## IMPORTANT NOTICE

This document does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or a solicitation of any offer to buy or subscribe for, any securities of the Company or any other entity. The distribution of this document and the making of this Consent Solicitation may nonetheless be restricted by law in certain jurisdictions. Persons into whose possession this document comes are required by the Company, the Solicitation Agent, the Information Agent and the Trustee to inform themselves about, and to observe, any such restrictions. None of the Solicitation Agent, the Information Agent nor the Trustee will incur any liability for their own failure or the failure of any other person or persons to comply with the provisions of any such restrictions.

**The Consent Solicitations have not been approved or recommended by any U.S. federal, state or foreign jurisdiction or regulatory authority. Furthermore, those authorities have not been requested to confirm the accuracy or adequacy of this Consent Solicitation Statement. Any representation to the contrary is a criminal offense.**

You should rely only on the information contained in this Consent Solicitation Statement or to which we have referred you. We have not authorized any person (including any dealer, salesman or broker) to provide you with different information. None of the Solicitation Agent, the Information Agent, the Trustee or their respective affiliates has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility nor liability is accepted by the Solicitation Agent, the Information Agent, the Trustee or any of their respective affiliates as to the accuracy or completeness of the information contained in this document or any other information provided by it in connection with this Consent Solicitation. None of the Solicitation Agent, the Information Agent, the Trustee or their respective affiliates accepts any responsibility for this document, makes any representation regarding this document or this Consent Solicitation or owes any duty to any Noteholder. The Solicitation Agent, the Information Agent and their respective affiliates are the agents of the Company and owe no duty to any Noteholder. The information in this Consent Solicitation Statement may only be accurate on the date hereof. You should not assume that the information contained in this Consent Solicitation Statement is accurate as of any other date.

None of the Company, the Solicitation Agent, the Information Agent or the Trustee nor any of their respective affiliates makes any representation to any Noteholder as to whether or not to deliver a Consent. Noteholders must make their own independent decisions as to whether to deliver a Consent.

The Solicitation Agent is acting as adviser to the Company and its affiliates in relation to this Consent Solicitation and to no one else and will not regard any other person as its customer or be responsible to anyone other than the Company and its affiliates for providing the protections afforded to customers of the Solicitation Agent or for providing advice in relation to this Consent Solicitation. The Solicitation Agent and its associates may have a holding in, or may from time to time provide advice or other investment services in relation to, or engage in transactions involving, 2004 Senior Notes.

This Consent Solicitation Statement contains important information which should be read before any decision is made with respect to this Consent Solicitation. Recipients of this Consent Solicitation Statement and the accompanying materials should not construe the contents hereof or thereof as legal, business or tax advice. Each recipient should consult its own attorney, business advisor and tax advisor as to legal, business, tax and related matters concerning the Consent Solicitation.

This Consent Solicitation is not being made to, and no Consents are being solicited from, Noteholders in any jurisdiction in which it is unlawful to make such Consent Solicitation or grant such Consents. However, the Company may, in its sole discretion, take such actions as it may deem necessary to solicit Consents in any jurisdiction and may extend this Consent Solicitation to, and solicit Consents from, persons in any such jurisdiction. In any jurisdiction in which the federal and state securities laws require this Consent Solicitation to be made by a licensed broker or dealer, this Consent Solicitation will be deemed to be made on behalf of the Company by the Solicitation Agent or one or more registered brokers or dealers that are licensed under the laws of such jurisdiction.

**UNDER NO CIRCUMSTANCES SHOULD ANY PERSON TENDER OR DELIVER 2004 SENIOR NOTES IN CONNECTION WITH THIS CONSENT SOLICITATION AT ANY TIME.**

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements set forth or incorporated by reference in this Consent Solicitation Statement contain "forward-looking statements," as that term is defined by the U.S. federal securities laws. The words "expect," "intend," "estimate," "project," "anticipate," "believe," "should," "plan," "will" and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Although forward-looking statements reflect management's good faith beliefs, reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Any forward-looking statements made in or incorporated by reference into this Consent Solicitation Statement speak only as of the date of this document. The Company undertakes no obligation to publicly update or revise any forward-looking statements after the date of this Consent Solicitation Statement, whether as a result of new information, future events or otherwise. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the impact of general economic conditions in the regions in which the Company does business, general industry conditions including competition and the conditions of the global financial markets and potential changes in regulations applicable to the forestry industry in China.

## CONCURRENT EXCHANGE OFFER

Concurrently with the Consent Solicitations, we are also offering to certain holders (i) in the United States, that are "qualified institutional buyers," as defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and (ii) outside the United States, that are persons other than "U.S. persons," as defined in Regulation S under the Securities Act, upon the terms and subject to the conditions set forth in a separate offering memorandum and the related Letter of Transmittal, to exchange any and all of their outstanding 2004 Senior Notes for a like principal amount of newly issued Sino-Forest 10.25% Guaranteed Senior Notes due 2014, which we refer to as the "exchange offer." The Consent Solicitations are not conditioned upon the consummation of such exchange offer and such exchange offer is not conditioned upon the consummation of the Consent Solicitations.

## SUMMARY

*This summary highlights selected information from this Consent Solicitation Statement. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Consent Solicitation Statement. You should read the entire Consent Solicitation Statement carefully.*

*Unless the context otherwise requires, references in this Consent Solicitation Statement to "Sino-Forest," "us," "we," "our" or the "Company" refer to Sino-Forest Corporation, or to Sino-Forest Corporation and its consolidated subsidiaries, as the context requires.*

### The Consent Solicitations

| | |
|---|---|
| **The Consent Solicitations** . . . | Upon the terms and subject to the conditions set forth in this Consent Solicitation Statement, we are soliciting Consents from all Noteholders of 2004 Senior Notes to the Proposed Amendments described under "The Proposed Amendments." Each Noteholder that validly delivers its Consent prior to the Expiration Date will be entitled to the Consent Payment.<br><br>The Consent Payment will not be due and payable until the Settlement Date and then will be due and payable only if we have received and accepted the Requisite Consents. |
| **Consent Payment** . . . . . | For each US$1,000 principal amount of 2004 Senior Notes with respect to which Consents are delivered prior to the Expiration Date and which are accepted in the Consent Solicitations, the Company will make a Consent Payment of US$10.00 in cash. |
| **Expiration Date** . . . . . | To receive the Consent Payment, Noteholders must validly deliver their Consents by 5:00 p.m., New York City time, on July 8, 2009, unless extended or terminated by us with respect to the Consent Solicitations. |
| **Information** . . . . . | Any questions or requests for assistance, or for additional copies of this Consent Solicitation Statement, the Letter of Consent or related documents, may be directed to the Information Agent at the telephone numbers provided on the back of this Consent Solicitation Statement. You also may contact the Solicitation Agent (as defined below) at the telephone numbers set forth below on the back of this Consent Solicitation Statement. Beneficial owners may contact their custodian bank, depositary, broker, trust company or other nominee for assistance concerning the Consent Solicitations. |
| **Conditions** . . . . . | Consummation of the Consent Solicitations is conditioned upon the satisfaction or waiver of the conditions described under "The Consent Solicitations—Conditions to the Consent Solicitations." |
| **Settlement Date** . . . . . | The thirteenth business day after the Expiration Date (expected to be July 27, 2009). |
| **Procedures for Consenting** . . | Consents must be delivered to the Information and Tabulation Agent prior to 5:00 p.m., New York City time, on the Expiration Date. DTC is expected to grant an omnibus proxy authorizing the DTC Participants as of the Record Date to deliver a Consent. Only registered owners of 2004 Senior Notes as of the Record Date or their duly designated proxies, including, for the purposes of this Consent Solicitation, DTC Participants, are eligible to consent to the Proposed Amendments and receive the Consent Payment. Therefore, a beneficial owner of an interest in 2004 Senior Notes held in the account of a DTC Participant who wishes a Consent to be delivered must properly instruct such DTC Participant to cause a Consent to be given timely in respect of such Proposed Amendments. |

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| | See "The Consent Solicitations—Procedures for Consenting." |
| **Information and Tabulation Agent** | Global Bondholder Services Corporation is serving as Information and Tabulation Agent in connection with the Consent Solicitations. Global Bondholder Services Corporation's contact information appears on the back cover of this Consent Solicitation Statement. |
| **Solicitation Agent** | Credit Suisse Securities (USA) LLC is serving as the Solicitation Agent in connection with the Consent Solicitations. The Solicitation Agent's contact information appears on the back cover of this Consent Solicitation Statement. |
| **U.S. Federal Income Tax Consequences** | For a discussion of certain United States federal income tax considerations of the Consent Solicitations (including a discussion of United States federal income tax consequences to non-United States holders), see "Certain United States Federal Income Tax Consequences." |
| **Requisite Consents** | Consents from Noteholders of a majority in aggregate principal amount of the outstanding 2004 Senior Notes must be received on or prior to the Expiration Date in order to amend the Indenture.<br><br>Our obligation to make the Consent Payments is conditioned upon, among other things, receipt of valid Consents sufficient to effect the Proposed Amendments to the Indenture with respect to 2004 Senior Notes, although we may, at our option, waive this or any other condition with respect to the Consent Solicitation. For information about other conditions to our obligation to make the Consent Payments, see "The Consent Solicitations—Conditions to the Consent Solicitations." |
| **Effectiveness of Proposed Amendments** | If we have received and accepted the Requisite Consents with respect to 2004 Senior Notes, we will then execute a Supplemental Indenture to effect the Proposed Amendments with respect to 2004 Senior Notes. In the event that we do not receive or accept the Requisite Consents with respect to 2004 Senior Notes for any reason, the Indenture will remain in effect in its current form. See "The Proposed Amendments." |
| **Effect of Proposed Amendments** | If the Requisite Consents with respect to 2004 Senior Notes are received and the Proposed Amendments become effective, then certain restrictive covenants in the Indenture will be modified and certain related provisions and certain other provisions of the Indenture will be eliminated or modified.<br><br>If the Proposed Amendments to the Indenture are adopted, the Proposed Amendments will apply to your 2004 Senior Notes. Thereafter, your 2004 Senior Notes will be governed by the Indenture as amended by the Proposed Amendments, which will have less restrictive terms and afford more limited protections to you as a Noteholder compared to those currently in the Indenture. See "The Proposed Amendments."<br><br>Sino-Forest retains the right to repurchase or otherwise acquire from time to time any 2004 Senior Notes that are outstanding after the consummation or termination of the Consent Solicitations. |

## THE PROPOSED AMENDMENTS

*Attached to this Consent Solicitation Statement are the provisions of the Indenture that would be amended by the Proposed Amendments for which Consents are being sought pursuant to this Consent Solicitation Statement. Holders of 2004 Senior Notes should carefully consider the factors set forth below and on the attached as well as the other information set forth in this Consent Solicitation Statement prior to giving Consent to the Proposed Amendments. The attachment is qualified in its entirety by reference to the relevant terms of the Indenture as currently in effect.*

### General

Regardless of whether the Proposed Amendments become operative, 2004 Senior Notes will continue to be outstanding in accordance with all other terms of the 2004 Senior Notes and the Indenture. The changes included in the Proposed Amendments will not alter our obligation to pay the principal or interest on 2004 Senior Notes, the Subsidiary Guarantors' obligations under the Indenture or the stated interest rate or maturity date provisions of the 2004 Senior Notes.

If the Requisite Consents are received, it is currently expected that the Proposed Amendments will be adopted by execution and delivery of the Supplemental Indenture by the signatories thereto (subject to the Company's right to terminate the Consent Solicitations prior to execution of the Supplemental Indenture as described herein). Upon the execution and delivery of the Supplemental Indenture, we will pay the applicable Consent Payment to all Noteholders who have validly delivered their Consents in accordance with the procedures described in this Consent Solicitation Statement on or prior to the Expiration Date.

### Reason for the Proposed Amendments

The reason for the Proposed Amendments is to modify certain restrictive covenants of the 2004 Senior Notes to which we are subject.

### The Proposed Amendment

Appendix I attached to this Consent Solicitation Statement sets forth the relevant provisions of the Indenture reflecting the Proposed Amendments to such sections of the Indenture, with additions shown as underlined text and deletions shown as strikethrough text.

## THE CONSENT SOLICITATIONS

### Terms of the Consent Solicitations

We are soliciting Consents to certain Proposed Amendments to the Indenture from all holders of 2004 Senior Notes. For a description of the Proposed Amendments, see "The Proposed Amendments." Our obligation to make the Consent Payments is conditioned on, among other things, receipt of valid Consents on or prior to the Expiration Date to effect the Proposed Amendments with respect to 2004 Senior Notes from holders of a majority in principal amount of all outstanding 2004 Senior Notes under the Indenture (the "**Requisite Consents**").

We will pay an amount in cash equal to the Consent Payment to a Noteholder only if the Noteholder has delivered a valid Consent prior to the Expiration Date. The Expiration Date for the Consent Solicitations (that is, the time by which Noteholders must have delivered a valid Consent) will be 5:00 p.m., New York City time, on July 8, 2009, unless extended by us with respect to the Consent Solicitations.

If the Requisite Consents are received and accepted with respect to 2004 Senior Notes, then we, the Subsidiary Guarantors and the Trustee will execute a Supplemental Indenture setting forth the Proposed Amendments in respect of 2004 Senior Notes. If the Proposed Amendments are adopted, your 2004 Senior Notes will be subject to the Indenture as modified by the Supplemental Indenture. If the Proposed Amendments become effective with respect to your 2004 Senior Notes, the covenants and some other terms of your 2004 Senior Notes will be less restrictive and will afford limited protection to you as a Noteholder compared to the covenants and other provisions currently contained in the Indenture.

### Conditions to the Consent Solicitations

Notwithstanding any other provision of the Consent Solicitations, we will not be obligated to make the Consent Payments unless the following conditions are satisfied or waived by us:

(a) the receipt of the Requisite Consents described above under "—Terms of the Consent Solicitations"; and

(b) the following statements being true:

(1) in our reasonable judgment, no action, proceeding or investigation (whether formal or informal) or event has occurred, been proposed, is threatened (including a default under an agreement, indenture or other instrument or obligation to which we are a party or by which we are bound), or is pending and no statute, rule, regulation, judgment, order, stay, decree or injunction has been sought, proposed, introduced, promulgated, enacted, entered, enforced or deemed applicable to the Consent Solicitations or the Proposed Amendments by or before any government, court or governmental regulatory or administrative agency, authority, commission or tribunal, domestic or foreign, which either:

- challenges the Consent Solicitations or the Proposed Amendments or might, directly or indirectly, prohibit, prevent, restrict or delay consummation of, or might otherwise adversely affect in any material manner, the Consent Solicitations or the Proposed Amendments, or assessing or seeking any damages as a result thereof; or
- in our reasonable judgment, could materially affect the business, condition (financial or otherwise), income, operations, properties, assets, liabilities or prospects of the Company and its subsidiaries, taken as a whole, or materially impair the contemplated benefits to the Company of the Consent Solicitations or the Proposed Amendments, or might be material to Noteholders in deciding whether to give their Consents;

(c) none of the following having occurred:

- any general suspension of or general limitation on prices for, or trading in, securities on any United States, Canadian or Hong Kong national securities exchange or in the over-the-counter market (whether or not mandatory),

- any material adverse change in the prices of 2004 Senior Notes,
- a material impairment in the general trading market for debt securities,
- a declaration of a banking moratorium or any suspension of payments in respect of banks by federal or state authorities in the United States, Canada or Hong Kong (whether or not mandatory),
- a commencement or escalation of a war, armed hostilities, terrorist act or other national or international crisis directly or indirectly relating to the United States, Canada or Hong Kong,
- any limitation by any governmental authority or agency on, or other event having a reasonable likelihood of affecting the extension of credit by banks or other lending institutions in the United States, Canada or Hong Kong (whether or not mandatory),
- any material adverse change in United States, Canadian or Hong Kong securities or financial markets generally, or
- in the case of any of the foregoing existing at the time of the commencement of the Consent Solicitations, a material acceleration or worsening thereof; and

(d) The Trustee having executed and delivered a supplemental indenture with respect to 2004 Senior Notes relating to the Proposed Amendments and has not objected in any respect to, or taken any action that could in our reasonable judgment adversely affect the consummation of the Consent Solicitations or our ability to effect the Proposed Amendments, nor has such trustee taken any action that challenges the validity or effectiveness of the procedures used by us in soliciting Consents (including the form thereof).

The conditions described above are solely for our benefit and may be asserted only by us regardless of the circumstances giving rise to any such condition, including any action or inaction by us, and may be waived by us, in whole or in part, at any time and from time to time before the Expiration Date or, if any of the conditions required to be satisfied on or before the Expiration Date have not been satisfied on or before the Expiration Date, in our sole discretion. If any of the foregoing conditions have not been met, we may (but will not be obligated to), at any time before the Expiration Date and subject to applicable law, (a) terminate the Consent Solicitation, (b) extend the Consent Solicitation, on the same or amended terms, and thereby delay acceptance of any delivered Consents or (c) waive the unsatisfied condition or conditions with respect to the Consent Solicitation.

Subject to applicable law, we expressly reserve the right, in our sole discretion, to terminate the Consent Solicitations at any time.

**Expiration Date; Extensions; Amendments**

The term "Expiration Date" means 5:00 p.m., New York City time, on July 8, 2009, unless extended by us, in which case the Expiration Date shall be such date and time to which the Expiration Date is extended. We, in our sole discretion, may extend the Expiration Date for any purpose, including in order to permit the satisfaction or waiver of any or all conditions to the Consent Solicitations. To extend the Expiration Date, we will notify the Information and Tabulation Agent and will make a public announcement thereof before 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. Such announcement will state that we are extending the Expiration Date for a specified period or on a daily basis.

We expressly reserve the right, subject to applicable law, to:

- delay accepting any Consents, to extend the Consent Solicitations or to terminate the Consent Solicitations; and
- amend, supplement, modify or waive at any time, or from time to time, the terms of the Consent Solicitations in any respect, including waiver of any conditions to consummation of the Consent Solicitations.

If we exercise any such right, we will give written notice thereof to the Information and Tabulation Agent and will make a public announcement thereof as promptly as practicable. Without limiting the manner in which

we may choose to make a public announcement of any extension, amendment or termination of one or both of the Consent Solicitations, we will not be obligated to publish, advertise or otherwise communicate any such public announcement, other than by making a timely press release to Business Wire or the Dow Jones News Service.

The minimum period during which the Consent Solicitation will remain open following material changes in its or in the information concerning the Consent Solicitation will depend upon the facts and circumstances of such change, including the relative materiality of the changes. If the terms of the Consent Solicitation are amended in a manner that we determine to constitute a material change, we will promptly disclose any such amendment in a manner reasonably calculated to inform Noteholders of such amendment, and we will extend the Consent Solicitation for a time period in accordance with applicable law that it deems appropriate, depending upon the significance of the amendment and the manner of disclosure to Noteholders, if such Consent Solicitation would otherwise expire during such time period.

**Procedures for Consenting**

The following summarizes the procedures to be followed by all Noteholders for consenting.

Only Holders (*i.e.*, persons in whose name 2004 Senior Notes are registered as of the Record Date or their duly designated proxies) may execute and deliver a Consent. DTC is expected to grant an omnibus proxy with respect to the Proposed Amendments authorizing DTC Participants to deliver a Consent. Accordingly, for the purposes of this Consent Solicitation, the term "Holder" shall be deemed to mean DTC Participants who hold 2004 Senior Notes through DTC as of the Record Date. In order to cause a Consent to be given with respect to 2004 Senior Notes held through DTC, such DTC Participant must complete and sign the Letter of Consent or a facsimile thereof, and mail or deliver it to the Information and Tabulation Agent at its address or facsimile set forth on the back cover page of this Consent Solicitation Statement pursuant to the procedures set forth herein and therein.

**A beneficial owner of an interest in 2004 Senior Notes held through a DTC Participant must properly instruct such DTC Participant sufficiently in advance of the Expiration Date to cause a Consent to be given by such DTC Participant with respect to such Proposed Amendments.**

Giving a Consent will not affect a Holder's right to sell or transfer the 2004 Senior Notes. All Consents with respect to the Amendments received by the Information and Tabulation Agent (and not revoked) prior to 5:00 p.m., New York City time, on the Expiration Date will be effective notwithstanding a record transfer of such 2004 Senior Notes, subsequent to the Record Date.

HOLDERS WHO WISH TO CONSENT SHOULD MAIL, HAND DELIVER, SEND BY OVERNIGHT COURIER OR FACSIMILE (CONFIRMED BY PHYSICAL DELIVERY) THEIR PROPERLY COMPLETED AND DULY EXECUTED CONSENT LETTERS TO THE INFORMATION AND TABULATION AGENT AT THE ADDRESS OR FACSIMILE NUMBER SET FORTH ON THE BACK COVER PAGE HEREOF AND ON THE LETTER OF CONSENT IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH HEREIN AND THEREIN. CONSENTS SHOULD BE DELIVERED TO THE INFORMATION AND TABULATION AGENT, NOT TO THE COMPANY, THE TRUSTEE OR THE SOLICITATION AGENT. HOWEVER, THE COMPANY RESERVES THE RIGHT TO ACCEPT ANY CONSENT RECEIVED BY THE COMPANY, THE TRUSTEE OR THE SOLICITATION AGENT.

**HOLDERS SHOULD NOT TENDER OR DELIVER THEIR 2004 SENIOR NOTES AT ANY TIME.**

All Consents that are properly completed, signed and delivered to the Information and Tabulation Agent prior to 5:00 p.m., New York City time, on the Expiration Date will be given effect in accordance with the specifications thereof. Noteholders who desire to Consent to the Proposed Amendments to the Indenture should complete, sign and date the Letter of Consent included herewith or a facsimile thereof and mail, deliver, send by overnight courier or facsimile (confirmed by physical delivery) the signed Letter of Consent to the Information and Tabulation Agent at the address or facsimile number listed on the back cover page of this Consent Solicitation Statement and on the Letter of Consent, all in accordance with the instructions contained herein and therein.

Consents by a Holder who is a DTC Participant must be executed in exactly the same manner as such Holder's name is registered with DTC. If a Consent is signed by a trustee, partner, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person must so indicate when signing and must submit with the Letter of Consent appropriate evidence of authority to execute the Consent. In addition, if a Consent relates to less than the amount of 2004 Senior Notes which such Holder holds through DTC, the Holder must list the 2004 Senior Notes which such Holder holds through DTC, to which the Consent relates. **If no 2004 Senior Notes are specified, but the Letter of Consent is otherwise properly completed and signed, the Holder will be deemed to have given its Consent to the Proposed Amendments to the Indenture with respect to all 2004 Senior Notes which such Holder holds through DTC.**

The registered ownership of a 2004 Senior Note as of the Record Date shall be proved by Citibank, N.A., as registrar of the 2004 Senior Notes. The ownership of 2004 Senior Notes held through DTC by DTC Participants shall be established by DTC security position listings provided by DTC as of the Record Date. All questions as to the validity, form and eligibility (including time of receipt) regarding the Consents will be determined by the Company in its sole discretion, which determination will be conclusive and binding subject only to such final review as may be prescribed by the Information and Tabulation Agent concerning proof of execution and ownership. The Company reserves the right to reject any or all Consents that are not in proper form or the acceptance of which could, in the opinion of the Company or its counsel, be unlawful. The Company also reserves the right, subject to such final review as the Information and Tabulation Agent prescribes for the proof of execution and ownership, to waive any defects or irregularities in connection with deliveries of particular Consents. Unless waived, any defects or irregularities in connection with deliveries of Consents must be cured within such time as the Company determines. None of the Company or any of its affiliates, the Solicitation Agent, the Information and Tabulation Agent, the Trustee or any other person shall be under any duty to give any notification of any such defects or irregularities or waiver, nor shall any of them incur any liability for failure to give such notification. Deliveries of Consents will not be deemed to have been made until any irregularities or defects therein have been cured or waived. The Company's interpretations of the terms and conditions to the Consent Solicitation shall be conclusive and binding.

*Effectiveness of Proposed Amendments*

Any delivery of a Consent prior to the Expiration Date will constitute a binding agreement between the Noteholder and us and a Consent to the Proposed Amendments, upon the terms and subject to the conditions of the Consent Solicitation and the Letter of Consent. If we receive the Requisite Consents with respect to 2004 Senior Notes by the Expiration Date, the Proposed Amendments to the Indenture will become effective with respect to 2004 Senior Notes promptly after that date, subject to the terms and conditions described herein.

*Guarantee of Signature*

Signatures on a Letter of Consent must be guaranteed by a recognized participant (a "**Medallion Signature Guarantor**") in the Securities Transfer Agents' Medallion Program or the Stock Exchange Medallion Program, unless such Letter of Consent is delivered (a) by the registered holder of 2004 Senior Notes to which such Letter of Consent relates who has signed the Letter of Consent, or (b) for the account of a firm that is a member of a registered national securities exchange or the Financial Industry Regulatory Authority, Inc. or is a commercial bank or trust company having an office in the United States (each, an "**Eligible Institution**").

*Other Matters*

Notwithstanding any other provision of the Consent Solicitations, payment of the Consent Payment will occur only after timely receipt by the Information and Tabulation Agent of a valid Consent with respect to the Proposed Amendments prior to the Expiration Date. The delivery of a Consent pursuant to the Consent Solicitation by one of the procedures set forth above will constitute an agreement between the consenting Noteholder and us in accordance with the terms and subject to the conditions of the Consent Solicitation.

**Alternative, conditional or contingent Consents will not be considered valid.** We reserve the absolute right to reject any or all Consents that are not in proper form or the acceptance of which would, in our opinion, be

unlawful. We also reserve the right, subject to applicable law, to waive any defects, irregularities or conditions as to particular Consents. A waiver of any defect or irregularity with respect to particular Consents shall not constitute a waiver of the same or any other defect or irregularity with respect to the delivery of any other Consents. Our interpretations of the terms and conditions of the Consent Solicitations will be final and binding. Any defect or irregularity in connection with the delivery of Consents must be cured within such time as we determine, unless waived by us. Consents shall not be deemed to have been delivered until all defects and irregularities have been waived by us or cured. None of us, the Trustee, the Solicitation Agent, the Information and Tabulation Agent or any other person will be under any duty to give notice of any defects or irregularities in the delivery of Consents or will incur any liability to holders for failure to give any such notice.

*Acceptance of Consents*

Assuming the conditions to the Consent Solicitations are satisfied or waived, we will pay the Consent Payments on the Settlement Date, or as soon as practicable after that date, in exchange for the Consents that are validly delivered and accepted in the Consent Solicitations.

We expressly reserve the right, in our sole discretion, but subject to applicable law, to (a) delay acceptance of Consents or (b) terminate one or both of the Consent Solicitations at any time.

We will be deemed to have accepted validly delivered Consents (or defectively delivered Consents with respect to which we have waived such defect) if, as and when we give oral (promptly confirmed in writing) or written notice thereof to the Information and Tabulation Agent. Subject to the terms and conditions of the Consent Solicitations, payment of the Consent Payment will be made by the Information and Tabulation Agent on the Settlement Date upon receipt of such notice and holders will receive their deposited 2004 Senior Notes from the Information and Tabulation Agent. The Information and Tabulation Agent will act as agent for participating Noteholders for the purpose of transmitting Consent Payments to such Noteholders.

If, for any reason, acceptance of Consents is delayed or we are unable to accept the Consents then, without prejudice to our rights hereunder, but subject to applicable law, the deposited 2004 Senior Notes may be retained by the Information and Tabulation Agent on behalf of us.

If any Consents are not accepted for any reason pursuant to the terms and conditions of the Consent Solicitation, the 2004 Senior Notes will be returned without expense to the Noteholder promptly after the Expiration Date or the termination of the Consent Solicitation.

**U.S. Federal Backup Withholding**

U.S. federal income tax backup withholding may be required unless you (1) provide a completed IRS Form W-9 and indicate either (a) your correct taxpayer identification number, or (b) an adequate basis for an exemption, or (2) provide an applicable completed Form W-8. See "Certain United States Federal Income Tax Consequences—Backup Withholding and Information Reporting" below.

**Canadian Federal Income Tax Considerations**

For a discussion of Canadian Federal income tax considerations of the Consent Solicitations to United States holders, see "Certain Tax Consequences—Canadian Taxation".

**Tabulation Agent**

Global Bondholder Services Corporation has been appointed the Tabulation Agent for the Consent Solicitations and will receive customary compensation for its services. Letters of Consent and all correspondence in connection with the Consent Solicitations should be sent or delivered by each Noteholder, or a beneficial owner's custodian bank, depositary, broker, trust company or other nominee, to the Tabulation Agent at the addresses and telephone numbers set forth on the back cover page of this Consent Solicitation Statement. We will pay the Tabulation Agent reasonable and customary fees for its services and will reimburse it for its reasonable, out-of-pocket expenses in connection therewith.

**Information Agent**

Global Bondholder Services Corporation has been appointed as the Information Agent for the Consent Solicitations and will receive customary compensation for its services. Questions concerning consent procedures and requests for additional copies of this Consent Solicitation Statement or the Letter of Consent should be directed to the Information Agent at the address and telephone numbers set forth on the back cover page of this Consent Solicitation Statement.

**Solicitation Agent**

We have retained Credit Suisse Securities (USA), LLC to act as the Solicitation Agent, in connection with the Consent Solicitations and will pay the Solicitation Agent for soliciting Consents in the Consent Solicitations a customary fee. We will also reimburse the Solicitation Agent for its reasonable out-of-pocket expenses. The obligations of the Solicitation Agent to perform such function are subject to certain conditions. We have agreed to indemnify the Solicitation Agent against certain liabilities, including liabilities under applicable federal securities laws in connection with their services. Questions regarding the terms of the Consent Solicitations may be directed to the Solicitation Agent at the addresses and telephone numbers set forth on the back cover page of this Consent Solicitation Statement.

From time to time, the Solicitation Agent has provided, and may provide in the future, investment banking and other services for Sino-Forest and its affiliates. The Solicitation Agent, in the ordinary course of its business, may make markets in Sino-Forest's debt securities. As a result, from time to time, the Solicitation Agent may own certain of Sino-Forest's debt securities and may tender 2004 Senior Notes in the Consent Solicitations.

**Other Fees and Expenses**

The expenses of soliciting Consents will be borne by Sino-Forest. The principal solicitation is being made by mail; however, additional solicitations may be made by fax, telephone or in person by the Solicitation Agent and the Information Agent, as well as by officers and other employees of Sino-Forest and its affiliates.

Noteholders participating in the Consent Solicitations will not be required to pay any fee or commission to the Solicitation Agent. However, if a Noteholder handles the transaction through its broker, dealer, commercial bank, trust company or other institution, such Noteholder may be required to pay brokerage fees or commissions.

## CERTAIN TAX CONSEQUENCES

### Certain U.S. Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS EXCHANGE OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

* * * * *

The following is a summary of certain material U.S. federal income tax consequences of the Consent Solicitation, the Proposed Amendments and the receipt of the Consent Payment by U.S. Holders (as defined below) that hold the 2004 Senior Notes as capital assets and that receive the Consent Payment. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, of the Consent Solicitation, the Proposed Amendments and the receipt of the Consent Payment by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as certain financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the modified 2004 Senior Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of 2004 Senior Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds 2004 Senior Notes will depend on the status of the partner and the activities of the partnership. Prospective participants that are partnerships should consult their tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of 2004 Senior Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, (the "Code") its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PARTICIPANTS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF PARTICIPATING IN THE CONSENT SOLICITATION, INCLUDING, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

*Consequences to U.S. Holders Participating in the Consent Solicitation*

The tax treatment to a U.S. Holder that participates in the Consent Solicitation will depend on (i) whether adoption of the Proposed Amendments results in a modification of the terms of the 2004 Senior Notes that is treated as "significant" within the meaning of the Treasury regulations promulgated under Section 1001 of the Code (the "Regulations") and, if the modification is significant, (ii) whether the Consent Solicitation qualifies as a recapitalization for U.S. federal income tax purposes.

Under the Regulations, the modification of a debt instrument is a "significant" modification which will create a taxable exchange for U.S. federal income tax purposes if, based on all the facts and circumstances and taking into account all modifications of the debt instrument collectively, the legal rights or obligations that are altered and the degree to which they are altered are "economically significant." The Regulations provide that a change in the yield of a debt instrument is a significant modification if the yield of the modified instrument varies from the yield on the unmodified instrument (determined as of the date of the modification) by more than the greater of 25 basis points or 5 percent of the annual yield of the unmodified instrument. In calculating the yield of the modified instrument the issue price of the debt instrument is reduced by any payments made to the U.S. Holder as consideration for the modification. Because of the increase in yield resulting from the Consent Payment, it is expected that the Consent Solicitation will be a significant modification to the 2004 Senior Notes for U.S. Holders that receive the Consent Payment.

However, the Consent Solicitation may qualify as a recapitalization for U.S. federal income tax purposes. Whether the Consent Solicitation constitutes a recapitalization will depend, in part, on whether the modified 2004 Senior Notes ("**Post-Consent Payment Notes**") constitute "securities" for U.S. federal income tax purposes. Whether a debt instrument constitutes a security depends on a variety of factors, including the term of the instrument. A debt instrument with a term of two years that represents a continuation of the creditor's investment in substantially the same form generally qualifies as a security. As the Post-Consent Payment Note will have a term of greater than two years and will represent a continuation of the creditor's investment in substantially the same form the Post-Consent Payment Note should constitute a security for U.S. federal income tax purposes, and the exchange should therefore qualify as a recapitalization.

Provided that the Consent Solicitation is treated as a recapitalization, a U.S. Holder should not recognize any gain or loss upon the exchange. In that case, a U.S. Holder's tax basis in Post-Consent Payment Notes will generally be the same as the U.S. Holder's tax basis in the original 2004 Senior Notes. A U.S. Holder's holding period in the Post-Consent Payment Note will include the holding period in the original 2004 Senior Note with respect to which the Post-Consent Payment Notes were distributed.

The following discussion assumes that the Consent Solicitation qualifies as a recapitalization. However, there can be no assurance that the IRS will agree that the Consent Solicitation qualifies as a recapitalization. If the Consent Solicitation does not qualify as a recapitalization for U.S. federal income tax purposes, then participation in the Consent Solicitation would be a taxable transaction for U.S. federal income tax purposes.

U.S holders are urged to consult their own tax advisors regarding the application of the recapitalization rules.

*Treatment of Consent Payment to U.S. Holders*

The treatment of the Consent Payment is unclear. The Consent Payment would likely be treated as received in connection with the recapitalization. In this case, a U.S. Holder generally would recognize gain, but not loss, equal to the lesser of (i) the excess of (a) the sum of the issue price of the Post-Consent Payment Note and the Consent Payment received over (b) the U.S. Holder's adjusted tax basis in the original 2004 Senior Notes immediately prior to the deemed exchange and (ii) the amount of the Consent Payment. This gain would generally be treated as capital gain for the U.S. Holders (except to the extent of accrued market discount not previously included in the U.S. Holder's income).

Alternatively, the Consent Payment could be treated as a fee paid to a U.S. Holder in consideration of the U.S. Holder's consent to the Proposed Amendments, in which case a U.S. Holder would recognize ordinary income in the amount of the Consent Payment received.

U.S. Holders should consult their tax advisors regarding the U.S. federal income tax consequences, including the source of the income, of the receipt of the Consent Payment.

**Post-Consent Payment Notes**

***Payments of Interest***

Interest paid on a Post-Consent Payment Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest paid by the Issuer on the Post-Consent Payment Notes and original issue discount ("OID"), if any, accrued with respect to the Post-Consent Payment Notes (as described below under "Original Issue Discount") constitutes income from sources outside the United States. Prospective participants should consult their tax advisors concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Post-Consent Payment Notes.

***Original Issue Discount***

*General* The Post-Consent Payment Notes will be considered to be issued with OID if the issue price is 99.5 per. cent. or less of the principal amount. If the Post-Consent Payment Notes are "publicly traded", then the issue price of a Post-Consent Payment Note will be the fair market value of the Post-Consent Payment Note on the first date on which a substantial amount of the original 2004 Senior Notes are exchanged for Post-Consent Payment Notes. If the Post-Consent Payment Notes are not "publicly traded" but the original 2004 Senior Notes are "publicly traded" then the issue price of a Post-Consent Payment Note will be the fair market value of the original 2004 Senior Notes on the first date on which a substantial amount of the original 2004 Senior Notes are exchanged for Post-Consent Payment Notes. If neither the original 2004 Senior Notes nor the Post-Consent Payment Notes are "publicly traded" then the issue price of a Post-Consent Payment Note will be its stated redemption price at maturity. For this purpose a note will be treated as publicly traded if at any time during the 60-day period ending 30 days after the issue date, the note either (i) appears on a system of general circulation that provides a reasonable basis to determine fair market value by disseminating either (a) recent price quotations of one or more identified brokers, dealers or traders, or (b) actual prices of recent sales transactions, or (ii) price quotations are readily available from dealers brokers or traders. If the issue price is greater than 99.5 per. cent. on this basis, the OID will be treated as zero.

If the Post-Consent Payment Notes were to be considered to be issued with OID, a U.S. Holder must include a portion of the OID in gross income as interest in each taxable year or portion thereof in which the U.S. Holder holds the Post-Consent Payment Notes even if the U.S. Holder has not received a cash payment in respect of the OID. The amount of a Post-Consent Payment Note's OID is the excess of the Post-Consent Payment Note's principal amount over its issue price.

U.S. Holders of Post-Consent Payment Notes must include OID in income calculated using a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Post-Consent Payment Notes. The amount of OID includible in income by a U.S. Holder of a Post-Consent Payment Note is the sum of the daily portions of OID with respect to the Post-Consent Payment Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Post-Consent Payment Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Post-Consent Payment Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Post-Consent Payment Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Post-Consent Payment Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Post-Consent Payment Note's adjusted issue price at the beginning of the accrual period and the Post-Consent Payment Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of interest on the Post-Consent Payment Note allocable to the accrual period. The "adjusted issue price" of a Post-Consent Payment Note at the beginning of

any accrual period is the issue price of the Post-Consent Payment Note increased by the amount of accrued OID for each prior accrual period.

*Acquisition Premium.* A U.S. Holder whose tax basis in a Post-Consent Payment Note on the Settlement Date is less than or equal to the Post-Consent Payment Note's principal amount but is in excess of its adjusted issue price (this excess being "acquisition premium") and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount" is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's initial tax basis in the Post-Consent Payment Note over the Post-Consent Payment Note's adjusted issue price, and the denominator of which is the excess of the Post-Consent Payment Note's principal amount over the Post-Consent Payment Note's adjusted issue price.

*Market Discount.* A Post-Consent Payment Note generally will be treated as acquired at a market discount (a "Market Discount Note") if the Post-Consent Payment Note's issue price exceeds the U.S. Holder's tax basis in the Post-Consent Payment Note on the Settlement Date by at least 0.25 per cent. of the Post-Consent Payment Note's issue price multiplied by the number of complete years from the date acquired by the U.S. Holder to the Post-Consent Payment Note's maturity. If this excess is not sufficient to cause the Post-Consent Payment Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount".

Any accrued market discount in respect of the original 2004 Senior Notes should not be currently includible in income on the Settlement Date. Instead, this accrued market discount should carry over to the Post-Consent Payment Notes received in the exchange. However, the matter is not entirely clear in the absence of specific Treasury regulations implementing this rule. Any market discount on a Post-Consent Payment Note in excess of the accrued market discount carried over from the exchanged original 2004 Senior Note should accrue over the remaining term of the Post-Consent Payment Note.

Under current law, any gain recognised on the maturity or disposition of a Market Discount Note will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Post-Consent Payment Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Post-Consent Payment Note. This election applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the Internal Revenue Service (the "IRS"). A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Post-Consent Payment Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount on a Market Discount Note will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Post-Consent Payment Note with respect to which it is made and is irrevocable.

*Election to Treat All Interest as Original Issue Discount.* A U.S. Holder may elect to include in gross income all interest that accrues on a Post-Consent Payment Note using the constant-yield method described above under "Original Issue Discount—General", with certain modifications. For purposes of this election, interest includes interest, OID, market discount and *de minimis* market discount, as adjusted by any amortisable bond premium (described below under the "Amortisable Bond Premium") or acquisition premium. This election generally applies only to the Post-Consent Payment Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant yield method to all interest on a Post-Consent Payment Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election described above under "Market Discount" to include market discount in income currently over the life of all debt instruments held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

*Amortisable Bond Premium*

A U.S. Holder whose adjusted tax basis in a Post-Consent Payment Note on the Settlement Date is greater than its principal amount may elect to treat the excess as "amortisable bond premium", in which case the amount of interest on the Post-Consent Payment Note required to be included in the U.S. Holder's income each year will be reduced by the amount of amortisable bond premium allocable (based on the Post-Consent Payment Note's yield to maturity) to that year. The amount of amortisable bond premium for each taxable year is the sum of the daily portions of bond premium with respect to the Post-Consent Payment Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Post-Consent Payment Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the bond premium allocable to that accrual period. Accrual periods with respect to a Post-Consent Payment Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Post-Consent Payment Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Post-Consent Payment Note occurs on either the final or first day of an accrual period. The amount of bond premium allocable to an accrual period equals the excess of (a) the sum of the payments of interest on the Post-Consent Payment Note allocable to the accrual period over (b) the product of the Post-Consent Payment Note's adjusted acquisition price at the beginning of the accrual period and the Post-Consent Payment Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The "adjusted acquisition price" of a Post-Consent Payment Note at the beginning of any accrual period will be the U.S. Holder's original tax basis of the Post-Consent Payment Note, decreased by the amount of bond premium for each prior accrual period. Any election to amortise bond premium applies to all bonds (other than bonds the interest on which is excludible from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the U.S. Internal Revenue Service.

*Backup Withholding and Information Reporting*

Payments of principal and interest and accrued OID on, and the proceeds of sale or other disposition (including exchange) of the Post-Consent Payment Notes, as well as, the Consent Payment, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders (including, among others, corporations) are not subject to backup withholding. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

## Certain Canadian Federal Income Tax Considerations

The following is a general summary of the principal Canadian federal income tax considerations generally applicable to a US Resident who delivers a Consent pursuant to the Consent Solicitation and receives a Consent Payment.

In this summary, the term "US Resident" means a Noteholder who for the purposes of the *Income Tax Act* (Canada) (the "Tax Act") and at all relevant times:

(i) is not, has not been, and will not be, or be deemed to be, resident in Canada at any time while holding the 2004 Senior Notes;

(ii) deals at arm's length with us and is not affiliated with us;

(iii) holds the 2004 Senior Notes as capital property;

(iv) has never used or held, does not use or hold, and will never use or hold the 2004 Senior Notes in carrying on a business in Canada; and

(v) is not an insurer who carries on an insurance business in Canada and elsewhere.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "Regulations"), all specific proposals to amend the Tax Act and the Regulations announced by or on behalf of the Minister of Finance (Canada) prior to the date of this offering memorandum and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "CRA").

This summary is not exhaustive of all potential Canadian tax consequences to a US Resident and does not otherwise take into account or anticipate any prospective or retrospective changes in the law or in administrative or assessing practices and policies, whether by judicial, governmental, administrative or legislative decision or action, nor does it take into account any tax legislation or considerations of any Canadian province, Canadian territory or non-Canadian jurisdiction which may be different from those described in this summary.

The payment or crediting of a Consent Payment by the Company to a US Resident will not be subject to Canadian non-resident withholding tax. No other tax on income (including capital gains) will be payable under the Tax Act by a US Resident as a consequence of delivering a Consent to the Proposed Amendments.

## CERTAIN DOCUMENTS INCORPORATED BY REFERENCE

The following documents, filed with the provincial securities commissions or similar authorities in Canada, are specifically incorporated by reference in and form an integral part of this Consent Solicitation Statement:

(a) the annual information form of the Company dated March 31, 2009 for the year ended December 31, 2008;

(b) the Company's audited consolidated financial statements for the years ended December 31, 2008 and 2007, together with the notes thereto and the auditors' report thereon; and

(c) the Company's unaudited interim consolidated financial statements for the financial periods ended March 31, 2009 and 2008, together with the notes thereto.

All annual information forms, current annual financial statements, interim financial statements and certain other documents (excluding any documents or other materials used in connection with the concurrent exchange offer) which are filed by the Company with a securities commission or any other similar authority in Canada after the date of this Consent Solicitation Statement and prior to the Expiration Date shall be deemed to be incorporated by reference into this Consent Solicitation Statement.

## APPENDIX I

## THE PROPOSED AMENDMENTS

*This Appendix sets forth the substance of the Proposed Amendments to the Indenture. Capitalized terms not otherwise defined in this Appendix I have the meanings assigned thereto in the Indenture (as modified as of the date hereof).*

**Repurchase of Notes Upon a Change of Control Triggering Event**

The Company ~~may~~must commence, within 30 days of the occurrence of a Change of Control Triggering Event, and consummate an Offer to Purchase for all Notes then outstanding (a "Change of Control Offer"), at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Payment Date~~; *provided* that if the Company does not commence a Change of Control Offer within 30 days of the occurrence of a Change of Control Triggering Event or so consummate an Offer to Purchase, it will be an Event of Default~~.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit or require the Company to repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction. Holders may not be entitled to require the Company to purchase their Notes in certain circumstances involving a significant change in the composition of Board of Directors, including in connection with a proxy contest where the Board of Directors does not approve a dissident slate of directors but approves them as continuing directors, even if the Board of Directors initially opposed the directors.

If a Change of Control Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the purchase price for all the Notes that might be tendered by the Holders seeking to accept the Change of Control Offer. In the event that the Company purchases Notes pursuant to a Change of Control Offer, the Company expects that it would seek third party financing to the extent it does not have available funds to purchase the Notes. However, there can be no assurance that the Company would be able to obtain such financing.

In order to repurchase the Notes in an Offer to Purchase, the Company will, unless consents are obtained, be required to repay all Indebtedness then outstanding which by its terms would prohibit such Note repurchase, either prior to or concurrently with such Note repurchase.

**Redemption for Taxation Reasons**

The Notes may be redeemed, at the option of the Company or Surviving Person, as a whole but not in part, at any time, upon giving not less than 30 nor more than 60 days notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment, or order by a court of competent jurisdiction),

which change, amendment, application or interpretation (a) in the case of the Company, Surviving Person and any initial Subsidiary Guarantor becomes effective on or after the Original Issue Date and (b) in the case of any successor to a Subsidiary Guarantor or a future Subsidiary Guarantor becomes effective after such Subsidiary Guarantor assumes the obligations under the Indenture or becomes a Subsidiary Guarantor, with respect to any payment due or to become due under the Notes or the Indenture, the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next interest payment date would be, required to withhold or deduct any tax, duty, assessment or other governmental charge imposed levied, collected, withheld or assessed by a Relevant Jurisdiction and to pay Additional Amounts, and in each case, such requirement to withhold or deduct cannot be avoided by the taking of reasonable measures by the Company, Surviving Person or a Subsidiary Guarantor; *provided that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication and mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company or Surviving Person will deliver to the Trustee (a) a certificate signed by a duly authorized officer stating that the Company or Surviving Person is entitled to effect the redemption under the Indenture and setting forth a statement of facts showing that the conditions precedent to the right of redemption have occurred and (b) an Opinion of Counsel or tax consultant of recognized standing to the effect that based on such statement of facts the circumstances referred to in the prior paragraph exist. The Trustee shall accept such opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

**Certain Covenants**

Set forth below are summaries of certain covenants contained in the Indenture.

***Limitation on Indebtedness and Disqualified or Preferred Stock***

(a) The Company will not Incur any Indebtedness or Disqualified Stock, *provided*, that the Company may Incur Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, the Fixed Charge Coverage Ratio would be not less than ~~2.75 to 1.0 on or prior to December 31, 2005, 2.85 to 1.0 on or prior to December 31, 2006, and 3.0 to 1.0 thereafter.~~2.5 to 1.0. The Company will not permit any Restricted Subsidiary to Incur any Indebtedness (including Acquired Indebtedness), Disqualified Stock or Preferred Stock (other than Disqualified Stock or Preferred Stock of Restricted Subsidiaries held by the Company or a Subsidiary Guarantor, so long as it is so held).

Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary may Incur each and all of the following ("Permitted Indebtedness"):

(1) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;

(2) any Pari Passu Subsidiary Guarantees by Subsidiary Guarantors;

(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clauses (4) and (5); (4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Wholly~~-~~Owned Restricted Subsidiary; provided that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Wholly~~-~~Owned Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (4) and (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor;

(5) Indebtedness of the Company or any Restricted Subsidiary ~~(i) with a maturity of less than one year used by the Company or such Restricted Subsidiary for working capital, and (ii) with respect to letters of credit or similar instruments issued in the ordinary course of business in connection with trading activities of the Company or any Restricted Subsidiary, repaid within 120 Business Days following Incurrence of such Indebtedness, and not supporting any other Indebtedness; *provided* that~~ the aggregate principal amount of ~~Indebtedness permitted by this clause (5)~~which at any time outstanding does not exceed ~~US$100 million (or the Dollar Equivalent thereof)~~an amount equal to 10.0% of Total Assets of the Company, but in any case not in excess of US$400.0 million, less any amount of such Indebtedness permanently repaid as provided under the covenant under the caption "— Limitation on Asset Sales~~;~~";

(6) Indebtedness issued in exchange for, or the net proceeds of which are used to refinance or refund, then outstanding Indebtedness Incurred under the immediately preceding paragraph or clauses (1) or (2) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); provided that (a)

Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is pari passu with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (6) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is pari passu with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made pari passu with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (b) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (c) ~~such new~~in no event may Indebtedness ~~is Incurred by~~of the Company or ~~by any of its Restricted Subsidiaries who is the obligor on the Indebtedness to be refinanced or refunded; and~~any Subsidiary Guarantor be refinanced pursuant to this Clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(7) the Incurrence by the Company or any Restricted Subsidiaries of Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit, trade guarantees or similar instruments issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 90 days following receipt by the Company or such Restricted Subsidiary of a demand for reimbursement; and

(9) (i) Guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant, or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (5), (7) or (8) above.

(b) For purposes of determining compliance with this "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (a), the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness.

(c) The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is subordinate in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also subordinate in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

***Limitation on Restricted Payments***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of its Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's or any of its Restricted Subsidiaries' Capital Stock (other than Disqualified Stock or Preferred

Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly-Owned Restricted Subsidiary; (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock, but excluding any Indebtedness of the Company or any Restricted Subsidiary that is not subordinated in right of payment to the Notes or any Subsidiary Guarantee that is convertible into Capital Stock of the Company) held by any Persons other than the Company or any Wholly-Owned Restricted Subsidiary;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any of the Subsidiary Guarantees (excluding any intercompany Indebtedness between or among the Company and any of its Wholly-Owned Restricted Subsidiaries); or

(4) make any Investment, other than a Permitted Investment, in any Person;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) a Default shall have occurred and be continuing;

(B) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock;" or

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum of

(1) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the fiscal quarter immediately following the Original Issue Date and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment; *plus*

(2) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Restricted Subsidiary of the Company, including any such Net Cash Proceeds received upon (x) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Restricted Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock) in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; *plus*

(3) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (a) payments of interest on Indebtedness, dividends or repayments of loans or advances, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), or (b) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; *plus*

(4) US$~~20~~350.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the Notes or to any Subsidiary Guarantee with the Net Cash Proceeds of, or in exchange for, Indebtedness Incurred under clause (6)(y) of the second paragraph of part (a) of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock;"

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a capital contribution or a substantially concurrent sale (other than to a Restricted Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any of the Subsidiary Guarantors that is subordinated in right of payment to the Notes or to any Subsidiary Guarantee in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent offering of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any of the Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held, directly or indirectly, through Restricted Subsidiaries by the Company; or

(6) ~~repurchase of any Class B shares of Sino-Wood Partners, Limited, in accordance with agreements as in effect on the Original Issue Date; or(7)~~ payments or distributions to holders of any class or series of Disqualified Stock outstanding on the Original Issue Date in accordance with the terms of such class or series on the Original Issue Date;

*provided that*, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clauses (1), (5), ~~(6)~~ and (~~7~~6) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of international standing if the Fair Market Value exceeds US$~~5~~10.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in an amount in excess of US$~~5~~10.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant under the caption "— Limitation on Restricted Payments" were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

***Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries***

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly-Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly-Owned Restricted Subsidiary; and

(3) for the sale of shares of all the Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "— Limitation on Asset Sales" covenant; and

(4) the issuance and sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided that* the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "—Limitation on Asset Sales" covenant.

***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clauses (a) (3), (4) or (5, (5) or (9)(ii) (other than, in the case of clause 9(ii), a Guarantee by a Restricted Subsidiary organized under the laws of the PRC of the Indebtedness of a non-PRC Restricted Subsidiary) under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock."

If the Guaranteed Indebtedness (A) ranks pari passu in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank pari passu in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 5% or more of any class of Capital Stock of the Company or (y) with any Affiliate of the Company or any Restricted Subsidiary (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with an unrelated Person; and

(2) the Company delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$~~1~~5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$~~5~~10.0 million (or the Dollar Equivalent thereof), an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any of its Wholly-~~-~~Owned Restricted Subsidiaries or between or among Wholly-~~-~~Owned Restricted Subsidiaries;

(3) issuances or sales of Capital Stock (other than Disqualified Stock) of the Company or options, warrants or other rights to acquire such Capital Stock;

(4) transactions or payments pursuant to any employee, officer or director compensation or benefit plans or similar arrangements (including consultancy agreements pursuant to which officers and directors are compensated) entered into in the ordinary course; and

(5) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption "— Limitation on Restricted Payments" if permitted by that covenant.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) transactions between or among the Company and any of its Restricted Subsidiaries that is not a Wholly-~~-~~Owned Restricted Subsidiary to the extent entered into in the ordinary course of business, (ii) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (iii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Exchange Offer Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date; *provided that*, in the case of ~~a~~(iii) (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or such Restricted Subsidiary ~~that is a PRC CJV, the PRC CJV Partner of such PRC CJV is not~~is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such ~~PRC CJV Partner~~minority shareholder or minority partner being an officer or director of ~~the PRC CJV~~such Restricted Subsidiary).

***Limitation on Asset Sales***

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(3) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock" after giving *pro forma* effect to such Asset Disposition; and

(4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided that* in case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets (i) the Company delivers to the Trustee an Officer's Certificate stating that (a) the Company's chief executive officer or chief financial officer has approved such Asset Sale, (b) such Asset Sale is on fair and reasonable terms on an arm's length basis, and (c) the Fair Market Value of the Replacement Assets, together with any cash consideration is no less than the Fair Market Value of the assets subject to such Asset Sale, and (ii) with respect to any such Asset Sale involving an aggregate consideration with a Fair Market Value in excess of US$25.0 million (or the Dollar Equivalent thereof), the

Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of international standing. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary, assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from further liability; and

(b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

(1) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(2) make an Investment in ~~properties and assets that replace the properties and assets that were the subject to such Asset Sale or in properties or assets that will be used in the Permitted Businesses ("~~Replacement Assets~~").~~.

Pending the final application of any Net Cash Proceeds, the Company may temporarily reduce revolving credit borrowings or otherwise invest the Net Cash Proceeds in any manner that is not prohibited by the Indenture.

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute "Excess Proceeds." Excess proceeds of less than US$~~5~~15.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When the aggregate amount of Excess Proceeds exceeds US$~~5~~15.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company ~~may~~must make an Offer to Purchase to all Holders (and, with respect to Indebtedness of the Company, that ranks equally with the Notes, containing provisions similar to those set forth in the Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets, to the holders of such Indebtedness, including any Permitted Pari Passu Indebtedness) to purchase the maximum principal amount of Notes (and any such other pari passu Indebtedness) that may be purchased out of the Excess Proceeds. The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash~~; *provided* that if the Company does not make such an Offer to Purchase, it will be an Event of Default~~.

Notwithstanding the foregoing, the Company will not, and will not permit any Restricted Subsidiary to sell, transfer or otherwise dispose of any shares of Capital Stock of Sino-~~-~~Forest (China) Investments Limited or of any Restricted Subsidiary that owns directly or indirectly any shares of Capital Stock of Sino-~~-~~Forest (China) Investments Limited.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other pari passu Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other pari passu Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

**Provision of Financial Statements and Reports**

~~So long as any of the Notes remains outstanding, the Company will provide to the Trustee and each Holder or will provide to the Trustee for forwarding to each Holder, without cost to such Holder, (i) as soon as available~~The Company will file with the Trustee and provide the holders of the Notes with the documents required to be sent to the Company's shareholders pursuant to applicable securities laws in the Provinces of Canada in which the Company is a reporting issuer and within the time prescribed by such applicable securities laws. In the event the Company is no longer subject to such applicable securities laws, it will continue to provide the Trustee and the holders of the Notes (i) within 90 days after the end

of each fiscal year~~(and, in any event, within 120 days after the close of such fiscal year), annual reports in the English language, including financial statements (containing a consolidated balance sheet and consolidated statements of income, retained earnings and cash flows as of the end of and for such fiscal year and the immediately preceding fiscal year) with a report thereon by an internationally recognized independent firm of chartered accountants, (ii) as soon as available (and, in any event,~~, copies of its annual audited report and annual consolidated financial statements, (ii) within ~~60~~45 days after the ~~close~~end of each of the first three fiscal quarters of each fiscal year~~) interim reports in the English language, including financial statements (containing a condensed consolidated balance sheet and condensed consolidated statements of income, retained earnings and cash flows as of the end of and for each interim period covered thereby and for the comparable period of the immediately preceding fiscal year)~~, interim unaudited consolidated financial statements which shall, at a minimum, contain such information required to be provided in quarterly reports under the applicable securities laws of the Province of Ontario, and (iii) an Officer's Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation.

In addition, the Company will provide the Trustee and the holders of the Notes (i) within 120 days after the end of each fiscal year, copies of annual non-consolidated financial statements of each Initial Non-Guarantor Subsidiary and (ii) within 60 days after the end of each of the first three quarters of each fiscal year, interim non-consolidated financial statements of such Initial Non-Guarantor Subsidiary.

Each of the foregoing reports or financial statements will be prepared in accordance with Canadian generally accepted accounting principles other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting standards as such standards may be applicable to the Company or an Initial Non-Guarantor Subsidiary, as the case may be.

The foregoing reporting obligations shall terminate with respect to any Initial Non-Guarantor Subsidiary that becomes a Subsidiary Guarantor pursuant to the terms of the Indenture.

In addition, the Company and each Subsidiary Guarantor has agreed that, for as long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which the Company or such Subsidiary Guarantor is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3--2(b) thereunder, the Company or such Subsidiary Guarantor, as the case may be, shall supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act.

**Events of Default**

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenants described under "— Consolidation, Merger and Sale of Assets," "— Limitation on Indebtedness and Disqualified or Preferred Stock," "— Limitation on Restricted Payments," "— Limitation on Liens," the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Limitation on Asset Sales," or the failure by the Company to create, or cause its Restricted Subsidiaries to create a First Priority Lien on the Collateral (subject to any Permitted Liens) in accordance or otherwise comply with the covenant described under the caption "— Security To Be Granted;"

(d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$~~5~~10.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (B) the failure to make a principal payment when due;

(f) any final judgment or order for the payment of money in excess of US$~~5~~10.0 million (or the Dollar Equivalent thereof) in the aggregate for all such final judgments or orders shall be rendered against the Company or any Restricted Subsidiary and shall not be paid or discharged for a period of 60 days during which a stay of enforcement of such final judgment or order shall not be in effect;

(g) a court having jurisdiction in the premises enters a decree or order for (A) relief in respect of the Company or any Restricted Subsidiary in an involuntary case or proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect (including any proceeding under any corporate law seeking an arrangement of, or stay of proceedings to enforce, some or all of its debts), (B) appointment of a receiver, liquidator, assignee, custodian, monitor, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (C) the winding up or liquidation of the affairs of the Company or any Restricted Subsidiary and, in each case, such decree or order shall remain unstayed and in effect for a period of 60 consecutive days;

(h) the Company or any Restricted Subsidiary (A) commences a voluntary case or proceeding under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case or proceeding under any such law, (B) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, monitor, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary or (C) effects any general assignment for the benefit of creditors;

(i) any Subsidiary Guarantor repudiates its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

(j) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect;

(k) after October 8, 2004, the Company or any Subsidiary Guarantor Pledgor repudiates its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens); or

(l) (i) the occurrence and continuation of an "Event of Default" (as such term is defined in the Facility Agreement) under the Facility Agreement that has caused the Finance Parties thereunder to declare Indebtedness under the Syndicated Term Loan to be due and payable prior to its Stated Maturity and/or (ii) any of the Finance Parties, or any agents acting on behalf of such Finance Parties, take any enforcement action in respect of the Collateral.

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. In the event of a declaration of acceleration because an Event of Default set forth in clause (e) above has occurred and is continuing, such declaration of acceleration shall be automatically rescinded and annulled if the event of default triggering such Event of Default pursuant to clause (e) shall be remedied or cured by the Company or the relevant Restricted Subsidiary or waived by the holders of the relevant Indebtedness within 60 days after the

declaration of acceleration with respect thereto. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder. The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee, may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if (x) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived and (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction. For information as to the waiver of defaults, see "— Amendments and Waiver."

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate. See "— Security To Be Granted."

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

(1) the Holder gives the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity reasonably satisfactory to the Trustee against any costs, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and that the Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee of any default or defaults in the performance of any covenants or agreements under the Indenture.

**Defeasance**

***Defeasance and Discharge***

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 365th day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(A) the Company has deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide

money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes,

(B) the Company has delivered to the Trustee (1) either (x) an Opinion of Counsel to the effect that, as a result of a change occurring after the Original Issue Date in applicable U.S. federal income tax law, Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance" provision and will be subject to United States federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel and (2) an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 365 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law, and

(C) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 365th day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of its Restricted Subsidiaries is a party or by which the Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, the Subsidiary Guarantees will terminate.

***Defeasance of Certain Covenants***

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4), (5)(x) and (~~5~~)(~~x~~7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Covenants," clause (c) under "Events of Default" with respect to such clauses (3), (4), (5)(x) and (~~5~~)(~~x~~7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "Consolidation, Merger and Sale of Assets," clause (d) under "Events of Default" with respect to such other covenants and clauses (e), (f), (i), (j) and (k) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (B)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel to the effect that, among other things, the Holders will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

**Definitions**

"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any of its Restricted Subsidiaries to any Person other than the Company or any Wholly-Owned Restricted Subsidiary; *provided that* "Asset Sale" shall not include:

(a) sales or other dispositions of inventory, receivables and other current assets (including, but not limited to wood chips, logs, lumber, and manufactured wood and wood panel products) or standing timber in the ordinary course of business,

(b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the "Limitation on Restricted Payments" covenant,

(c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$~~1~~1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions,

(d) any sale, transfer, assignment or other disposition of any property, or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries, ~~or~~

(e) any, transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien, or

(f) a transaction covered by the covenant under the caption "—Consolidation, Merger and Sale of Assets".

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding any debt securities convertible into such equity.

"Consolidated EBITDA" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense,

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets),

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than depletion of timber holdings or non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income,

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP, *provided that* ~~that (i)~~ if any Restricted Subsidiary is not a Wholly-Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of its Restricted Subsidiaries ~~and (ii) in the case of any PRC CJV, Consolidated EBIDTA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC JV to the PRC JV Partner, or to which the PRC JV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV~~.

~~"Convertible Instruments" means the Convertible Notes, the exchangeable notes and the preference shares issued by Sino-Wood Partners, Limited in 1999, each guaranteed by the Company and maturing or becoming due on September 10, 2004.~~

~~"Convertible Notes" means the convertible notes issued by the Company due September 10, 2004.~~

"Fair Market Value" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution; *provided*, however, that for purposes of clause (4)(i) of "Certain Covenants—Limitation on Asset Sales", such determination may instead be made by the Company's Chief Executive Officer or Chief Financial Officer.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available and have been provided to the Trustee (the "Four Quarter Period") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

(A) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness,

Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(D) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

~~(D) *pro forma*~~(E) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

*provided that* to the extent that clause (~~C~~D) or (~~D~~E) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"Foreign Subsidiary" means any Restricted Subsidiary of the Company organized under the laws of a jurisdiction that prohibits such Subsidiary from guaranteeing payments under the Notes.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person; and

(8) to the extent not otherwise included in this definition, obligations under Commodity Agreements, Currency Agreements and Interest Rate Agreements.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, *provided*

(A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP, ~~and~~

(B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest, and

(C) that the amount of Indebtedness with respect to any Commodity Agreements, Currency Agreements and Interest Rate Agreements shall be equal to the net amount payable if such agreements terminated at that time due to default by such Person.

"Investment" means:

(i) any direct or indirect advance, loan or other extension of credit (other than Trade Payables that are, in conformity with GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the Company or its Restricted Subsidiaries) to another Person,

(ii) capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(iv) any Guarantee of any obligation of another Person;

*provided that* an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of common equity securities of the Company shall not be deemed to be an Investment.

For the purposes of the provisions of the "Designation of Restricted and Unrestricted Subsidiaries" and "Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

~~"Manufacturing Loan" means the loan agreements dated July 16, 2001, each entered into among Guangdong Jia Yao Wood Products Development Co. Ltd. and Jiafeng Wood (Suzhou) Co., Ltd., as borrowers, and DEG Deutsche Investitions und Entwicklungsgesellschaft GmbH, Nederlands Financierings Mastschappij Voor Ontwikkelingslanden N.V. and International Finance Corporation, as lenders.~~

"Offer to Purchase" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided that* each Note purchased and each new Note issued shall be in a principal amount of US$~~1,000~~2,000 or integral multiples of US$1,000.

On the Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$~~1,000~~2,000 or integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Company will comply with Rule 14e-~~-~~1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Permitted Forestry Plantation Business" means the operation of forestry plantations and production and processing facilities, the processing, sale, distribution, transportation, cultivation and development of wood fibers and ~~lots~~logs, and other similar wood and wood-based products, including bio-fuels, the operation of plantation nurseries, and the sale and distribution of seeds and saplings, inputs and similar products, or intermediate products and by-~~-~~products used or produced in connection with such activities, the planting of saplings and trees in city greening and urban landscaping projects, including the design and implementation of such projects, the import and export of logs, lumber and other wood and wood-~~-~~based products, trading agency activities related to the foregoing, and related businesses and activities incidental to any of the foregoing activities.

"Permitted Investment" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Forestry Plantation Business;

(2) Temporary Cash Investments;

(3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) Commodity Agreements, Interest Rate Agreements and Currency Agreements designed solely to protect the Company or any Restricted Subsidiary ~~Guarantor~~ against fluctuations in commodity prices, interest rates or foreign currency exchange rates;

(7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) any securities, non-cash consideration or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under "— Limitation on Asset Sales;"

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under "— Limitation on Liens;"

(10) loans or advances to employees made in the ordinary course of business and consistent with past practices of the Company or past practices of a Restricted Subsidiary, as the case may be, in an aggregate amount outstanding not to exceed at any one time US$500,000 (or the Dollar Equivalent thereof); and

(11) loans to employees, directors and officers not exceeding the amount required to exercise an option to purchase the Company's Capital Stock held by such individual, *provided that* the Capital Stock issued upon exercise of such option is pledged to the Company as security for such loan.

"Permitted Liens" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(6) any interest or title of a lessor in the property subject to any operating lease;

(7) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided that* ~~that~~ such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired;

(8) Liens in favor of the Company or any Wholly-Owned Restricted Subsidiary;

(9) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(10) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(11) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(12) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Commodity Agreements, Interest Rate Agreements and Currency Agreements designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities;

(13) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business in accordance with the past practices of the Company and its Restricted Subsidiaries prior to the Original Issue Date;

(14) Liens existing on the Original Issue Date;

(15) Liens on real property, trees or current assets securing Indebtedness which is permitted to be Incurred under clause (5) or (~~i~~8) of the second paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant;

(16) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (6) of the second paragraph of the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant; provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(17) Liens under the Security Documents; and

(18) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "Security to be Granted--Permitted Pari Passu Secured Indebtedness."

~~"PRC CJV" means (i) Guangxi Guijia Forestry Company Limited (CJV), Jiangxi Jiachang Forestry Development Co., Ltd. (CJV), Heyuan Jiahe Forestry Development Ltd. (CJV), Gaoyao Jiayao Forestry Development Ltd. (CJV) and (ii) any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.~~

~~"PRC CJV Partner" means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.~~

"Replacement Assets" means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business and for the purposes of clause 2 of the first paragraph of the covenant under the caption "Limitation on Asset Sales", shall include Capital Stock of any Person holding such property or assets, which is primarily engaged in a Permitted Business and will upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, become a Restricted Subsidiary.

"Temporary Cash Investment" means any of the following:

(1) direct obligations of the United States of America or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America or any agency thereof , in each case maturing within ~~one year~~24 months;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within ~~180 days~~24 months of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, Hong Kong, Singapore or Canada, and ~~which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100 million (or the Dollar Equivalent thereof) and~~ has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof, Canada or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-~~2~~-3" (or higher) according to Moody's or "A-~~2~~-3" (or higher) according to S&P;

(5) securities with maturities of ~~six~~24 months or less from the date of acquisition issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit and money market deposits with (i) Bank of China, Industrial Commercial Bank of China, Construction Bank of China, Shanghai Pudong Development Bank, Bank of Shanghai, (ii) any other bank or trust company organized under the laws of the PRC whose long term debt is rated as high or higher than any of those banks or (iii) any other bank organized under the laws of the PRC, *provided that*, in the case of clause (iii), such deposits do not exceed US$~~5~~5.0 million (or the Dollar Equivalent thereof) with any single bank or US$~~20~~75.0 million (or the Dollar Equivalent thereof) in the aggregate, at any date of determination.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP, other than for reports prepared for financial periods commencing on or after January 1, 2011, which will be prepared in accordance with international financial reporting standards as such standards may be applicable to the Company, as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company are available; *provided*, that Total Assets shall be calculated after giving effect to include the cumulative value of all real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefore or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institution lender providing such Indebtedness.

"Wholly-~~-~~Owned" means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly-~~-~~Owned Subsidiaries of such Person~~; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly-Owned Subsidiaries~~.

## PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

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