TAB F

This is Exhibit "F" referred to in the

Affidavit of Li Yin Fan,

sworn before me this 20

day of August, 2012

Person Authorized to take Affidavits

Katherine K. Y. Lam
Solicitor,
Hong Kong SAR
Messrs. Simon Si & Co.

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SINO-FOREST CORPORATION

Audit Completion Memorandum

For the year ended 31 December 2005

BDO McCabe Lo Limited

Prepared by:	Raymond Yuen	Date :	28-3-2006
Reviewed by :	Miranda Wong	Date :	28-3-2006
Reviewed by :	Vincent Wong	Date :	29-3-2006
Reviewed by :	Fanny Li	Date :	30-3-2006
Reviewed by :	Jennifer Yip	Date :	30-3-2006

Sino-Forest Corporation
Audit Completion Memorandum
For The Year Ended 31 December 2005

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1. General understanding of client

1.1 Description of business

Sino-Forest Corporation (the "Company") is the largest, foreign-owned and commercial forestry plantation operator in the People's Republic of China (the "PRC") in terms of plantation area. The Company and its subsidiaries are hereafter referred to as the "Group". As at 31 December 2005, the Group had approximately 324,000 hectares of forestry plantations located in southern and eastern China. The Group has been operating forestry plantations in the PRC since 1995. The Group is focused on the development and supply of wood fibres and logs to meet the increased demand from manufacturers in the wood panel, furniture, construction, interior decoration and pulp and paper markets in the PRC. The Group owns three manufacturing plants which are intended to complement its forestry plantations and trading operations.

The Group's principal activities are as follows:

(i) Sale of wood chips and wood-based products. Wood-based products include logs, veneer, sawn timber, wood flooring and lumber, all primarily sourced from domestic and overseas suppliers, as well as particleboard and melamine faced chipboard and sawn timber from the manufacturing plants. Currently, the revenue from trading of wood chips conducted principally through two authorised PRC dealers accounts for a substantial portion of the Group's turnover;

(ii) Sale of standing timber from the planted tree plantations, purchased tree plantations and mature pine plantations from Heyuan (beginning in 2002); The revenue from sale of standing timbers is expected to grow significantly as more mature trees will be available for sales; and

(iii) Earning commission income from agency services in the sale of wood chips and wood-based products in the PRC and elsewhere in Asia.

1.2 The holding company, major companies and place of operations

The Company is a Canadian corporation with executive offices in Hong Kong and Canada and plantations in south-east China. The Company operates mainly through two wholly-owned subsidiaries, Sino-Panel Holdings Limited and Sino-Wood Partners Limited, and its common shares have been traded since 1995 on the Toronto Stock Exchange under the symbol TRE.

Almost all of the Group's operations are undertaken in the PRC. The Group has two major subsidiaries incorporated in the British Virgin Islands (the "BVI companies") engaged in trading of wood chips and wood-based products, investment in forestry plantation and earning commission income. The Group has four contractual joint venture companies which are established with respective PRC joint venture partners for the operation of forestry plantation. Based on the CJV agreements, revenue from sale of standing timber and related operating expenses are shared by the Group and the respective joint venture partners as to 70% and 30% respectively.

Please refer to Appendix I for the group chart as at 31 December 2005.

(Please refer to Audit planning memo) 2

1. General understanding of client (cont'd)

1.3 Understanding of the internal controls and business cycles

While we have been engaged to perform a statutory audit of the Group's consolidated financial statements for the year ended 31 December 2005, we have not ever been appointed to perform an audit of the Group's financial statements in prior years but only performed a review for the last two quarters. In order to obtain adequate knowledge on the Group for the purpose of the audit, we have reviewed the Group's internal controls and business cycles of those companies which have significant contributions to the Group's results for the year or form a significant part of the Group's assets and liabilities. In particular, we have reviewed the Group's internal controls and the accounting system regarding the trading of wood-chips, sale of wood-based products, sale of standing timbers and commission income. In addition, we have performed walkthrough tests on the aforesaid business cycles.

We have identified certain internal control weaknesses and will report them with recommendations for improvements in our management letter.

1.4 Review of outgoing auditors' working papers

We have performed a review of the working papers of the outgoing auditors, Ernst & Young, on 19 and 20 July 2005 and are satisfied that adequate assurance on the accuracy of the opening balances of the Group has been obtained.

2 Significant changes in client's business and other areas

2.1 Intended changes in the mode of business

The Group currently engages in sales of logs, wood chips and wood-based products sourced from third parties in the PRC through authorised dealers in the PRC. The amount the Group receives from these activities is on a net basis after withholding of applicable taxes by the authorised dealers. The authorised dealers are responsible for filing tax returns with the PRC government, and withholding and paying the relevant taxes in relation to these activities, although the Group makes appropriate provisions for tax related liabilities in its accounts. The Group intends for one of its existing wholly foreign-owned enterprises ("WFOEs"), Jia Yao WFOEs, to replace the BVI subsidiaries in processing and selling logs, wood chips and wood-based products in the PRC in order to enhance its ability to obtain and remit foreign currency from its operating subsidiaries.

Previously, the Group did not have substantial requirements of foreign currency, as it reinvested the Renminbi proceeds of its authorised sales and trading activities into the acquisition of additional forestry plantations, pursuant to its plan to expand the scale of its operations. Although Jia Yao WFOE would not be able to engage in pure trading activities in the PRC, because it has a wood processing permit that it can engage in the processing and sale of logs, wood chips and wood-based products from raw timber. The Group intends to enter into new agreements with the authorised dealers which would provide for Jia Yao WFOE to:

- directly enter into a contract with a supplier for the purchase and delivery of raw timber;
- engage the authorised dealers, as its agent, to process the raw timber into logs, wood chips and wood-based products, in return for which Jia Yao WFOE would pay a processing fee to the authorised dealer; and
- once the logs, wood chips and wood-based products are processed, sell the products to customers itself, or engage the authorised dealer as its agent to sell the products on its behalf to customers.

Alternatively, Jia Yao WFOE may by-pass the authorised dealers altogether and process logs, wood chips and wood-based products and sell the products directly to its customers. As a result, the Group will no longer have to rely on the authorised dealers to : (i) withhold or pay relevant taxes to the PRC government in respect of the sales and authorised trading activities; and (ii) make the requisite applications and submissions to designated foreign exchange banks for remitting the proceeds of these activities in foreign currencies outside the PRC.

However, the Group expects that a significant portion of the sales of wood chips sourced from third party suppliers in the PRC will continue to be performed by the authorised dealers on behalf of the BVI companies for the foreseeable future. While the Group anticipates that it will gradually phase out the involvement in these activities, it will continue to have certain difficulties in obtaining and remitting foreign exchange with respect to the earnings derived from the significant portion of the sales and trading activities which will continue to be conducted through authorised dealers.

2 Significant changes in client's business and other areas (cont'd)

2.2 Major acquisition/investment

The Group has entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations located in Anhui province in PRC (the "Mandra Project") in the second quarter of 2005.

The agreements have been implemented since Mandra Forestry Finance Limited ("Mandra Finance") has raised third party debt financing sufficient to implement the Mandra Project, which Mandra Finance was previously undertaking, on 11 May 2005. The financing is in the form of an international private placement consisting of US$195 million of debt securities, together with warrants to subscribe for up to 20% (on a fully diluted basis) of the ordinary equity shares of Mandra Forestry Holdings Limited ("Mandra Holdings"), the parent corporation of Mandra Finance, for nominal consideration. In connection with the completion of the financing, the parties have entered into agreements pursuant to which the Company has made a US$15 million subordinated loan (the "subordinated loan") to Mandra Holdings, and has acquired 15% equity interest in Mandra Holdings for nominal consideration of US$1,500, and will have the exclusive right and commitment to purchase the timber harvested from the plantations at prevailing market prices less a 3% discount. In addition, the Company will provide an array of advisory services and technical expertise to assist Mandra Forestry Finance in identifying, acquiring and developing these resources. Subject to certain conditions, the Company will have an option to acquire all the other outstanding shares of Mandra Holdings at their then fair market value. Completion of the financing and implementation of the agreements were taken place on 11 May 2005.

Other than Mandra Project, no new acquisition or investment has been made during the year.

2.3 New agreements made

Other than the agreements relating to the investment in Mandra as mentioned in 2.2 above and the renewal of the master agreements with the authorised dealers (normally renewed annually), we are not aware of any significant new agreements entered into by the Group since 31 December 2004.

2.4 Relocation of a manufacturing plant

The group started to relocate one product line, Oriented Strand Board ("OSB") line, of its manufacturing plant from Suzhou to a new wholly owned foreign subisidary located in Mulin, Heilongjiang Jiamu Panel Co. Ltd. The relocation of the OSB line was completed in the second quarter of 2005. The new WOFE in Heilongjiang has not yet been in operation.

2 Significant changes in client's business and other areas (cont'd)

2.4 Relocation of a manufacturing plant (cont'd)

As advised by client, those premises on which the OSB line was previously installed were temporarily leased out to earn rental income. During the year, the lease was terminated and the Group intended to set up a production plant to manufacture wood floor. There was no indication of impairment loss at the moment.

3 Analytical review and review procedures performed –Income statement

Income statements for the year ended 31 December 2004 & 2005.

Consolidated Statements of Income and Retained Earnings

	Year ended 31/12/2005 (Audited) US$'000	Year ended 31/12/2004 (Audited) US$'000
Revenue		
Sales (Note a)	483,561	316,935
Commission income (Note b)	9,740	14,010
	493,301	330,945
Cost of sales (Note c)	356,430	229,433
Gross profit (Note d)	136,871	101,512
Selling, general and administration (Note e)	21,165	22,007
Depreciation and amortisation (Note f)	3,099	2,470
Impairment of capital assets (Note g)	-	3,646
Income from operations before the undernoted	112,607	73,389
Interest expenses (Note h)	(28,994)	(15,875)
Interest income (Note i)	4,179	1,366
Other exchange gains (Note j)	1,253	2,682
Amortisation and write-off of deferred financing costs (Note k)	(1,338)	(4,317)
Other income (Note l)	1,236	383
Exchange gains/(losses) on long-term debt (Note m)	-	190
Income before income taxes	88,943	57,818
Provision for income taxes (Note n)	(7,256)	(5,044)
Net income for the year	81,687	52,774
Retained earnings, beginning of year	230,307	177,533
Retained earnings, end of year	311,994	230,307
Earnings per share		
Basic (Note o)	0.59	0.43
Diluted (Note o)	0.59	0.43

3. Analytical review and review procedures performed – Income statement (cont'd)

Notes :

(a) Sales

The sales comprise the following items:

	Year ended 31/12/2005 (Audited) US$'000	Year ended 31/12/2004 (Audited) US$'000
Sale of standing timber	240,829	105,126
Sale of wood chips	146,130	143,418
Sale of wood-based products	96,602	68,391
Total sales	483,561	316,935

Sales increased 52.6% from US$316.9M in 2004 to US$483.6M in 2005. The increase was due to increases in sales of standing timber, wood chips and imported log.

Sales of standing timbers

The Company recognises income from sales of standing timbers when the contract for sales is entered into with the customer. The sales contract specifies that the risk and benefits of the standing timber are transferred to the customer when the sales contract is entered into.

The increase in sales of standing timber is mainly due to the increase in sales volume. Sales volume increased because the Company acquired significant volume of standing timber in Heyuan which increased its supply. The sales volume of standing timber in Heyuan increased from 13,569 hectares in 2004 to 64,189 hectares in 2005. However, the average selling price of standing timber decreased in 2005 which was primarily due to the sale of mature pine trees in Heyuan which commanded lower average selling prices as these were younger matured pine trees with smaller diameter and higher purchase cost compared to other purchased plantations.

Sales of wood chips

The Group conducts the trading of wood chips business principally through two authorised intermediaries (the "AI") in the PRC. Pursuant to relevant agreements, these AI are responsible for purchasing timbers, processing them into wood chips and then selling them to customers. These AI issue quarterly statement to the Group confirming the total of these sales and purchases transacted for the Group together with the processing fees charged to the Group for each quarter ended March, June, September and December.

3. **Analytical review and review procedures performed – Income statement (cont'd)**

(a) **Sales (cont'd)**

The Company recognizes income from sales of wood chips when they are processed by the AI. Management have evaluated the facts and circumstances in relation to the criteria in EIC-123 and determined that it is appropriate to report the income on a gross basis as the Company is a 'principal' to the sales transactions. For details, please refer to the memo regarding the reporting gross or net on wood chips business prepared by management.

The increase in sales of wood chips was resulted by the increase in average selling price. Average selling prices of wood chips increased from US$95 per bone dry metric tons ("BDMT") in 2004 to US$105 per BDMT in 2005, an increase of 10.3% due to current shortage in supply of wood chips in the Asian and domestic markets. However, the sales of wood chips in amount increased by only 1.9% from 2004 to 2005 as the sales volume of wood chips decreased by 3.0% from 1,497 BDMT in 2004 to 1,452 BDMT in 2005. The sales volume of wood chips decreased because the Group has terminated its wood chip business with one of its authorised intermediaries, Nanning Wood Chips Factory, since the fourth quarter of 2005.

Sales of wood-based products

Sales of wood-based products increased 41.2% because the sales volume increased. Sales of wood-based products was mainly consisted of sales of imported logs. Sales of imported logs were indent sales. The increase in market demand for furniture production in China drive the increase in sales volume of imported logs.

Highlight of major audit work performed

For sale of standing timber, we have checked the summary of the Group's timber holdings as at 31 December 2005. The summary shows the details of timber holdings held by group companies, date and costs of acquisitions/disposals, location and hectares of the timbers acquired or disposed of. We have sighted all the sales contracts and noted that the cost of disposals has been properly depleted from the corresponding cost of acquisition. As the trade debts of sales of standing timber are not settled in cash but setting off with the payables of standing timbers acquired, we have checked the movement of all debtors of standing timber sales and the corresponding set-off instruction letters and confirmations. In addition, we have obtained audit confirmations from all standing timber customers confirming the movement of trade debts during the year. The results of these audit procedures are satisfactory.

For sale of wood chips, we performed a site visit on one of the Company's wood dealers, Huahan, on 3 January 2006 and discussed with the President of Huahan, Li Hua regarding the operations of the Company with the wood dealer. We have sighted the quarterly statements for the four quarters in 2005 with no exception noted. In addition, we have obtained direct confirmations from the two AI confirming the movement of trade receivable and they are not related parties during the year. Further, we have obtained confirmation from a governmental entity (regulated by the local forestry bureau) to confirm the volume of timbers supplied to various sites of the wood dealers during the year ended 31 December 2005 under the instructions of the Company which provided an objective evidence of the volume of timbers supplied to the wood dealers for processing of wood chips during the year. The results of these audit procedures are satisfactory.

3. **Analytical review and review procedures performed – Income statement (cont'd)**

(a) Sales (cont'd)

For sale of wood-based products, most of the revenue was derived from importing of timber logs overseas for resale in the PRC. We have performed transaction test and cut-off test on these indent sales and purchases of imported logs. The result is satisfactory.

(b) Commission income

The Group earns commission income principally through two AI. Similar to the wood chip operations, there are only a "Quarterly Summary" and a "Quarterly Invoice" issued by the Company to support the amount of commission income recognized in the financial statements. We are not aware the Company has maintained records such as the details of transactions/businesses and the names of customers referred to the wood dealers. As such, we have obtained confirmations from the AI to confirm the details of the volume of business and names of customers referred by the Company with satisfactory results.

We have discussed with a director, Mr. K.K. Poon, and understand that the Company have introduced certain customers to the AI in prior years. Since the referral, the AI have to pay the Company commission based on the volume of trade with these referred customers. There could be no further significant work required to be performed by the Company to earn the commission income thereafter.

Commission income decreased by 30.5% from US$140.1M in 2004 to US$9.7M in 2005. The decrease in commission income was mainly due to the decrease in transaction volume. Agency fees on the sale of wood chips in 2004 and 2005 remained stable as US$14.7 per BDMT pursuant to relevant agreements entered into with the AI.

Highlight of major audit work performed

We have sighted the calculation of commission income and the quarterly statements provided by the AI and no exception was noted. In addition, we have obtained direct confirmations from the AI confirming the movement of commission receivable and breakdown of transaction volumes of each of customers referred by the Group to the AI. The result is satisfactory.

(c) Cost of sales

Cost of sales increased 55.4% from US$229.4M in 2004 to US$356.4M in 2005. The increase in cost of sales was due primarily to an increase in sales volumes of standing timber and an increase in prices of imported logs.

Highlight of major audit work performed

Please refer to Note (a) above.

3. Analytical review and review procedures performed –Income statement (cont'd)

(d) Gross Profit

	Year ended Dec 31, 2005				Year ended Dec 31, 2004			
	Revenue	COGS	GP		Revenue	COGS	GP	
	US$'000	US$'000	US$'000	%	US$'000	US$'000	US$'000	%
Standing timber	240,829	140,204	100,625	41.78%	105,126	45,159	59,967	57.04%
Woodchips and logs	146,130	122,886	23,244	15.91%	143,418	118,315	25,103	17.50%
Imported logs	84,136	81,875	2,261	2.69%	58,689	57,287	1,402	2.39%
Wood based products	12,466	11,466	1,000	8.02%	9,703	8,672	1,031	10.63%
Commission	9,740	-	9,740	100.00%	14,010	-	14,010	100.00%
	493,301	356,431	136,870	27.75%	330,946	229,433	101,513	30.67%

Gross profit margin from sales of standing timber decreased from 57.0% in 2004 to 41.8% in 2005 due to sales of younger matured pine trees from the Heyuan Pine Acquisition which commanded a lower margin compared to sales of other purchased plantations.

Gross profit margin from sales of wood chips and logs decreased from 17.5% in 2004 to 15.9% in 2005 as a result of higher purchase cost for wood chips and logs. Average cost of wood chips increased 12.8% from US$78 per BDMT in 2004 to US$88 per BDMT in 2005, while wood chip selling prices increased only 10.5% from US$95 per BDMT in the third quarter of 2004 to US$105 per BDMT in the third quarter of 2005.

Gross profit margin from imported logs remained stable in 2004 and 2005.

(e) Selling, general and administration

The amounts for the year ended 31 December 2005 mainly represent the following items:

	Year ended 31 December 2005	
	2005	2004
	US$'000	US$'000
Administrative expenses	18,493	15,075
Stock-based compensation	2,672	6,932
	21,165	22,007

Administrative expenses increased by US$3.4M from US$15.1M in 2004 to US$18.5M in 2005. It is mainly due to the increased director bonus of US$2.4M from US$1.6M in 2004 to US$4M in 2005.

Stock-based compensation decreased 61% from US$6.9M in 2004 to US$2.7M in 2005 mainly because the compensation expenses of US$6.4M out of total US$7.8M regarding the rights issued on 14 May 2004 to acquire each of 1.2M shares were vested on 14 August 2004 and 14 May 2005 were recognised in 2004. Only the remaining US$1.4M of such compensation expenses has to be recognised in this year.

3. **Analytical review and review procedures performed –Income statement (cont'd)**

(f) Depreciation and amortisation

The amount mainly represent depreciation of the capital assets comprising machinery and equipment, buildings, land use rights, office equipment and vehicles. We have performed a reasonableness test on the Group's depreciation and are not aware of material adjustments required.

Depreciation and amortisation increased by 25.5% from US$2.5M in 2004 to US$3.1M in 2005 which was mainly due to the significant new additions of capital assets during the year. Such new capital assets were mainly acquired for the new plant in Heilongjiang.

(g) Impairment of capital assets

No impairment was recognised this year as there will be positive net undiscounted cash inflow for the three manufacturing plants in PRC based on the management's cash flow forecasts. We have reviewed the assumptions used in preparation of the forecasts and considered they are reasonable. For details, please refer to the impairment review memo prepared by management.

(h) Interest expenses

	Year ended 31/12/2005 (Audited) **US$'000**	Year ended 31/12/2004 (Audited) US$'000
Interest on long term debts	**27,375**	10,219
Interest on short term debts	**1,619**	3,640
Amortisation of redemption premium on long term debts	-	2,016
	28,994	15,875

The interest expenses for the period mainly represent interest on the US$300 million Notes ("Notes") and other interests on the short term bank loans. We have checked the calculation of interest on the Notes and are not aware of material difference from our calculation.

Interest expense on long term debts increased 167.9%, from $10.2M in 2004 to $27.4M in 2005, due primarily to interest expense for the $300M non-convertible guaranteed senior notes issued in August 2004.

(i) Interest income

Interest income increased 205.9% from US$1.4M in 2004 to US$4.2M in 2005 primarily due to the interest income of US$0.8M earned from the loan of US$15M made to Mandra Forestry Holdings Limited with annual interest rate of 8% on 11 May 2005 and the increase in short-term deposits kept during the year.

3. Analytical review and review procedures performed –Income statement (cont'd)

(j) Other exchange gains

Other exchange gain of US$1.3M was arisen from the appreciation of Renminbi during the year.

(k) Amortisation and write-off of deferred financing costs

Financing costs are deferred and amortised over the term of the related long-term debt on a straight-line basis.

The deferred financing costs are regarding to the non-convertible guaranteed senior notes with principal amount of US$300M. The deferred costs included the fee of US$7.5M paid to Morgan Stanley which represented 80.1% of total deferred costs.

We have checked the calculation of amortisation of deferred financing costs with satisfactory results.

(l) Other income

Other income mainly included a consultancy fee of US$631,000 received from Mandra, which is the Company's other investment since 11 May 2005 and an amortisation of hedging premium received of US$153,000 arising from the currency swap agreement entered into with Morgan Stanley in 2004.

Other income increased by 222.7% from US$0.4M in 2004 to US$1.2M in 2005 primarily because of the consultancy fee income of US$0.6M earned since 11 May 2005.

(m) Exchange gains on long-term debt

Exchange gains on long-term debt of US$0.2M in 2004 was due to the weakening of Euro against U.S. dollar in 2004. The Euro denominated loan was repaid in 2004.

(n) Provision for income taxes

The Company has two principal BVI subsidiaries (Suri Wood and Sino-Forest Resources). They are principally engaged in sales of wood chips, sales of standing timbers, commission income and trading of wood-based products.

As stipulated in the relevant agreements for the business activities mentioned in items 1 to items 3 ("PRC Business"), the corresponding parties (i.e. the AI) have agreed to pay all the applicable PRC taxes on behalf of the Company. Therefore, the income received by the Company from the AI should be after taxes.

3. **Analytical review and review procedures performed –Income statement (cont'd)**

(n) **Provision for income taxes (cont'd)**

There are issues arising from the above matters as to whether the Company may have potential PRC tax liabilities from the PRC Business. As such, the Company has engaged BDO Tax Ltd to perform a tax review. The results indicate the Company should have theoretical tax liabilities, tax surcharges and penalties if the BVI companies are determined by the PRC tax authorities to have "permanent establishment" in China.

After further consideration by management of the Company, they consider the above theoretical tax liabilities should only be used as a reference for the Company's estimation of the maximum exposure of the liabilities arising from the AI's default in payments of taxes for the Company.

Management are of the opinion that the Company's income received from the AI is after taxes and therefore no taxes should be provided (otherwise double-taxed). The main reason why the Company makes the provision is on the basis that there could be a probability that the AI may not have properly paid the relevant taxes for the Company. As such, management consider the Company is actually making a provision, to the best of their knowledge and judgement, for the potential liabilities arising from the AI' default in payment of all taxes made on behalf of the Company.

Management acknowledge there is a risk of the AI's default in payment of all the taxes for the Company and therefore disclose this contingency in the financial statements. Management consider the amount of this exposure is indeterminable by management.

As a result of the above accounting treatment adopted by management, it would be more appropriate to reclassify the relevant "income taxes payable" previously provided on the PRC Business to appropriate account captions as "accrued liabilities" as tax related liabilities in the balance sheet. Reallocation is made accordingly. For consistency, it would be more appropriate to reclassify the relevant "income tax expenses" provided on the PRC Business to appropriate account captions such as "other operating expenses" in the income statement. However, management consider it would be more easier for readers of financial statements to appreciate the nature of these expenses if they were included in "income tax expenses". As the amount involved is immaterial, the expenses were shown as part of the income tax expenses although it would be inconsistent with their presentation in the balance sheet.

For business activities of wood-based trading, management do not consider the income from wood-based trading is subject to PRC tax but acknowledge that it may be subject to Hong Kong Profits Tax. The Company has already provided for relevant Hong Kong Profits Tax on the wood-based trading profits.

After reviewing the financial statements, BDO considers that the Company has properly disclosed the basis of provision for income taxes and the tax related liabilities in the financial statements.

3. Analytical review and review procedures performed –Income statement (cont'd)

(n) Provision for income taxes (cont'd)

As the Company relies on its AI to pay taxes on its behalf arising from the PRC Business and strongly believe that the Company should have legal right to claim the AI for losses arising from taxes under-paid by the AI, if any, management has provided us with legal opinion issued by Jingtian & Gongcheng Attorneys at Law dated 31 March 2006 that the relevant agreements with the AI do not contravene relevant PRC laws and are legal binding and enforceable.

We have also obtained confirmations from certain major AI that the amounts payable to the Company have been net of tax payments made by the AI.

Provision for income taxes increased by 43.9% from US$5.0M in 2004 to US$7.3M in 2005. The increase was primarily due to higher gross profit of wood based trading in 2005.

(o) The calculation of the basic and diluted earnings per share

We have checked the calculation with satisfactory results.

4 Analytical review and review procedures performed- Balance sheet

Consolidated Balance Sheets	Notes	As at 31/12/2005 (Audited) US$'000	As at 31/12/2004 (Audited) US$'000
ASSETS			
Current			
Cash and cash equivalents	(a)	108,418	201,166
Short-term deposits	(a)	30,268	24,089
Accounts receivable	(b)	119,989	81,787
Due from PRC CJV partners	(c)	3,842	3,890
Inventories	(d)	7,622	2,736
Prepaid expenses and other	(e)	7,201	6,992
Total current assets		277,340	320,660
Timber holdings	(f)	513,412	359,607
Capital assets, net	(g)	81,077	66,269
Other assets	(h)	23,442	9,513
		895,271	756,049
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	(i)	41,312	28,508
Accounts payable and accrued liabilities	(j)	85,212	54,719
Income taxes payable	(k)	738	568
Total current liabilities		127,262	83,795
Long-term debt	(l)	300,000	300,000
Total liabilities		427,262	383,795
Shareholders' equity			
Share capital	(m)	142,815	138,915
Contributed surplus	(n)	1,804	3,032
Cumulative translation adjustment	(o)	11,396	-
Retained earnings		311,994	230,307
Total shareholders' equity		468,009	372,254
		895,271	756,049

Notes :

(a) Cash and cash equivalents & short term deposits

Cash and cash equivalents & short term deposits decreased 38.4%, from US$225.3M as at 31 December 2004 to US$138.7M as at 31 December 2005, primarily due to the US$15M loan made to Mandra Forestry Holdings Ltd., addition of capital assets of US$16.7M and interest of US$27.2M paid for the US$300M senior note.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(b) Accounts receivable

The balance mainly represents the following:

	Notes	As at 31/12/2005 (Audited) US$'000	As at 31/12/2004 (Audited) US$'000
Wood-based	(i)	36,600	19,235
Wood chips	(ii)	7,328	10,280
Standing timber	(iii)	76,061	52,272
		119,989	81,787
Debtor turnover days			
- Wood-based		138	103
- Wood chips		18	25
- Standing timber		115	181
Overall		90	93

Debtor aging summary is as follows:

	Total Accounts Receivable US$'000	0-30 Days US$'000	31-60 Days US$'000	61-90 Days US$'000	91-180 Days US$'000	180-360 Days US$'000	Over one Year US$'000
As at December 31, 2005	119,989	55,216	38,695	22,546	3,030	502	-
As at December 31, 2004	81,787	47,115	21,639	2,494	10,539	-	-

Trade debts from wood based sales

Trade debts from wood based sales were mainly the debts from sales of imported logs. Credit terms of 45-90 days were usually granted to wood based customers. Settlement were usually made by T/T. Due to no legal establishment by the BVI subsidiary in PRC, most of the T/T settlement were made through remitting agents which are not related parties of the Group.

Debtor turnover days of wood-based sales increased from 103 days in 2004 to 138 days in 2005 because wood-based sales increased by 41.2% from 2004 to 2005 and certain significant sales occurred before year end but remained unsettled at year end date.

Trade debts from wood chips sales

Trade debts from wood chips sales were attributable to two authorised intermediaries. Credit terms of 60 days were granted to the intermediaries. Generally, no cash settlement was made by the intermediaries due to no legal establishment by the BVI subsidiary in PRC. The Group typically instructs the intermediaries to make settlement by payment to the Group's plantation suppliers in PRC on its behalf.

4 **Analytical review and review procedures performed- Balance sheet (cont'd)**

(b) Accounts receivable (cont'd)

Debtor turnover days of wood chips sales decreased from 25 days in 2004 to 18 days in 2005 because one of the intermediaries, namely Nanning Wood Chips Factory, has terminated its business with the Group since the fourth quarter of 2005. Its debts have been fully settled before year end. We have checked to the bank receipt advice and found that the settlement was paid by Nanning and received by the Group's subsidiary in PRC on behalf of the BVI subsidiary.

Trade debts from standing timbers

Trade debts from standing timbers were attributable to customers in PRC. Credit terms up to 9 months were granted to them but progress payment should be made within the credit period according to the sales contracts. Same as wood chips business, no cash settlement was generally made by the debtors due to foreign currency exchange restriction in PRC. The Group instructs the debtors to make settlement by payment to the Group's standing timber suppliers in PRC on behalf.

Debtor turnover days of standing timber sales decreased from 181 days in 2004 to 115 days in 2005 mainly because more standing timber are acquired during the year and hence the Group instructed its debtors to make payment to standing timber suppliers quicker.

Overall trade debts

By reviewing the debtors aging report, over 97% of the debtors balance was outstanding not more than 90 days. There was no material long outstanding debt. No recoverability problem of the accounts receivable balance is identified.

Management have assessed the recoverability of the accounts receivables and concluded that no provision required to be made for the accounts receivables. We considered that management's assessment is reasonable in light of past settlement experience.

Disclosure is made in the financial statements that certain accounts receivable are designated for set off against the payables for purchase of standing timbers because of the fact that the Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations.

Highlight of major audit work performed

We have obtained most of confirmations from major debtors by mail. Confirmations of certain debtors in Shanghai have been obtained in person by us. For those debtors related to standing timber, wood chips and commission, movement of those trade debts, including the details of certain payable utilised to set off against certain payables for purchase of standing timbers in PRC, were also confirmed. In addition, we inspected all the instruction letters and confirmations regarding each set off transactions. For AI of wood chip sales, they have also confirmed that they are not related parties of the Group (we have also performed company search to confirm they are not related parties of the Group) and they have paid the corporate income tax and value added tax on behalf of the Group in PRC according to the master agreements made between the Group and the AI.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(b) Accounts receivable (cont'd)

For those settlements of wood based trade debts made during the year, we have checked all the bank remittance advices to see whether they were made by the debtors themselves directly or through remitting agents. A list of remitting agents with the amounts paid are stated in the letter of representation to request the directors to confirm these remitting agents are not related parties of the Group.

We have reviewed subsequent settlement of the accounts receivable other than those arising from sales of standing timbers and wood chips. No recoverability problem is noted.

(c) Due from PRC CJV Partners

The amounts due from PRC CJV partners relate primarily to commission income receivable and reimbursement of office expenses of CJVs. The amounts are unsecured and non-interest bearing. Amounts due from PRC CJV partners are expected to be settled in the next twelve months.

The amount due from PRC CJV partners remained constant with last year.

(d) Inventories

The balance mainly represents the followings:

	As at 31/12/2005 (Audited) US$'000	As at 31/12/2004 (Audited) US$'000
Nursery	2,890	-
Work in progress	794	1,034
Raw materials	1,207	606
Wood products	3,092	1,232
	7,983	2,872
Provision for obsolete inventories	(362)	(136)
Carrying value of inventories	7,621	2,736

Inventories increased US$4.9M from US$2.7M as at 31 December 2004 to US$7.6M as at 31 December 2005. The increase was mainly due to the new addition of nursery of US$2.9M and increase in wood products by US$1.9M.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(d) Inventories (cont'd)

The Group's subsidiary, Sinowin Plantings (Suzhou) Co. Ltd., purchased nursery of US$2.9M during the year for trading purpose. The nursery consists of old precious trees with high value and will be sold piece by piece to local customers. However, subsequent to year end date, there have been only limited amount of sales of the nursery. Therefore, there is no other external evidence available from management to substantiate if the subsequent selling price of the nursery is above its carrying amount. As the amount is not material, we have relied on management's judgement on assessment of the net realizable value of the nursery.

Wood products included floorings purchased and panels manufactured. For trading of floorings, the Group's subsidiary, Sino-Maple (Shanghai) Trading Ltd., purchased floorings from sub-contractors. The wood floorings are used in construction project in which Sino-Maple supplies and installs wood floorings into buildings in certain construction projects. Since August 2005, Sino-Maple has signed an agreement with an authorised dealer for retailing. Floorings are sold from Sino-Maple to the authorised dealer. The authorised dealer has retail shop to sell the flooring under the trademark "SINO-MAPLE". As a result, inventories of floorings increased by US$1.2M from US$0.8M as at 31 December 2004 to US$2.0M as at 31 December 2005 which are kept for sales to its authorised dealer.

Provision for obsolete inventories is made when the inventories were identified as poor in quality, obsolete and when the inventories' subsequent selling prices are lower than the cost. We have reviewed inventory aging reports and found that most of the inventories were aged within one year. No material inventory aged over one year was noted. No indication of understatement of inventory provision was noted.

Highlight of major audit work performed

We have attended the year end physical inventory count in Gaoyao, Suzhou and Shanghai with no exception noted.

We have performed a test on the valuation of the inventories with no exception noted.

We have discussed with the Senior Vice President, China Operations and Finance, Ms. Chen Hua, about management's intention of the acquisition of the nursery and were advised that they were acquired for trading purpose. Thus, the nursery should be classified as inventories.

(e) Prepaid expenses and other

The balance mainly represents the deposits paid for purchase of logs from overseas or PRC logs suppliers and other trade and utility deposits paid. The balance remained constant with last year.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(f) Timber holdings

The balance represents timbers acquired or planted in various locations of the PRC.

	Hectares	Amount
		US$'000
Balance at 1 January 2005	246,737	359,612
Acquisition during the year 2005	185,573	278,301
Maintenance and management fees for the year 2005	-	4,761
Disposals during the year	(108,014)	(140,204)
Exchange Difference	-	10,942
Balance at 31 December 2005	324,296	513,412

		US$'000
As at 31 December 2005		
Purchased timber holdings	280,370	478,325
Planted timber holdings	43,926	35,087
Total timber holdings	324,296	513,412

The increase in timber holdings was due to the increase in acquisition of timber holdings in Heyuan pursuant to the undertaking issued by Heyuan CJV partner which the Group may purchase mature pine trees of up to 200,000 hectares in Heyuan until February 2006. Up to 31 December 2005, the Group had purchased 109,824 hectares in Heyuan.

For the purchased timber holding, no plantation right certificate has been issued by local forestry bureau. Alternatively, purchase contract together with the approval documents issued by local forestry bureau were inspected to support the ownership of the timber holding by the Group. For the planted timber holdings, most of them have not obtained plantation right certificates issued by local forestry bureau due to the reform of new uniform plantation ownership certificates by local forestry bureau which results in delay in issuance of these certificates. Therefore, we have obtained a legal opinion from the Company's lawyers, Jingtian & Gongcheng Attorneys at Law, to confirm that the Company should have the right to own and transfer the plantations based on their review of samples of relevant purchase contracts and approval documents issued by relevant forestry bureau.

Management have considered it is not necessary to disclose in the financial statements that the Company has not yet obtained the plantation right certificates.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(f) Timber holdings (cont'd)

For the valuation of timber holding, the Group has appointed JP Management Consulting (Asia-Pacific) Ltd. ("Jaakko Poyry") to perform a valuation. Jaakko Poyry has determined the valuation of the forest assets as at 31 December 2005 was $728.5 million. This is the result of a valuation of the existing planted and purchased areas using a 11.5% discount rate applied to real, pre-tax cash flows. Jaakko Poyry has also prepared an existing forest valuation that includes the revenues and costs of re-establishing and maintaining the plantation forests for a 50 year period (perpetual valuation). The Group have an option to lease the land under the purchased trees model for future rotations, the terms of which have yet to be agreed. Jaakko Poyry has determined the valuation of the forest assets based on a perpetual rotation (including the planned expansion in Heyuan City) using a pre-tax discount rate of 11.5% to be $968.4 million as at 31 December 2005. Both results of the two valuation basis show that the value of timber holding is higher than the book value as at 31 December 2005. Hence, no impairment loss should be provided.

Highlight of major audit work performed

For the acquisition of timber holdings during the year, we have checked all purchase contracts, survey reports and approval documents issued by local forestry bureau.

We performed site visit on certain significant acquisition of plantations in Heyuan and Gaoyao to ensure its physical existence though we have not counted or measured the plantation areas.

We inspected plantation ownership certificates of certain planted timber holdings to ensure the Group's legal ownership.

We have inspected all new maintenance contract signed by the 2 BVI companies during the year and checked the calculation of maintenance and management fees capitalised during the year ended 31 December 2005 and are not aware of material adjustment required.

Regarding the hectares of timbers disposed of during the year ended 31 December 2005, we have inspected all sales contracts signed by the 2 BVI companies with no exceptions found. We checked the calculation of cost of disposal of standing timbers and found that the cost of standing timbers disposed of recognised as cost of sales was calculated based on the corresponding costs of timbers acquired and related maintenance and management fees capitalised up to the date of disposal and we are not aware of material adjustment required.

We obtained and reviewed the annual valuation report on the timber holdings prepared by JP. In addition, we met JP in February 2006 to discuss and understand their basis of the valuation and considered we can place reliance on their valuation report.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(g) Capital assets

The balance mainly represents the following fixed assets:

	31/12/2005 US$'000	31/12/2004 US$'000
Cost		
Machinery and equipment	75,059	59,269
Buildings	8,760	7,683
Land use rights	4,980	4,862
Office furniture and equipment	1,362	1,011
Vehicles	2,574	2,004
Total	92,735	74,829
Accumulated depreciation and amortisation		
Machinery and equipment	8,604	6,281
Buildings	1,079	780
Land use rights	539	435
Office furniture and equipment	764	634
Vehicles	672	430
Total	11,658	8,560
Total net book value	81,077	66,269

Buildings, machinery and equipment include production facilities of US$42,034,000 which were under construction and had not yet been put into commercial operation as at 31 December 2005 and therefore no depreciation charge was provided for.

The movements of capital assets during the year ended 31 December 2005 mainly represent additions of machinery & equipment, office & equipment and vehicles. The depreciation charge and amortisation charge for the year ended 31 December 2005 amounted to US$3.1M. We have estimated the depreciation charge for the year and are not aware of material difference from the amount provided in the financial statements.

There was net book value of US$77,000 in respect of disposal of office equipment and vehicles during the year ended 31 December 2005.

The Group has three manufacturing plants which are located in Gaoyao of Guangdong Province, Suzhou of Jiangsu Province and Mulin of Heilongjiang Province in PRC.

Manufacturing plant in Gaoyao

Jia Yao has now operated one production line to manufacture wood panel. Jia Yao purchases raw timber from local timber suppliers and then processes them into wood panel. The finished wood panel are sold to local customers.

4 <u>Analytical review and review procedures performed- Balance sheet (cont'd)</u>

(g) Capital assets (cont'd)

The full capacity of the plant should be 3 production lines. The existing one production line has sustained losses due to the low economic scale. The remaining two production lines are not expected to commence operations until the middle of 2006. Client advised that the operation would become profitable once the other production line can be operated.

Manufacturing plant in Suzhou

No manufacturing process has been operated in this plant as the group relocated the production line, OSB line, of its manufacturing plant from Suzhou to a new WFOE of the Group, Heilongjiang Jiamu Panel Co. Ltd. ("Jiamu"), located in Mulin in the second half year of 2005. The relocation of the OSB line was completed in the second quarter of 2005.

As advised by client, those premises in Suzhou on which the OSB line was previously installed were leased out to earn rental income up to October 2005. Since November 2005, client terminated the operating lease and plans to use the plant to manufacture floorings in 2006. These floorings are now traded by Sino-Maple but manufactured by sub-contractor.

Manufacturing plant in Mulin

The OSB production line has been at the final stage of installation in the plant in Mulin but the plant has not yet been in operation yet. This production line was transferred from Suzhou as mentioned above.

Management have performed impairment review on the three production plants (Gaoyao, Suzhou and Heilongjiang) in China and concluded that there is no impairment loss required to be recognized on the production plants. Management acknowledged that the impairment review should be performed on a quarterly basis. For the details of impairment review by management, please refer to impairment review memo prepared by the management.

<u>Highlight of major audit work performed</u>

Physical inspection of certain significant plant and machinery was performed in Gaoyao, Suzhou and Heilongjiang with no exception noted.

We have reviewed the cash flow forecast of the production lines in Gaoyao, Suzhou and Heilongjiang prepared by management and found that the forecast is prepared on a reasonable basis. Hence, management's conclusion of no impairment loss incurred is reasonable.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(h) Other assets

The balance included the investment of US$1,500 in and subordinated loan of US$15 million to Mandra Forestry Holdings Ltd. and the finance costs such as the professional fee paid to Morgan Stanley for obtaining borrowings of the Group.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of US$195 million debt securities of Mandra due in May 2013. The subordinated loan is secured on 75% equity interest in Mandra Holdings.

The Company holds 15% interest in Mandra with 20% votes on the Board of Mandra.

Management have confirmed they have sought Deloitte's advice on the application of the AcG15- "consolidation of variable interest entities" but not the advice on the accounting treatment on Mandra. The emails between the Company (Dave, CFO) and Deloitte were received by us and confirmed that Deloitte was just providing guideline in application of the VIE only.

Management have performed a qualitative analysis on the investment in and the subordinated loan to Mandra and concluded Mandra is a variable interest entity ("VIE"). However, the Company is not the primary beneficiary of Mandra and therefore it does not require to consolidate the financial statements of Mandra.

As management considered it is easily determined who is the primary beneficiary of Mandra based on the available information, it is not necessary to perform a quantitative analysis to determine who is the primary beneficiary. For details, please refer to the memo of the accounting treatment on Mandra prepared by management.

We have reviewed management's 2006 cash flow projections and the unaudited financial statements of Mandra for the nine months ended September 30, 2005 and have concurred with management's opinion that no provision for the subordinated loan made to Mandra is required.

(i) Bank indebtedness

Bank indebtedness mainly represents trust receipt loan arising from wood based trading. We obtained bank confirmations to verify the balances.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(j) Accounts payable and accrued liabilities

The balance represents the following items:

	As at 31/12/05	As at 31/12/04
	US$'000	US$'000
Accounts payable	31,348	13,654
Others payable	12,334	9,471
Accruals	15,960	13,404
Obligation under finance lease	192	254
Tax related liabilities	25,378	17,936
	85,212	54,719

Accounts payable mainly represent payable for plantation purchase and plantation maintenance fee. At 31 December 2005, plantation payable represented 81% of total accounts payable.

The increase in accounts payable was mainly due to the plantation purchased before year end of US$16.1M. Same as accounts receivable discussed above, no cash settlement is made by the Group directly. Plantation payables were settled by instructing the Group's debtors to pay on behalf.

Others payable increased 30.2% from 31 December 2004 to 31 December 2005 mainly because maintenance fee payable incurred by the two BVI Companies increased. Maintenance fee payable increased as the timber holding area increased compared with last year. No irregularity is noted.

Accruals mainly included the accrued interest of US$10.2M for the US$ 300 million non-convertible guaranteed senior notes issued in August 2004 which represented 64.0% of the total accrued liabilities. Reasonable test on the accrued interest was performed with no irregularity noted.

Obligation under finance lease was arisen from purchasing two motor vehicles in Hong Kong. Lease agreements were checked with no exception noted.

For the tax related liabilities, please refer to section 3 note (n) "Provision for income taxes" above.

Highlight of major audit work performed

Same as accounts receivable, we have obtained direct confirmations from major plantation suppliers which confirmed the closing balances together with the movement of payables during the year. In additions, we fully checked all instruction letters and set off confirmations issued by payers and payees with no exception noted.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(k) Income taxes payable

The balance mainly represents provision for income taxes in respect of HK profits tax and PRC income tax arising from trading of wood-based products.

For details, please refer to section 3 note (n) "Provision for income taxes" above.

(l) Long-term debts

The balance represents US$300 million non-convertible guaranteed senior notes (the "Notes") issued by the Company on 17 August 2004 as detailed in its offering memorandum dated 10 August 2004. The Notes are repayable on 17 August 2011. Please also refer to Section 5.4 for currency swap contract entered into by the Company in connection with the interest payable under the Notes.

We have discussed with management and were advised that the Company has not breached any convenants of the Notes that may result in early repayment of the Notes. We have also reviewed certain important financial ratios the Company is required to comply with and we are satisfied that the Company has complied with the requirements.

(m) Share capital

The balance represents 137,789,548 issued common shares at 31 December 2005. There was an increase in 1,200,000 shares issued in May 2005 upon the condition of issuance of the 1,200,000 shares pursuant to share options granted were vested in May 2005.

In conjunction with the completion of the equity offering in May 2004, the Company purchased from management certain rights to acquire shares in Sino-Wood Partners, Limited (a subsidiary of the Company) pursuant to securities purchase agreements for a pre-determined purchase price. The amount was paid by the issuance of 2,400,000 common shares valued at CDN$2.65 per share based upon the offering price. The total stock compensation expenses would be US$7,800,000. 1,200,000 shares already vested 90 days following the completion of the offering in 2004 and the remaining 1,200,000 shares vested on the first anniversary of the completion of the offering which occurred in May 2005. Accordingly, 1,200,000 shares were issued on 12 May 2005.

(n) Contributed surplus

The contributed surplus represents expenses recognised on stock-based compensation and options granted over the vesting period which were charged to the income statement up to 31 December 2005. The fair value of the options granted is expensed in accordance with Section 3870 of the CICA Handbook. The amount of stock based compensation recognized in the income statement amounted to US$2.7 million.

4 Analytical review and review procedures performed- Balance sheet (cont'd)

(n) Contributed surplus (cont'd)

The determination of the fair value of the stock option granted was obtained by management using the Black Scholes model for option pricing. The most significant variable in the model is the calculation of expected volatility which management determined was about 54% for the options issued during the year ended 2005. (See Note 10 to the financial statements).

The decrease in balance of US$1.2M during the year represented net stock compensation expenses of US$2.7M recognised and a transfer of US$3.9M to share capital on issuance of 1,200,000 shares during the year. We have reviewed the calculation of the amount recognised in the income statement and were not aware of material adjustments required.

(o) Cumulative translation adjustment

Management has reassessed the method of translation for its foreign subsidiaries' financial statements and has concluded that the current rate method is now more appropriate. This change resulted from a combination of the continued increase in the operational exposure in the Renminbi, substantially Renminbi denominated assets of the foreign operations and their continued growth in the business activities conducted in Renminbi. The Company applied the change in the translation method prospectively on October 1, 2005. The Company's reporting currency will continue to be US dollars. The change did not have a material impact on the previous financial statements as the Renminbi was pegged against the U.S. dollar prior to August 2005. Accordingly, the assets and liabilities of the foreign operations are translated into US dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the cumulative translation adjustment account in shareholders' equity.

Other foreign currency transactions are translated using the temporal method. Exchange gains or losses are included in the consolidated statement of income.

For details, please refer to the memo of foreign exchange translation prepared by management.

5. Other off-balance sheet items and other disclosures

5.1 Stock options

Movement of number of options during the period:	No. of shares
Balance at 1 January 2005	2,945,000
Options granted	1,942,000
Options cancelled	(450,000)
Options exercised	-
Balance at 31 December 2005	4,437,000

On 14 September 2005, 5 April 2005 and 21 January 2005, options to acquire 292,000, 1,350,000 and 300,000 common shares respectively were granted to directors at an exercise price of CDN$2.70, CDN$3.67 and CDN$3.90 respectively in accordance with the Company's stock option plan. The options granted will vest over 3 years and expire on 13 September 2010, 4 April 2010 and 20 January 2010 respectively. The fair value of the stock options granted (calculated by the Company using the Black Scholes option pricing model) was estimated to be US$286,000, US$1,701,000 and US$405,000 respectively on the date of grant.

During the year ended 31 December 2005, options to acquire 450,000 common shares granted on May 11, 2004 were cancelled due to resignation of an officer during the year.

The compensation expense recorded for the year with respect to options granted amounted to US$1,241,000.

5.2 Related party transactions

Pursuant to the respective service agreements, the Company pays consultancy fees to companies controlled by certain directors, Mr. Allen Chan and Mr. K.K. Poon, who are executive officers in lieu of their compensation. The consultancy fees incurred for the year ended 31 December 2005 amounted to US$2,737,000 (2004: US$1,491,000). The consultancy fees, representing directors' remuneration, are payable to these companies on a monthly basis with a fixed amount. For tax planning purpose of the directors, the remunerations are made to these related companies.

In addition, as at 31 December 2005, the Company had an aggregate amount of US$2,129,000 (2004: US$1,019,000) owed to these related companies.

5. Other off-balance sheet items and other disclosures (cont'd)

5.3 Commitments

As at 31 December 2005, the Company has various commitments as follows:

	31/12/2005 US$'000	31/12/2004 US$'000
(i) Outstanding capital contributions to PRC wholly-owned foreign owned enterprises	25,000	19,517
(ii) Acquisitions of – Buildings, timber holdings, plant and machinery	7,820	21,838
(iii) Purchase of logs	5,367	27,119
	38,187	68,474

The Company also has commitments under operating leases for land and buildings as follows :

Lease commitments payable	As at 31 December 2005 US$'000
Within one year	1,720
In the second year	1,173
In the third year	1,002
In the fourth year	942
In the fifth year	943
Thereafter	30,032
	35,812

5.4 Hedge arrangements

On 10 August 2004, the Company issued US$300 million Notes. The Notes bear interest of 9.125% per annum and payable semi-annually on August 17 and February 17. The notes will mature on 17 August 2011. Interest payable semi-annually amounted to US$13,687,500 (RMB 113,290,070 equivalent).

As the funds has been used to finance the Company's plantation operation in the PRC and its revenue generated will be in RMB, the Company has made a currency swap contract with Morgan Stanley to hedge against the US$ interest payment. We have sighted a memo of the Company prepared at the time of entering into the above swap contract which demonstrates that the contract was made for the purpose of hedging the currency risk.

Under the contract, if RMB depreciates against US$, Morgan Stanley will pay the Company on each interest payment dates an amount equivalent to the excess of RMB113,290,070 required to meet the US$13,687,500 interest payments and vice versa. Accordingly, the contract will serve as an effective hedge to fix the amount of RMB converting to US$ semi-annually to meet the interest payments and matches against the interest payment dates.

5. Other off-balance sheet items and other disclosures (cont'd)

5.4 Hedge arrangements (cont'd)

From the inception of the contract to 30 June 2005, the RMB to US$ exchange rate has been relatively stable. However, RMB was appreciated by 2% during the third quarter of this year. Based on the market exchange rate, the interest expenses of US$13,687,500 paid in August 2005 was equivalent to RMB111,033,000. As the RMB equivalent amount is less than the preset amount of RMB113,290,070, the Company has to pay Morgan Stanley the deficient amount. Hence, the Company paid US$278,000 to Morgan Stanley regarding the interest payment made in August 2005 and such amount is recognised as exchange loss in the Company's financial statements. The Company also accrued the exchange loss for the period from the last interest payment date to this year end date which amounted to US$254,000.

At 31 December 2005, the unamortized premium (credit balance) on the contract was about US$540,000. Therefore, management considered there should be no material financial impact to the Company whether or not hedge accounting is applied or not.

5.5 Pledge of assets

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

Assets	Notes	31/12/2005	31/12/2004
		US$'000	US$'000
Land use rights		2,392	890
Buildings		-	1,568
Timber holdings	(i)	1,321	2,142
		3,713	4,600
Short term deposits		6,166	5,142
		9,879	9,742

Note (i) : The PRC CJV partners have undertaken to counter-indemnify the Company from their 30% share of the harvested timber.

5.6 Litigation Proceedings

We have communicated with the Company's legal counsels who have indicated in their letter dated February 22, 2006 that there is a case in connection with tipping made by certain officers of the Company. Management advised that the Board met on January 22 and considered the verbal settlement offered by the Ontario Securities Commission ("OSC"). OSC suggested that for a payment of Cdn$200,000 and acknowledgement of liability, the matter would be resolved. The Board indicated that management should not enter into settlement negotiations. And instructed counsel to go back to the OSC and tell them such. This was already done on January 23, 2006 and since that date the Company have had no further contact with the OSC.

5. Other off-balance sheet items and other disclosures (cont'd)

5.6 Litigation Proceedings (cont'd)

Management consider the above matter does not warrant disclosure in the financial statements and the Company has not made any provision in the financial statements.

5.7 Subsequent events

On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.30% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. As at March 27, 2006, $50 million of the available facility has been drawn down.

We have inspected the facility agreement and checked to the utilisation request together with the corresponding bank advices with no exception noted.

6. **Summary of misstatements**

The following misstatements were noted during our audit:

	DR. US$	CR. US$
1. Accounts payable	6,683,000	
Deposits paid	15,594,000	
Standing timber		22,277,000
Being deposits paid for purchase of wood logs instead of standing timber.		
2. Other expenses	7,016,000	
Provision for income taxes		7,016,000
Being re-classification of provision for income taxes to other expenses.		

The above errors have no effect on income statement and represents mis-classification of items only, being immaterial to be adjusted.

No audit adjustment was proposed by us.

7. **Other matters**

N/A.

TAB G

This is Exhibit "G" referred to in the

Affidavit of Li Yin Fan,

sworn before me this 20

day of August, 2012

Person Authorized to take Affidavits

Katherine K. Y. Lam
Solicitor,
Hong Kong SAR
Messrs. Simon Si & Co.

SINO-FOREST CORPORATION

Audit Completion Memorandum

For the year ended 31 December 2006

BDO McCabe Lo Limited

Prepared by:	Ming Ip	Date :	13 March 2007
Reviewed by :	Raymond Yuen	Date :	14 March 2007
Reviewed by :	George Ho	Date :	14 March 2007
Reviewed by :	Vincent Wong	Date :	15 March 2007
Reviewed by :	Fanny Li	Date :	16 March 2007

BDO

Sino-Forest Corporation
Audit Completion Memorandum
For The Year Ended 31 December 2006

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1. General understanding of client

1.1 Description of business

Sino-Forest Corporation (the "Company") is the largest, foreign-owned and commercial forestry plantation operator in the People's Republic of China (the "PRC") in terms of plantation area. The Company and its subsidiaries are hereafter referred to as the "Group". As at 31 December 2006, the Group had approximately 352,000 hectares of forestry plantations located in southern and eastern China. The Group has been operating forestry plantations in the PRC since 1995. The Group is focused on the development and supply of wood fibres and logs to meet the increased demand from manufacturers in the wood panel, furniture, construction, interior decoration and pulp and paper markets in the PRC. The Group owns three manufacturing plants which are intended to complement its forestry plantations and trading operations.

The Group's principal activities are as follows:

(i) Sale of wood chips and wood-based products. Wood-based products include logs, veneer, sawn timber, wood flooring and lumber, all primarily sourced from domestic and overseas suppliers, as well as particleboard and melamine faced chipboard and sawn timber from the manufacturing plants. Currently, the revenue from trading of wood chips conducted principally through one authorised PRC dealer accounts for 13% of the Group's turnover;

(ii) Sale of standing timber from the planted tree plantations, purchased tree plantations and mature pine plantations in Guangxi, Jiangxi, Heyuan and Hunan. The sale of Heyuan plantation were quite substantial during the last quarter of 2006. The revenue from sale of standing timbers has become the largest source of revenue since mid of 2005 and is expected to grow significantly as more mature trees will be available for sales; and

(iii) Earning commission income from agency services in the sale of wood chips and wood-based products in the PRC and elsewhere in Asia. This source of income is insignificant to the Group relatively.

1.2 The holding company, major companies and place of operations

The Company is a Canadian corporation with executive offices in Hong Kong and Canada and plantations in south-east China. The Company operates mainly through two wholly-owned subsidiaries, Sino-Panel Holdings Limited and Sino-Wood Partners Limited, and its common shares have been traded since 1995 on the Toronto Stock Exchange under the symbol TRE.

Almost all of the Group's operations are undertaken in the PRC. The Group has two major subsidiaries incorporated in the British Virgin Islands (the "BVI companies") engaged in trading of wood chips and wood-based products, investment in forestry plantation and earning commission income. The Group has four contractual joint venture companies which are established with respective PRC joint venture partners for the operation of forestry plantation. Based on the CJV agreements, revenue from sale of standing timber and related operating expenses are shared by the Group and the respective joint venture partners as to 70% and 30% respectively.

1. General understanding of client - Continued

1.2 The holding company, major companies and place of operations - Continued

Please refer to Appendix I for the group chart as at 31 December 2006.

Appendix II contains additional description of the areas that are fundamental and significant in assessing the audit of the Group.

1.3 Understanding of the internal controls and business cycles

We have obtained adequate knowledge on the Group's internal controls and business cycles of those companies that have significant contributions to the Group's results for the year or form a significant part of the Group's assets and liabilities. In particular, we have reviewed the Group's internal controls and the accounting system regarding the trading of wood-chips, sale of wood-based products, sale of standing timbers and commission income. In addition, we have performed walkthrough tests on the aforesaid business cycles.

Although we have identifies certain deficiencies as stated in our 2005 management letter, we are satisfied that they will not result in undetected material misstatements on the financial statements. Management advised that they are planning to rectify those deficiencies in the internal controls and business cycles of the Group. We will continue to communicate with management and observe what actions they have taken to rectify the weaknesses.

2 Significant changes in client's business and other areas

2.1 Major acquisition/investment

A new subsidiary has been set up in the PRC during the second quarter, namely Hunan Jiayu Wood Products Co. Ltd. (湖南嘉裕木業有限公司). This new subsidiary is in the form of WOFE and is engaged in manufacture of wood panel. However, it has not yet been in commercial operation up to year end as the Group are in the process of bringing two factories' operations into the Group and waiting for the registration process to be completed in the PRC. Management advised that they are in the process of finding additional suitable factories to acquire. Management expect the production will start immediately. A new subsidiary has been set up in the BVI during third quarter, namely Sino-Panel (Guangzhou) Ltd. (嘉漢板業(廣州)有限公司). Its principal activity is investment holding.

2.2 New agreements made

On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.30% per annum. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. On 11 March 2006, $50 million of the available facility has been drawn down.

On 31 July 2006, the Company entered into a Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure a long-term supply of wood fibre while managing a regeneration programme of secondary forests. Under the Master Agreement, the Company will acquire at least 1.5 million cubic meters of wood fibre annually for 12 years at a price which is RMB80 less than the lowest price at the timber trading market. As at 31 December 2006, the Company has paid a refundable deposit of US$10M regarding to this agreement.

On 8 August 2006, the Company's WOFE in PRC, Sino-Forest Guangzhou Trading Co Ltd has entered into an agreement to alter the log supply agreement with Shanghai Shenzhen Hongji Wood Products Co Ltd that the original value of supply of log of RMB180M will be reduced half to RMB90M and the remaining will be supplied by another company in Heilongjiang. As the value of log supplied reduced to RMB90M, there were remaining RMB44M prepaid to Hongji as at 31 December 2006 that Hongji has to supply this amount of log to the Company before 16 June 2007. This prepayment of RMB44M (approximately US$5.7million) was wrongly recorded as standing timber. Accordingly, it is included in summary of misstatement in section 6 below.

On 28 September 2006, the Company has entered into a Master Agreement for Acquisition of Pine and Fir Forest with Hongjiang City Forestry Technology Integrated Development Services Company ("Hongjiang City Forestry"), a state-owned enterprise in PRC, appointed to act as the authorized agent for the original plantation rights holders. Under the Agreement, the Company will purchase approximately 100,000 hectares of plantation trees in Hongjiang City, Hunan Province for RMB2,600,000,000 to RMB3,120,000,000 or approximately US$328.3 million to US$393.9 million over a 14-year period. The average purchase price per cubic meter is RMB260 or approximately US$32.83.

2 Significant changes in client's business and other areas - Continued

2.2 New agreements made - Continued

On 7 December 2006, the Company announced the signing of the agreement to acquire an additional 300,000 hectares of plantation trees in the Hunan region above per the news release issued by the Company on September 2006 bringing the total to 400,000 hectares. Under the agreement, the Company will purchase an additional 300,000 hectares of plantation trees in Huaihua City, Shaoyang City and its surrounding areas in Hunan Province with a fixed cost not exceed RMB260 per cubic meter or approximately US$32.10 over 14-year period. The number of hectares of plantations to be acquired each year will be determined by the Company's PRC subsidiaries by entering into specific plantation purchase agreements with Hongjiang City Forestry. The Agreement also provides the Group the right of first refusal to lease the land for 50 years after harvesting. The final terms of the lease are to be negotiated with Hongjiang City Forestry upon the authorisation of the original plantation rights holders. No deposit has been paid and no commitment has been made as at 31 December 2006.

Other than the above, we are not aware of any significant new agreements entered into by the Group since 1 January 2006.

2.3 Subsidiaries deregistrated

During the year, Jade Pacific Investments Ltd was deregistered on 15 May 2006 while, Everview Industrial Ltd has been in the procedure of deregistration. The directors and members of Everview approved the deregistration on 30 May 2006. Everview is incorporated in Hong Kong but it has not carried on business since the date of incorporation. Accordingly, there is no significant financial impact for the liquidation of these subsidiaries to the Group.

2.4 Change of subsidiaries' names

During the year, the name of Comtech Universal Ltd was changed to "Sino-Panel (Hunan) Ltd (嘉漢板業(湖南)有限公司)" while Rich Base Worldwide Ltd was changed to "Sino-Panel (Xiangxi) Ltd (嘉漢板業(湘西)有限公司)".

2.5 Proposed merger of the 2 subsidiaries in Suzhou

On 26 June 2006, the board of directors approved the merger of SFR (Suzhou) Co. Ltd ("Jiacheng") and Jiafeng Wood (Suzhou) Co. Ltd. ("Jiafeng"), and Jiafeng will take up the entire assets, rights and liabilities of Jiacheng and continue as a legal entity and Jiacheng will be dissolved after completion of the merger. However, the merger has not yet been completed up to the end of December 2006.

3 Analytical review and audit procedures performed – Income statement

Income statements for the years ended 31 December 2005 & 2006.

Consolidated Statements of Income and Retained Earnings

	2006 (Audited) US$'000	2005 (Audited) US$'000
Revenue (note a)	**644,979**	493,301
Costs and expenses		
Cost of sales (note b)	**450,481**	356,430
Gross profits (note c)	**194,498**	136,871
Selling, general and administration (note d)	**37,908**	21,165
Depreciation and amortization (note e)	**3,975**	3,099
Income from operations before the undernoted	**152,615**	112,607
Interest expense (note f)	**(37,340)**	(28,994)
Interest income (note g)	**6,486**	4,179
Exchange gain (losses) (note h)	**3,676**	1,253
Other income (note i)	**1,312**	1,236
Amortization of deferred financing costs (note j)	**(1,819)**	(1,338)
Income before income taxes	**124,930**	88,943
Provision for income taxes (note k)	**(13,474)**	(7,256)
Net income for the period	**111,456**	81,687
Earnings per share (note l)		
Basic	**0.81**	0.59
Diluted	**0.80**	0.59
Retained Earnings		
Retained earnings, beginning of period	**311,994**	230,307
Net income for the period	**111,456**	81,687
Retained earnings, end of period	**423,450**	311,994

(a) Revenue

The revenue comprises the following items:

	3 months ended 31/12/2006	3 months ended 31/12/2005	**12 months ended 31/12/2006**	12 months ended 31/12/2005
	US$'000	US$'000	**US$'000**	US$'000
Wood Fibre Operations				
Sale of standing timber	**167,869**	95,824	**352,574**	240,829
Sale of wood chips	**17,109**	37,287	**84,364**	146,130
Commission income	**-**	1,729	**5,630**	9,740
Sale of imported logs	**55,528**	28,386	**178,379**	84,136
Sale of wood-based products and others	**9,800**	7,185	**24,032**	12,466
Total revenue	**250,306**	170,411	**644,979**	493,301

Sales increased 30.7% from US$493.3M in 2005 to US$645.0M in 2006. The increase was due to increases in sales of standing timber and imported wood product, and manufacturing and other operations but partially offset by the effect of decrease in sales of wood chips and commission income.

3 Analytical review and audit procedures performed – Income statement - Continued

(a) Revenue - Continued

Sales increased 46.9% to US$250.3M in fourth quarter in 2006 compared to US$170.4M in fourth quarter 2005.The increase was primarily due to the significant increase in standing timber and imported wood product and partially off set by decline in wood chips sales and commission income.

Wood Fibre Operations Revenue

Sales of standing timbers

The Company recognises income from sales of standing timbers when the contract for sales is entered into with the customer. The sales contract specifies that the risk and benefits of the standing timber are transferred to the customer when the sales contract is entered into.

The increase in sales of standing timber by 46.4% from US$240.8M in 2005 to US$352.6M in 2006 which represented 111,367 hectares of standing timber sold in 2006 compared with 108,103 hectares in 2005, the increase is mainly due to the additional 35,117 hectares sales of planted and purchases plantations with partially off set by the decline of 31,763 in sales of standing timber in Heyuan Pine Undertaking. The increase in average selling price per hectare from US$2,230 in 2005 to US$3,166 in 2006.

The increase in average selling price per hectare is mainly due to the increase in sales of purchased plantation which had higher yield, and logging fee included in the selling prices for the sales of purchased plantation in Hunan.

Sales of wood chips

The Group conducts the trading of wood chips business principally through an authorised intermediary (the "AI"), namely Beihai Hua Han Wood Products Company in the PRC. Management advised that no other AI has been introduced to replace the previous AI, Nanning Wood Chips Factory, which has ceased business with the Group since the fourth quarter of 2005. Pursuant to relevant agreements, the AI is responsible for purchasing timbers, processing them into wood chips and then selling them to customers. The AI issues quarterly statement to the Group confirming the total of these sales and purchases transacted for the Group together with the processing fees charged to the Group for each quarter ended March, June, September and December.

The Company recognizes income from sales of wood chips when they are processed by the AI. Management have evaluated the facts and circumstances in relation to the criteria in EIC-123 and determined that it is appropriate to report the income on a gross basis as the Company is a "principal' to the sales transactions. For details, please refer to the memo regarding the reporting gross or net on wood chips business prepared by management.

3 Analytical review and audit procedures performed – Income statement - Continued

(a) Revenue - Continued

The sales of wood chips decrease 42.3% from US$146.1M in 2005 to US$84.3M in 2006. The decrease in sales of wood chips was resulted by the termination of business with Nanning Wood Chips Factory since the fourth quarter of 2005. Sales to Nanning was US$55.7M in 2005. Average selling prices of wood chips increased from US$105.5 per bone dry metric tons ("BDMT") in 2005 to US$109.9 per BDMT in 2006, an increase of 4.2% due to current shortage in supply of wood chips in the Asian and domestic markets. However, the increase in average selling price does not have significant impact to sales of wood chips when comparing with the impact of loss of business with Nanning.

Sales of imported logs

The Sales of imported logs increased 112.1% from US$84.1M in 2005 to US$178.4M in 2006 because the sales volume increased. Sales of imported logs were indent sales. The main reason for this increase is that an additional US$18M banking facility has been made available to the BVI Company, Sino-Forest Resources Inc., which in return increase the ability of the Company to carry out more business since the first quarter of this year. In addition, the increase in market demand for furniture production in China drive the increase in sales volume of imported logs.

Highlight of major audit work performed

For sales of standing timber, we have checked the summary of the Group's timber holdings as at 31 December 2006. The summary shows the details of timber holdings held by group companies, date and costs of acquisitions/disposals, location and hectares of the timbers acquired or disposed of. Sale contracts were fully obtained from client and no variance in the sale particulars were noted. 17 samples were selected and cost sheets were checked. Weight average costing for individual batch of plantation was consistently applied for the absorption of maintenance costs. The cost of disposals has been properly depleted from the corresponding cost of acquisition and maintenance costs. As the trade debts of sales of standing timber are not settled in cash directly but setting off with the payables of standing timbers acquired and received on behalf by PRC subsidiaries, we have selected 6 samples to check the movement of the debtors and the corresponding set-off instruction letters and confirmations for the set off transactions and check to bank advices for those receipt by PRC subsidiaries on behalf with no exception noted.

For sales of wood chips, we have sighted all the quarterly statements for year of 2006 with no exception noted. We have also obtained confirmation from Forestry Bureau for the volume of wood chips supplied to the AI in connection with the wood chips sales and commission businesses with no exception is noted.

For sales of imported logs, most of the revenue was derived from importing of timber logs overseas for resale in the PRC. We have performed cut-off test on these indent sales and purchases of imported logs. The result is satisfactory.

Manufacturing and Other Operations Revenue

The 92.8 % increase in the revenue from manufacturing and other operations from US$12.5M in 2005 to US$24.0M in 2006 primarily due to the increase in revenue from flooring and greening project sales. Production of floorings in Suzhou has been in commercial operation since the second quarter of 2006.

3 Analytical review and audit procedures performed – Income statement - Continued

(a) Revenue - Continued

Commission income

The Group earns commission income principally through two AI. Similar to the wood chip operations, there are only a "Quarterly Summary" and a "Quarterly Invoice" issued by the BVI Company, Suri-Wood Inc., to support the amount of commission income recognized in the financial statements. We are not aware the Company has maintained records such as the details of transactions/businesses and the names of customers referred to the AI.

We understand that the Company introduced certain customers to the AI in prior years. Since the referral, the AI have to pay the Company commission based on the volume trade with these referred customers. No further workdone have been performed by the Company to earn the commission during the quarter.

Commission income decreased by 42.2% from US$9.7M in 2005 to US$5.6M in 2006. The decrease in commission income was mainly due to the decrease in transaction volume

Highlight of major audit work performed

We have sighted the calculation of commission income and the quarterly statements provided by the AI and no exception was noted. We have also obtained confirmation from the AI the volume of businesses referred by Sino-Forest in connection with the commission income earned by Sino-Forest.

(b) Cost of sales

Cost of sales increased 26.2% from US$355.7M in 2005 to US$450.6M in 2006. The increase in cost of sales was due primarily to an increase in sales volume and an increase in cost of standing timber, imported wood product and manufacturing products.

Highlight of major audit work performed

Please refer to Note (a) above.

(c) Gross Profit

	12 months ended 31 December 2006				12 months ended 31 December 2005			
	Revenue	COGS	GP		Revenue	COGS	GP	
	US$'000	US$'000	US$'000	%	US$'000	US$'000	US$'000	%
Standing timber	352,574	184,395	168, 179	47.7%	240,829	140,203	100,626	41.78%
Woodchips and logs	84,364	70,457	13,907	16.5%	146,130	122,886	23,244	15.9%
Imported logs	178,379	173,292	5,087	2.8%	84,136	81,875	2,261	2.7%
Wood based products	24,032	22,337	1,695	7.1%	12,465	11,466	999	8.0%
Commission	5,630	-	5,630	100.0%	9,740	-	9,740	100.0%
	644,979	450,481	194,498	30.1%	493,300	356,430	136,870	27.9%

3 Analytical review and audit procedures performed – Income statement - Continued

(c) Gross Profit - Continued

The Gross profit increased by US$57.6M from US$136.9M in 2005 to US$194.5M in 2006, the increase mainly contributed by higher proportion on sales of standing timber that have a higher gross profit margin.

Gross profit margin from sales of standing timber increased from 41.78% in 2005 to 47.7% in 2006 mainly due to the higher selling average price per hectare from US$2,230 in 2005 to US$3,166 in 2006.

Gross profit margin from sales of wood chips and logs increased slightly from 15.9% in 2005 to 16.5% in 2006. Average selling prices of wood chips increased from US$105.5 per BDMT in 2005 to US$109.9 per BDMT in of 2006, an increase of 4.2% due to current shortage in supply of wood chips which the effect partially off set by higher average cost of wood chip.

Gross profit margin from imported logs remained stable in 2005 and 2006 which was around 2-3%.

Manufacturing and other operation decreased from 8.0% in 2005 in 7.1% in 2006, primarily due to increased cost of production at particleboard plant.

(d) Selling, general and administration

The amounts for the quarter ended 31 December 2006 mainly represent the following items:

	Year ended 31 December 2006	
	2006	2005
	US$'000	US$'000
Administrative expenses	34,804	18,493
Stock-based compensation	3,104	2,672
	37,908	21,165

Administrative expenses increased by US$11,534K from US$18.5M in the 2005 to US$34.8M in 2006. It is mainly due to the increase in selling expenses, staff costs, office costs and performance-related bonus paid to a director who resigned in December 2006.

Stock-based compensation increased mainly due to 1,589,258 options granted to certain employees in 2006

(e) Depreciation and amortisation

The amount mainly represents depreciation of the capital assets comprising machinery and equipment, buildings, land use rights, office equipment and vehicles. We have performed a reasonableness test on the Group's depreciation and are not aware of material adjustments required.

3 Analytical review and audit procedures performed – Income statement - Continued

(e) Depreciation and amortisation - Continued

Depreciation and amortisation increased by 28% from US$3,099k in the 2005 to US$3,975k in 2006 which was mainly due to the new additions of capital assets made for the new plant in Heilongjiang and Suzhou and completion of the second production line in Gaoyao.

(f) Interest expenses

	Year ended 31/12/2006 (Audited) **US$'000**	Year ended 31/12/2005 (Audited) US$'000
Interest on long term debts	**34,089**	27,375
Interest on short term debts	**3,251**	1,619
Amortisation of redemption premium on long term debts	**-**	-
	37,340	28,994

The interest expenses for the year mainly represent interest on the US$300M Notes issued in 2004 ("Notes") and on the US$150M syndicated loan obtained in February 2006 and other interests on the short term bank loans. The increase primary due to interest charged on US$150M syndicated loan drawn down during 2006. We have checked the calculation of interest on the Notes and the syndicated loan and are not aware of material difference from our calculation.

(g) Interest income

Interest income increased 55.2% from US$4.2M in 2005 to US$6.5M in 2006 primarily due to more interest income earned from short-term deposit placed during the year. Meanwhile, management decided not to accrue interest income from the loan of US$15M made to Mandra Forestry Holdings Limited with annual interest rate of 8% on 11 May 2005 since 1 April 2006 as the recoverability of additional interest income since that date is uncertain. According to the subordinated loan agreement, interest will only be paid after full repayment of US$195M of debt securities issued by Mandra which due in May 2013.

(h) Exchange gains

Exchange gains increase from US$1.3M in 2005 to US$3.7M in 2006 primarily due to the appreciation of Renminbi during the year.

(i) Other income

Other income mainly included a consultancy fee of US$800,000 received from Mandra and an amortisation of hedging premium of US$150,000 arising from the currency swap agreement entered into with Morgan Stanley.

(j) Amortisation and write-off of deferred financing costs

Financing costs are deferred and amortised over the term of the related long-term debts on a straight-line basis.

3 Analytical review and audit procedures performed – Income statement - Continued

(j) Amortisation and write-off of deferred financing costs - Continued

The deferred financing costs are regarding to the non-convertible guaranteed senior notes with principal amount of US$300M and the syndicated loan of US$150M. The deferred financing costs of the syndicated loan amounting to US$3M was incurred in 2006. The costs mainly represents the arrangement fee of the syndicated loan.

We have checked the calculation of amortisation of deferred financing costs and are not aware of material difference from our calculation.

(k) Provision for income taxes

The Company has two BVI companies (Suri Wood and Sino-Forest Resources). They are principally engaged in (i) sales of wood chips, (ii) sales of standing timbers, (iii) commission income and (iv) trading of wood-based products.

As stipulated in the relevant agreements for the business activities mentioned in item (i) to item (iii) ("PRC Business") above, the corresponding parties (i.e. the AI) have agreed to pay all the applicable PRC taxes on behalf of the Company. Therefore, the income received by the Company from the AI should be after taxes.

There are issues arising from the above matters as to whether the Company may have potential PRC tax liabilities from PRC Business. As such, the Company had engaged BDO Tax Ltd to perform a tax review during the last final audit. The results indicate the Company should have theoretical tax liabilities, tax surcharges and penalties if the BVI companies are determined by the PRC tax authorities to have "permanent establishment" in China. Please refer to the tax review report issued by BDO Tax Ltd for details.

Management consider the above theoretical tax liabilities should only be used as a reference for the Company's estimation of the maximum exposure of the liabilities arising from the AI's default in payments of taxes for the Company.

Management are of the opinion that the Company's income received from the AI is after taxes and therefore no taxes should be provided (otherwise double-taxed). The main reason why the Company makes the provision is on the basis that there could be a probability that the AI may not have properly paid the relevant taxes for the Company. As such, management consider the Company is actually making a provision, to the best of their knowledge and judgement, for the potential liabilities arising from the AI' default in payment of all taxes made on behalf of the Company.

Management acknowledge there is a risk of the AI's default in payment of all the taxes for the Company and therefore disclose this contingency in the financial statements. Management consider the amount of this exposure is indeterminable by management. As a result of the above accounting treatment adopted by management, BDO consider it would be more appropriate to reclassify the relevant "income taxes payable" previously provided on the PRC Business to appropriate account captions such as "accrued liabilities" as tax related liabilities in the balance sheet. Reallocation is made accordingly.

3 Analytical review and audit procedures performed – Income statement - Continued

(k) Provision for income taxes - Continued

For business activities of wood-based trading, management do not consider the income from wood-based trading is subject to PRC tax but acknowledge that it should be subject to Hong Kong Profits Tax. The Company has already provided relevant Hong Kong Profits Tax on the wood-based trading profits.

After reviewing the financial statements, BDO considers that the Company has properly disclosed the basis of provision for income taxes and the tax related liabilities in the financial statements.

As the Company relies on its AI to pay taxes on its behalf arising from the PRC Business and strongly believes that the Company should have legal right to claim the AI for losses arising from taxes under-paid by the AI, if any, management has provided us with legal opinion issued by Jingtian & Gongcheng Attorneys at Law dated 14 March 2007 that the relevant agreements with the AI do not contravene relevant PRC laws and are legally binding and enforceable.

We have reviewed the tax computation prepared by client with no exception noted.

(l) The calculation of the basic and diluted earnings per share

We have checked the calculation and are not aware there is any material error.

4 Analytical review and audit procedures performed - Balance sheet

Consolidated Balance Sheets	Notes	As at 31/12/2006 (Audited) US$'000	As at 31/12/2005 (Audited) US$'000
ASSETS			
Current			
Cash and cash equivalents	(a)	152,887	108,418
Short-term deposits	(a)	18,550	30,268
Accounts receivable	(b)	125,307	119,989
Due from PRC CJV partners	(c)	2,771	3,842
Inventories	(d)	15,178	7,622
Prepaid expenses and other	(e)	18,916	7,201
Total current assets		333,609	277,340
Timber holdings	(f)	752,783	513,412
Capital assets, net	(g)	87,939	81,077
Other assets	(h)	32,924	23,442
		1,207,255	895,271
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	(i)	70,958	41,312
Accounts payable and accrued liabilities	(j)	79,517	85,212
Income taxes payable	(k)	1,121	738
Total current liabilities		151,596	127,262
Long-term debts	(l)	450,000	300,000
Total liabilities		601,596	427,262
Shareholders' equity			
Share capital	(m)	143,511	142,815
Contributed surplus	(n)	4,726	1,804
Cumulative translation adjustment	(o)	33,972	11,396
Retained earnings		423,450	311,994
Total shareholders' equity		605,659	468,009
		1,207,255	895,271

(a) Cash and cash equivalents & short term deposits

Cash and cash equivalents & short term deposits increased 23.6%, from US$138.7M as at 31 December 2005 to US$171.4M as at 31 December 2006, primarily due to the US$150M syndicated loan drawn down but there were prepayment of US$10M made for the project in Mongolian, acquisition of capital assets of US$7.0M, payment of arrangement cost of the syndicated loan of US$3.0M, and settlement of purchase plantation of US$15.1M.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(b) Accounts receivable

The balance mainly represents the following:

	Notes	As at 31/12/2006 (Audited) US$'000	As at 31/12/2005 (Audited) US$'000
Wood-based	(i)	**49,328**	36,600
Wood chips	(ii)	**533**	7,328
Standing timber	(iii)	**75,447**	76,061
		125,308	119,989

Debtor turnover days	Year ended 31/12/2006	Year ended 31/12/2005
- Wood-based	**66**	138
- Wood chips	**2**	18
- Standing timber	**58**	115
Overall	**53**	90

Debtor aging summary is as follows:

	Total Accounts Receivable US$'000	0-30 Days US$'000	31-60 Days US$'000	61-90 Days US$'000	91-180 Days US$'000	180-360 Days US$'000	Over one Year US$'000
As at December 31, 2006	**125,308**	**84,739**	**33,651**	**5,118**	**1,610**	**190**	**-**
As at December 31, 2005	119,989	55,216	38,695	22,546	3,030	502	-

Trade debts from wood based sales

Trade debts from wood based sales were mainly the debts from sales of imported logs. Credit terms of 45-90 days were usually granted to wood based customers. Settlement were usually made by T/T. Due to no legal establishment by the BVI subsidiary in PRC, most of the T/T settlement were made through remitting agents which are not related parties of the Group.

When comparing the AR balance as at 31 December 2006 with that as at 31 December 2005, it increased by USD11.9M from USD36.6M to USD49.3M.

Sales of wood based products increased by USD94.2M when compared with year ended 31 December 2005 and 2006. The increase is mainly because SF Resources (BVI Co) obtained more banking facilities which enables it to carry out more wood-based business. Hence, both sales and AR balance increased.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(b) Accounts receivable - Continued

Debtor turnover days decreased by 72 days from 138 days as at 31/12/2005 to 66 as at 31 December 2006. The reason is that the 3 major customers of wood based products, 深圳市林科貿易有限公司, 北京世紀楓景木業有限公司 and 臨沂魯鑫粵木貿易有限公司, settle the amounts within the credit period of 90 days (they are accounted for 71% of wood based AR as at 31/12/2006). Also, the balance of 深圳市林科貿易有限公司 used to set off against its purchased plantation payables, thus fastering the rate of settling AR and thus lowering the debtor turnover days.

As the business relationships with 深圳市林科貿易有限公司, 北京世紀楓景木業有限公司, 臨沂魯鑫粵木貿易有限公司 and 上海三月楓 are good as advised by management and they have made settlements within credit period, no recoverability problem is noted.

Trade debts from wood chips sales

Trade debts from wood chips sales were made by AI, Beihai Hua Han Wood Products Company. Credit terms of 60 days were granted to AI. No cash settlement was made by AI due to no legal establishment by the BVI subsidiary in PRC. The Group instructs AI to make settlement by payment to the Group's plantation suppliers in PRC on behalf.

When comparing the debtor turnover days as at 31 December 2006 with that as at 31 December 2005, the days decreased by 16 days from 18 days to 2 days. The reason for wood chips' debtor turnover days being so low as the Company only booked the net AR (AR less AP) from Beihai. Accordingly, there is no wood chips AP to Beihai.

Apart from this, client will also instruct Beihai to set-off the AR against Suri-Wood's purchased plantation payable, thus the AR continues to be at low level.

Besides the reasons mentioned above, as there is now only one major wood chips authorized intermediary i.e. Beihai, compared with 2 major authorized intermediaries before Q4 2005 (which were Beihai and Nanning, Nanning ceased to be the authorized intermediary since Q4 2005), wood chips sales as well as wood-chips AR would be lower accordingly.

That justifies why wood-chips AR balance and debtor turnover days falls (AR dropped from USD 7.3m to USD 0.5m when comparing the balances as at 31/12/2006 with 31/12/2005).

Trade debts from standing timbers

The debtor turnover days decreased by 57 days from 115 days as at 31 December 2005 to 58 days as at 31 December 2006. This is mainly due to increase in standing timber sales.

Sales of standing timber made during 2006 was mainly contributed by SF Resources (49% of sales in 2006) and Suri Wood (48% of sales in 2006). As the plantation disposed by Resources have been planted for at least 10 years and taking their ages into consideration it is not unusual that they are disposed to earn money and thus leading the standing timber sales to increase.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(b) Accounts receivable - Continued

For the low receivable from standing timber sales, as due to the foreign exchange restriction in PRC, Resources and Suri Wood will instruct their debtors to set off Suri-Wood's purchased plantation instead of receiving cash. Because of this AR/AP set-off arrangement, AR for ST will be kept at low level as the settlement rate by debtors is fast and so leading the debtor turnover days to be at low level.

Overall trade debts

By reviewing the debtors aging report, over 98% of the debtors balance was outstanding not more than 90 days. There was no material long outstanding debt. No recoverability problem of the accounts receivable balance is identified.

Management have assessed the recoverability of the accounts receivables and concluded that no provision required to be made for the accounts receivables. We considered that management's assessment is reasonable in light of past settlement experience.

Highlight of major audit work performed

We selected 6 samples to inspect the instruction letters and confirmations regarding set off transactions and inspected the bank advice for those amount received by PRC subsidiaries on behalf with no exception noted.

(c) Due from PRC CJV Partners

The amounts due from PRC CJV partners relate primarily to commission income receivable and reimbursement of office expenses of CJVs. The amounts are unsecured and non-interest bearing. Amounts due from PRC CJV partners are expected to be settled in the next twelve months.

The amount due from PRC CJV partners decreased by 28.9% from US$3.8M as at 31 December 2005 to US$2.8M as at 31 December 2006. The decrease mainly because no commission income earned from Guangxi CJV in fourth quarter.

(d) Inventories

The balance mainly represents the following:

	As at 31/12/2006 (Audited) US$'000	As at 31/12/2005 (Audited) US$'000
Nursery	**2,724**	2,890
Work in progress	**6,685**	795
Raw materials	**1,169**	1,207
Wood products	**5,125**	3,092
	15,703	7,984
Provision for obsolete inventories	**(525)**	(362)
Carrying value of inventories	**15,178**	7,622

4 Analytical review and audit procedures performed - Balance sheet - Continued

(d) Inventories - Continued

Inventories increased by 99.1% from US$7.6M as at 31 December 2005 to US$15.2M as at 31 December 2006. The increase was mainly due to (1) inventories of US$6.3M from a PRC subsidiary, Jiafeng Wood (Suzhou) Co. Ltd, which has started its commercial operation in the current year. (2) inventories of US$1.9M increase in wood logs and raw materials for floorings from SZ Trading which is the supplier of Jiafeng and Sino-Maple also expand the sourcing business for meeting the demand from Jiafeng. (3) an increase of US$0.3M in contract in progress in Sinowin Plantings related to greenery projects (綠化工程) of which the direct costs and overhead of these projects are capitalised in inventories when they are incurred and such increase was due to the increase in number of greenery projects.

The Group's subsidiary, Sinowin Plantings (Suzhou) Co. Ltd., purchased nursery for trading purpose since 2005. The nursery consists of old precious trees with high value and will be sold piece by piece to local customers. However, up to December 2006, there have been only limited amount of sales of the nursery. Therefore, there is no other external evidence available from management to substantiate the subsequent selling price of the nursery is above its carrying amount. As the amount is not material, we have relied on management's judgement on assessment of the net realizable value of the nursery.

Wood products included floorings purchased and panels manufactured. For trading of floorings, the Group's subsidiary, Sino-Maple (Shanghai) Trading Ltd., purchased floorings from sub-contractors. Starting from Q2 2006, Jiafeng has started commercial operation, i.e. manufacture of floorings, and the floorings are then sold to Sino-Maple. The wood floorings are used in construction project in which Sino-Maple supplies and installs wood floorings into buildings in certain construction projects. Since August 2005, Sino-Maple has signed an authorised dealer for retail. Floorings are sold from Sino-Maple to the authorised dealer. The authorised dealer has retail shop to sell the flooring of the trademark "SINO-MAPLE".

Provision for obsolete inventories is made when the inventories were identified as poor in quality, obsolete and when the inventories' subsequent selling prices are lower than the cost. We have reviewed inventory aging reports and found that most of the inventories were aged within one year. No material inventory aged over one year was noted. No indication of understatement of inventory provision was noted.

(e) Prepaid expenses and other

The balance mainly represents the deposits paid for purchase of logs from overseas or PRC logs suppliers and other trade and utility deposits paid. The balance increased by US$12.7M from US$7.2M as at 31 December 2005 to US$18.9M as at 31 December 2006. The increase was mainly due to the US$3.9M prepayment of logging fee and taxes of purchased plantations in Hunan in second quarter 2006, US$1.5M deposit placed on Mongolian project and the increase in the transaction volume of sales of floorings as the manufacturing of floorings in Suzhou plant has been in commercial operation since current year. Trade deposits increased accordingly.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(f) Timber holdings

The balance represents timbers acquired or planted in various locations of the PRC.

	Hectares	Amount
		US$'000
Balance at 1 January 2006	324,296	**513,412**
Acquisition during the year	129,276	**388,470**
Maintenance and management fees during the year	19,806	**18,794**
Disposals during the year (excluding GZ Trading)	(111,367)	**(177,730)**
GZ Trading disposal and transfer	(10,000)	**(11,934)**
Exchange Difference	-	**21,771**
Balance at 31 December 2006	352,011	**752,783**
As at 31 Dec 2006		
Purchased timber holdings	293,556	**702,191**
Planted timber holdings	58,455	**50,592**
Total timber holdings	352,011	**752,783**

The increase in timber holdings was due to the increase in acquisition of timber holdings in Guangxi, Jiangxi and Heyuan during the first two quarters and new plantations in Hunan. It is noted that the Heyuan Pine tree undertaking, which let the Group to acquire significant volume of young pine trees in previous periods, has been terminated fourth quarter. In connection with the purchased plantations in Hunan, there is prepayment of logging fee and taxes paid which is included in current assets as prepayment on the balance sheet. Management expect such plantation in Hunan will be sold within one year and hence, the prepaid logging fee and taxes should be realised within one year.

For the purchased timber holding, no plantation right certificate has been issued by local forestry bureau. Alternatively, purchase contract together with the approval documents issued by local forestry bureau served the legal documents of the ownership of the timber holding by the Group. For the planted timber holdings, most of them have not obtained plantation right certificates issued by local forestry bureau due to the processing of reform of new uniform form of plantation ownership certificate by local forestry bureau. Therefore, we have obtained a legal opinion from the lawyers, Jingtian & Gongcheng Attorneys at Law, to confirm that the Company should have the right to own and transfer the plantations based on their review of samples of relevant purchase contracts and approval documents issued by relevant forestry bureau.

For the valuation of timber holding, the Group has appointed Poyry to perform a valuation. Poyry has determined the valuation of the forest assets as at 31 December 2006 was $919.0 million. This is the result of a valuation of the existing planted and purchased areas using a 11.5% discount rate applied to real, pre-tax cash flows. Poyry has also prepared an existing forest valuation that includes the revenues and costs of re-establishing and maintaining the plantation forests for a 50 year period (perpetual valuation). The Group have an option to lease the land under the purchased trees model for future rotations, the terms of which have yet to be agreed. Poyry has determined the valuation of the forest assets based on a perpetual rotation (including the planned expansion in Hunan) using a pre-tax discount rate of 11.5% to be $1,289.1 million as at 31 December 2006. Both results of the two valuation basis show that the value of timber holding is higher than the book value as at 31 December 2006. Hence, no impairment loss should be provided.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(f) Timber holdings - Continued

Highlight of major audit work performed

For the acquisition of timber holdings during the year, we have checked all the purchase contracts, survey reports and approval documents issued by local forestry bureau. No exception is noted.

Regarding the timbers disposed of during the year, we have checked all the sales contracts signed by the BVI companies with no exceptions found.

We have inspected all new maintenance contract signed by the 2 BVI companies during the year and checked the calculation of maintenance and management fees capitalised during the year ended 31 December 2006 and are not aware of material adjustment required.

We checked the calculation of cost of disposal of standing timbers and found that the cost of standing timbers disposed of recognised as cost of sales was calculated based on the corresponding costs of timbers acquired and related maintenance and management fees capitalised up to the date of disposal and we are not aware of material adjustment required.

We have obtained and reviewed the annual valuation report on the timber holdings prepared by Poyry. In addition, we have observed Poyry's site visits on certain plantations in connection with their valuation in 20 January 2007. Together with our discussion with Poyry in the current and prior year about their basis of the valuation, we considered we can place reliance on their valuation report.

(g) Capital assets

The balance mainly represents the following fixed assets:

	31/12/2006	31/12/2005
	US$'000	US$'000
Cost		
Machinery and equipment	**81,161**	75,059
Buildings	**11,235**	8,760
Land use rights	**5,148**	4,980
Office furniture and equipment	**1,577**	1,362
Vehicles	**3,425**	2,574
Total	**102,546**	92,735
Accumulated depreciation and amortisation		
Machinery and equipment	**10,458**	8,604
Buildings	**1,574**	1,079
Land use rights	**679**	539
Office furniture and equipment	**899**	764
Vehicles	**997**	672
Total	**14,607**	11,658
Total net book value	**87,939**	81,077

4 Analytical review and audit procedures performed - Balance sheet - Continued

(g) Capital assets - Continued

Buildings, machinery and equipment include production facilities of US$31,427k which were under construction and had not yet been put into commercial operation as at 31 December 2006 and therefore no depreciation charge was provided for.

The movements of capital assets during the year mainly represent additions of machinery & equipment for the manufacturing plants in Gaoyao, Suzhou and Heilongjiang. The depreciation charge and amortisation charge for the year amounted to US$3,793k. We have estimated the depreciation charge for the year and are not aware of material difference from the amount provided in the financial statements.

The Group has three manufacturing plants which are located in Gaoyao of Guangdong Province, Suzhou of Jiangsu Province and Mulin of Heilongjiang Province in PRC.

Manufacturing plant in Gaoyao

Jia Yao has now operated two production lines to manufacture wood panel. Jia Yao purchases raw timber from local timber suppliers and then processes them into wood panel. The finished wood panel are sold to local customers.

The full capacity of the plant should be 3 production lines. The first one is in operation. The second one is now bringing into trial run. The third one is only completed by 70%, the remaining parts are expected to be completed in the coming year. Client advised that the operation would become profitable once the three production lines can be operated.

Manufacturing plant in Suzhou

The plant in Suzhou is operated in manufacturing of floorings. Operation has been started since April 2006.

Manufacturing plant in Mulin

The OSB production line has been installed in the plant in Mulin for trial run but the plant has not yet been in commercial operation yet.

Manufacturing plant in Hunan

The Group is planning to operate wood processing in Hunan and buy two production lines, but the deal was still in progress.

Management have performed impairment review on the three production plants (Gaoyao, Suzhou and Heilongjiang) in China and concluded that there is no impairment loss required to be recognized on the production plants. Management acknowledged that the impairment review should be performed on a quarterly basis. For the details of impairment review by management, please refer to impairment review memo prepared by the management.

We have reviewed the impairment review memo prepared by management and found that there were no material changes in assumptions in the forecast since last year-end. We are not aware the management's conclusion of no impairment loss incurred not to be reasonable.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(h) Other assets

The balance included the investment of US$1,500 in and subordinated loan of US$15 million to Mandra Forestry Holdings Ltd., interest receivable from loan to Mandra, deferred financing costs regarding long-term debts and a non-current portion of deposit of US$8 out of total US$10M for the Mongolian Project.

Mandra

The subordinated loan to Mandra carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of US$195 million debt securities of Mandra due in May 2013. The subordinated loan is secured on 75% equity interest in Mandra Holdings.

The Company holds 15% interest in Mandra with 20% votes on the Board of Mandra.

Management have confirmed in 2005 audit that they have not sought Deloitte's advice on the accounting treatment of Mandra. Emails between the Company and Deloitte were received by us. Deloitte was providing guideline in application of the variable interest entity ("VIE") only.

Management have performed a qualitative analysis on the investment in and the subordinated loan to Mandra and concluded Mandra is a VIE.

However, the Company is not the primary beneficiary of Mandra and therefore it does not require to consolidate the financial statements of Mandra.

As management considered, it is easily determined who is the primary beneficiary of Mandra based on the available information, it is not necessary to perform a quantitative analysis to determined who is the primary beneficiary. Management noted that the business plan of Mandra has certain changes including slow acquisition pace, the change in focus away from timber trading and refocus on plantation. Management consider that there is insufficient information to evaluate any permanent decrease in value of the investment. Accordingly, no impairment is provided by management based on the present information. No interest income has been accrued since the second quarter of 2006 as management consider that there is insufficient information to confirm the additional interest will be realised in the future. For details, please refer to management 's memo on Mandra update and accounting implications.

Management do not believe Sino-Forest has significant influence over the financial and operating decisions of Mandra as majority of the shareholdings (75%) is held by another unrelated entity which has dominant decision making power. Although Sino-Forest has appointed a director to the board of Mandra (comprising five directors), the director is not in a position to exercise significant influence over Mandra and he acts merely under the direction of the controlling shareholder. Accordingly, management consider Sino-Forest is appropriate to state the investment at cost.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(h) Other assets - Continued

Inner Mongolia

In the 3rd quarter of 2006, the Company has paid a refundable deposit of $10M to a third party, Inner Mongolia Forest and Timber Resources Co. Ltd., in connection with wood fibre to be purchased by the Company under the 12-year wood fibre supply contract with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million cubic metres of wood fibre to the Company. The deposit will be refunded over 5 years in equal proportion after the first anniversary of signing the contract dated on 31 July 2006. As a result, the amount is splited into non-current assets of US$8M (included in other assets) and current assets of US$2M (included in prepaid expenses and other).

Other

Other assets increased US$19.4M from US$23.4M as at 31 December 2005 to US$32.9M as at 31 December 2006. The increase was mainly due to the deferred financing costs of the syndicated loan amounting to US$3.0M incurred and the non-current portion of deposit of US$8M paid for the Mongolian Project in 2006.

(i) Bank indebtedness

Bank indebtedness mainly represents trust receipt loan arising from wood based trading. The balance increased by US$29.7M from US$41.3M as at 31 December 2005 to US$71.0M as at 31 December 2006 mainly because the increase in purchase and sales of imported logs which the Company use T/R loans to settle the trade payables.

(j) Accounts payable and accrued liabilities

	As at 31/12/06	As at 31/12/05
	US$'000	US$'000
Accounts payable	15,104	31,348
Other payables and accruals	25,187	28,294
Obligation under finance lease	120	192
Tax related liabilities	39,106	25,378
	79,517	85,212

Accounts payable mainly represent payable for wood based products purchase. Same as accounts receivable discussed above, no cash settlement is made by the Group directly. Purchase plantation payables were usually settled by instructing the Group's debtors to pay on behalf upon purchase of plantation. Account payable decreased by US$16.2M from US$31.3M as at 31 December 2005 to US$15.1M as at 31 December 2006 was due to US$ 16.1M plantation purchased last year was not ready for set-off as at 31 December 2005 until Q1 2006 that boosted up the accounts payable as at 31 December 2005.

4 Analytical review and audit procedures performed - Balance sheet - Continued

(j) Accounts payable and accrued liabilities - Continued

Other payables and accruals included mainly maintenance fee payable and accrued interests on the US$ 300 million non-convertible guaranteed senior notes and the USD150M syndicated loan as at 31 December 2006. Reasonableness test on the accrued interest was performed with no irregularity noted. The balance decreases by USD3.1M from 31 December 2005 to 31 December 2006 mainly due to the net effect of (1) decrease in accrued bond interest of US$6.8M as a result of interest payment made during the first and third quarter and (2) increase in accrued interest of US$2.5M on the US$150M syndicated loan drawn down in 2006.

Same as last period, obligation under finance lease was arisen from purchasing two motor vehicles in Hong Kong.

For the tax related liabilities, please refer to section 3 note (k) "Provision for income taxes" above.

Highlight of major audit work performed

Same as accounts receivable, we selected 6 samples to inspect the instruction letter and confirmations regarding set off transactions with no exception noted.

(k) Income taxes payable

The balance mainly represents provision for income taxes in respect of HK profits tax arising from trading of wood-based products.

For details, please refer to section 3 note (k) "Provision for income taxes" above.

(l) Long-term debts

The balance at 31 December 2006 represents US$300 million non-convertible guaranteed senior notes and US$150 million syndicated loan.

The senior notes were issued by the Company on 17 August 2004 as detailed in its offering memorandum dated 10 August 2004. The Notes are repayable on 17 August 2011. Please also refer to Section 5.4 for currency swap contract entered into by the Company in connection with the interest payable under the Notes.

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

4 Analytical review and audit procedures performed - Balance sheet - Continued

(m) Share capital

The balance represents 137,999,548 issued common shares at 31 December 2006 after issuance of 210,000 common shares during the year with a proceeds of US$513,000 upon exercise of 210,000 share options.

(n) Contributed surplus

The contributed surplus represents the expenses recognised on stock-based compensation and options granted over the vesting period which were charged to the income statement up to 31 December 2006. The fair value of the options granted is expensed in accordance with Section 3870 of the CICA Handbook. The amount of stock based compensation recognized in the income statement amounted to US$3,104k during the year.

The determination of the fair value of the stock option granted was obtained by management using the Black Scholes model for option pricing. The most significant variable in the model is the calculation of expected volatility which management determined was about 51% for the options issued during the year ended 2006. (See Note 11 to the financial statements).

The increase in balance of US$2.9M during the year represented net stock compensation expenses of US$3.1M recognised and a transfer of US$0.2M to share capital on issuance of 210,000 shares during the year. We have reviewed the calculation of the amount recognised in the income statement and were not aware of material adjustments required.

(o) Cumulative translation adjustment

The financial statements of subsidiaries denominated in currencies other than US dollar are translated into US dollar using the current rate method. The Company's reporting currency continues to be US dollars. Accordingly, the assets and liabilities of the foreign subsidiaries are translated into US dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the cumulative translation adjustment account in shareholders' equity.

Other foreign currency transactions are translated using the temporal method. Exchange gains or losses are included in the consolidated statement of income.

We have reviewed the translation of foreign subsidiaries' financial statements and calculation of exchange differences. We were not aware of material adjustments required except for a foreign exchange gain of US$ 5M erroneously booked at the subsidiary level (Resources) that was subsequently reversed out of the P&L by the Company to be included in the cumulative translation adjusted, see Section 7 "Other matters" for explanation.

5. Other off-balance sheet items and other disclosures

5.1 Stock options

Movement of number of options during the period:	**No. of shares**
Balance at 1 January 2006	**4,437,000**
Exercised in Q2 2006	**(210,000)**
Granted in Q3 2006	**1,589,258**
Balance at 31 December 2006	**5,816,258**

A director exercised 210,000 stock options with exercise price of CAD2.72 during the year.

5.2 Related party transactions

Pursuant to the respective service agreements, the Company pays consultancy fees to companies controlled by certain directors, Mr. Allen Chan and Mr. K.K. Poon, who are executive officers in lieu of their compensation. The consultancy fees incurred during the 2006 amounted to US$4,136,000 (2005: US$2,737,000). The consultancy fees are payable to these companies on a monthly basis with a fixed amount.

5.3 Commitments

As at 31 December 2006, the Company has various commitments as follows:

	31/12/2006 US$'000	31/12/2005 US$'000
(i) Outstanding capital contributions to PRC wholly-owned foreign owned enterprises	25,000	25,000
(ii) Acquisitions of – Buildings, timber holdings, plant and machinery	12,305	7,820
(iii) Purchase of logs	17,538	5,367
	54,843	38,187

5. Other off-balance sheet items and other disclosures - Continued

5.3 Commitments - Continued

The Company also has commitments under operating leases for land and buildings as follows:

Lease commitments payable	As at 31 Dec 2006 US$'000
Within one year	1,720
In the second year	1,348
In the third year	1,244
In the fourth year	1,193
In the fifth year	1,187
Thereafter	34,698
	41,390

5.4 Hedge arrangements

On 10 August 2004, the Company issued US$300 million Notes. The Notes bear interest of 9.125% per annum and payable semi-annually on August 17 and February 17. The notes will mature on 17 August 2011. Interest payable semi-annually amounted to US$13,687,500 (RMB 113,290,070 equivalent).

As the funds has been used to finance the Company's plantation operation in the PRC and its revenue generated will be in RMB, the Company has made a currency swap contract with Morgan Stanley to hedge against the US$ interest payment. We have sighted a memo of the Company prepared at the time of entering into the above swap contract which demonstrates that the contract was made for the purpose of hedging the currency risk.

Under the contract, if RMB depreciates against US$, Morgan Stanley will pay the Company on each interest payment dates an amount equivalent to the excess of RMB113,290,070 required to meet the US$13,687,500 interest payments and vice versa. Accordingly, the contract will serve as an effective hedge to fix the amount of RMB converting to US$ semi-annually to meet the interest payments and matches against the interest payment dates.

From the inception of the contract to first half of 2005, the RMB to US$ exchange rate has been relatively stable. However, RMB has been appreciated since August 2005. Based on the market exchange rate, the interest expenses of US$13,687,500 paid in August 2006 was equivalent to RMB109,462,000. As the RMB equivalent amount is less than the preset amount of RMB113,290,070, the Company has to pay Morgan Stanley the deficient amount (RMB113,290,070 – RMB109,462,000). Hence, the Company paid US$479,000 to Morgan Stanley regarding the interest payment made in August 2006 and such amount is recognised as hedging loss in the Company's financial statements. The Company also accrued the hedging loss for the period from the last interest payment date to year end date which amounted to US$459,000

5. Other off-balance sheet items and other disclosures - Continued

5.4 Hedge arrangements - Continued

At 31 December 2006, the unamortized premium (credit balance) on the contract was about US$390,000. Therefore, management considered there should be no material financial impact to the Company whether or not hedge accounting is applied or not.

5.5 Pledge of assets

Certain of the Company's banking facilities are collateralized by the following assets as disclosed in Note 2 (a) to the financial statements:

Assets	Notes	31/12/2006	31/12/2005
		US$'000	US$'000
Land use rights and buildings		5,777	2,392
Timber holdings	(i)	1,163	1,321
		6,940	3,713
Short term deposits		6,071	6,166
		13,011	9,879

Note (i) : The PRC CJV partners have undertaken to counter-indemnify the Company from their 30% share of the harvested timber.

5.6 Litigation Proceedings

During our final audit 2006, we have communicated with the Company's legal counsels who have indicated in their legal letter dated January 25, 2007 that there is a case in August 2004, a shareholder (the " Shareholder") of Sino-Forest sent a letter to Sino Forest outlining certain corporate governance allegations against Sino-Forest, certain members of management of Sino-Forest and the Board of Directors of Sino-Forest. The Shareholder demanded that certain actions be taken by Sino-Forest. The Shareholder demanded that certain actions be taken by Sino forest in response to the allegations, failing which the Shareholder intended to commence litigation. The Board of Director of Sino-Forest appointed a Special Committee in September 2004 to investigate the allegations. The Special Committee completed its investigation in November 2004 and determined that the allegations are without merit. The Special Committee therefore recommended that the Board of Directors not take any actions with respect to the allegations and Sino-Forest has not done so. . The Special Committee also advised the Shareholder of its findings in November 2004. To date, litigation has not been commenced by the Shareholder.

As the possible adverse impact on the Company's financial statements arising from the case is considered by management remote, no disclosure of the litigation has been made in the financial statements.

5.7 Subsequent events

We are not aware any subsequent events of the Company.

6. Summary of misstatements

The following misstatement is noted during our review:

(1)		Dr.	Cr.
		US$	US$
Dr.	Deposits paid	5,664,000	
Cr.	Timber holdings		5,664,000

Being misclassification of deposits paid for purchase of wood logs as standing timber.

The above error has no effect on income statement.

7. Other matters

Additional significant audit items

Discussions with suppliers, customers and forestry bureaus

During 2006, BDO visited the suppliers and customers of SFC in Hunan, Shanghai, Zhejiang, Shandong, Beijing, Shanxi, Jiangxi and Guangxi and two county level and one provincial forestry bureaus. The following is a summary of the results of the discussions. A list of customers and suppliers have been included at the end of this section.

Transfers (buy and sell) of timber plantation

As far as all of the parties are concerned, the trading of timber plantation is a business transaction between two parties and is encouraged by the State as part of its forestry reform. The forestry bureau does not officially interfere with these transactions except to provide acknowledgement and/or permit issuances if all the documents and processes have been completed. The frequency of trading is not limited, however, the trading parties are very conscious of the cost, the availability of both either a seller or buyer before entering into a transaction as they do not want to take inventory of inventory of such magnitude, margins (as they become smaller as the transaction progresses further downstream) and other factors such as security and reputation of the other parties.

Forestry bureau's role

Forestry bureau, apart from their official role of forest administration and source of timber, is a referee and an advocate that promotes their own forestry resources and monitor and control the output (logging quota's) This benchmark restrict any industry players wishing to log immediately after a purchase. The investment in forestry resources is a dual process as the owning of plantation does not equal a right to log as the forestry bureau review the logging applications. Also, these bureaus exercise local objectives such as localization of manufacturing as part of supply of wood. This will ensure that salaries/jobs and tax benefits remain locally.

Process

SFC buys from direct plantation owners (via own sourcing or through local forestry bureaus) or other dealers. As described above, the players are very cautious of who they deal with, secure a sale before a purchase, etc. The forestry bureau serves as a check and balance function from the buyer and seller perspective since the bureau can mitigate local discrepancies as well as control the forest harvesting by controlling the logging permits issuance.

林权证(Plantation right certificates)

Without re-iterating the four components of a 林权证(Plantation right certificate), SFC mostly deal with 林木使用权(Plantation tree use rights) & 林木所有权 (Plantation tree ownership rights). It is not uncommon in the industry (at least most of the customers and suppliers that I interviewed) to not obtain individual 林权证 (Plantation right certificate) when they deal in timer trading. The common explanation is that of trust and reliance on the other party. On the other hand, SFC request and in fact obtain the acknowledgement from the bureaus when SFC purchase from its suppliers.

7. Other matters - Continued

Additional significant audit items - Continued

Price

It appears that generally the price of wood logs are relatively stable on a per annum basis but the prices have been increasing at a steady pace. Unlike other commodities that may have other speculative elements, the price of timber is to a large extent affected by the end-user such as paper mills, mills, furniture producers, etc. The amount of buy and sell between two parties are driven by the profitability of the consumer and the supplier. Hence the price is dynamic but fluctuates at a relatively stable range.

Territorial nature of timber markets

The Yangtze River Delta has a high consumption and higher price market. The Delta River Area is very competitive and with the addition of logistics costs, the supply of wood and thus the margin of wood transactions can differ territorially. However, customers can be anywhere and a lot of information are exchanged between the industries participants.

Reputation, size and risks

In the timber trading business, margins are quite tight and the volume is a determining factor if a reasonable margin can be obtained. There appeared to be only a relatively small group of trust worthy players capable of realizing a profit at such a large amount of timber. Further to unofficial discussions, SFC indicated that companies with such capital capability and source for timber normally have governmental and financial back-up. There is no means to investigate and obtain a full comfort of these entities. However, from SFC's historical transactions with these entities, they are very credit worthy, quality of timber is accurate and there are no major discrepancies of trading claims. The industry is fragmented and there are not much players like SFC situating itself at the source of the supply chain and slowly reaching its own manufacturing capacity.

Company name versus brand name

During my interviews and discussions, especially in the end user market, brand name more important than company name. Companies can be construed as a vehicle to transact business but the consumer will remember the brand name more than the company name. Common reasons are that company has been historically used to utilize tax incentives, incorporated in favourable areas and when the benefits dry up, businesses are transferred to other places. Hence, consumers are more receptive of branding than promotion on companies.

For the larger trading activities such as timber trading, the scenario is better but they still have the mentality that SFC as a group represents a brand name. Regardless of which subsidiaries transact the activities, the transactions are relied on the "face" of the main responsible guy like the Albert and Alfred and reputation of SFC as a whole.

However, the significance here is not of the recognition of this fact, but the focus on certain companies' may only penetrate the first level of corporate veil. Even SFC itself may not be able to fully obtain a full accounting of its suppliers and clients. Only through conversations, discussions, etc. will there be further information divulge to BDO and sometimes it appears that SFC is not willing to pursue these links further as there are no additional benefits and might even add to complexities.

7. Other matters - Continued

Additional significant audit items - Continued

Forestry reform had only been around a few years and there is a lot of focus on the progress of reform. It is SFC who is at the forefront of the opening of the forestry land to foreign investments. Apparently, a lot of "green lights" are arranged directly or indirectly to assist in the study of this pilot project.

Timber plantation purchase and sales

During 2006, timber plantation sales comprise of 54.7 % of total sales and the timber plantation remains the single largest asset on the balance sheet.

BDO found out during various discussions with Allen, Albert (Ip and Zhao), Alfred and Alvin, the initial purchase assessment is extremely vital for the subsequent sale of the timber plantation. The timber and resulting product yield factors dictate the use of timber inventory. In other words, the shape, size, thickness, etc. of the timber plantation provides a guideline in assessing the expected revenue stream to be generated in the future.

We reviewed the purchase process and documentations and summarized the issues as follows:

1. Preliminary strategic investment decisions are initiated by Allen and senior management. These will coincide with, amongst other factors, government economic development and five-year plans, information from the Beijing and provincial forestry bureaus, industry contacts, etc. An area of interest is normally selected, say Hunan.
2. Then Mr Lu Qiding et al will be commence researching the area and continuously refine their research until a suitable target, e.g. county/village is selected.
3. The factors to consider include logistics, whether there are competition in the vicinity e.g. 桉樹 used by SFC vs 松樹 used by Hunan Tiger Group, local government's quality and cooperation, tree quality, supply of wood source for own manufacturing plants or simply for trading purposes, etc.
4. Based on the above research, a preliminary location will be selected. Then Mr. Lu et al will be scouting the areas, opening talks with local officials, talking to intermediaries which include companies, retired forestry officials, etc. Then a preliminary research report on a specific location is presented (森林資源考察報考). This report gives a general understanding as to the physical location, natural resources, economical condition, and transportation condition of the town.
5. Several on-going discussion with Albert Ip will be conducted. A budget will also be initiated and refined during this stage.
6. The budget will include the following factors:
    i. Location, types and year of trees planted
    ii. Size (mu), timber yield (per local consultant report yield, internal estimated yield, estimated end product yield in cu m)
    iii. Estimated end product sale price
    iv. Maintenance fees, logging costs, taxation and local fees, misc. costs, etc.
    v. Base on the above, a per mu and a per cu m (end product yield) profit margin is calculated.
    vi. Based on these data, an expected profit margin ranging from at a least 40 to 60% margin has to be achieved. However, there are other "strategic" transactions that command much lower margins. But the majority of the sales of timber plantation falls in this range as per 2006 sales revenue schedules.
    vii. Most of the time, the logging costs are borne by the buyer.

7. Other matters - Continued

Additional significant audit items - Continued

7. Together with his team and with the assistance of the local forestry bureau (LFB), Mr. Lu obtains further information on the availability of forests, locate potential seller and purchase consideration. This group of intermediaries holds the most useful if not most valuable information: maps and surveys of the resources in the area. The information may sometimes be outdated but it provides a perimeter and starting point for further investigation work. Lu and his team will rely on these information and conducting physical inspection to determine the quality and accuracy of the data provided.
8. Once the potential forestry is identified, the team will then carry on 實地初步考察 as to the plantation area, 蓄積量, and 出材量. A 購林申請報告 will be prepared based on their findings, the budget and the local forestry consultant's report.
9. Albert Ip and Allen Chan will then approve the application.
10. 蓄積量 is the effective yield of the trees in the forest. This is to quantify the plantation area (in hectares) to logs (cubic meters). The variables include the thickness (measured by the circumference of the tree at 1.3 m height) and height of the tree. In addition, a residual value is also vital as this include two factors: branches and any thinner trees lower than a pre-determined thickness say, under 4 cm. Modern technology and equipment can allow the "circular peeling" of the trees (say, thickness up to 8 cm for 杉樹 and 4 cm for 桉樹). The scalps of the peeled trees are used for products such as the top and bottom inlay of composite flooring. The residual value also include any logs left over from the peeling process.
11. SFC normally uses a quasi current market price of say RMB 260 for 松樹. This includes the cost of the trees on the hill of RMB160 and logging expenses of RMB100 per cu m. The logged trees will be accumulated at the bottom of the hill. A further fee and taxes comprising of another RMB 120 will be added on a per cu m basis. Additional logistic costs of RMB100 to 200 can be added on top depending on the distance. All of the above amounts are on a per cu m basis. One cu m equals 1.3 tons.
12. 出材量 measures the efficiency of how well the wood can be used to produce end product 出材量 =蓄積量 multiplied by 出材率. This rate varies between 65 and 75%. 出材率 also depends on the type of wood, what is it used to produce, how well the manufacturing process utilizes these supplies, etc.
13. In the Hunan model, this 出材量 can be controlled and used to determine the contribution margin in a more accurate manner as this will add to the bottom line depending how well the supplies of wood is being processed.
14. Upon review of the above, it appeared that SFC has implemented an effective evaluation process, provided supporting documentation for the purchase of timber plantation and have a set of criteria to assess and determine future sales.
15. Alfred Hung indicated that sales can be initiated from different sources. Albert Zhao handles this area primarily but other senior management with contacts on the field will refer sales leads.
16. Alfred Hung indicated the following factors are to be determined in the sales decision-making process:
    - i. Type of trees being sold
    - ii. Inventory, maturity, age, etc. of the trees
    - iii. Profit margin based on the budget plus additional maintenance.
    - iv. Strategic considerations such as effects on local forestry bureaus, manufacturing location, etc.
    - v. Normally sale of timber inventory on a FIFO basis.
17. As a result of the above budget prepared during the initial purchase process, the subsequent sales is viewed as a realization of the expected revenue G&A expenses is quite ancillary and the GP can be indicative of the profit from the sale.

7. Other matters - Continued

Additional significant audit items - Continued

Timber Plantation Valuation (Poyry report)

During January 2006, BDO was present at the fieldwork site of Rongshui, Guangxi and observed how Poyry conducts their valuation and discussed with them during lunch their predicaments of the SFC valuation.

Subsequently on March 2, 2007, BDO received a draft timber plantation report from Poyry directly.

The following are the highlights of the Poyry discussions and a review of the draft report:

1. Nick the team leader introduced to me Poyry, the new name of the old company due to a re-organization. The company has 6,000 employees and is in energy, forestry and engineering consultancy business. Poyry is traded on the Helsinki Stock Exchange at approx. 11 EUR per share.
2. Poyry reviews the maps and terrains of the sites they have selected first. The sites are selected at random and depend on factors such as concentration of trees, potential yield, and types of trees, sample representation value, professional judgement, Poyry's experience of China and its areas.
3. Nick conceded that the quality of SFC's forest may not be consistent due to many factors in the PRC such as outdated information, errors, weather effect, soil quality, mediocre map quality, etc.
4. Poyry will select an area, establish a circumference perimeter utilizing GPS and within this area, will select plots of samples. All the trees within this plot will be measured in terms of total tree height and diameter at 1.3 m breast height. Other measures such as distance between trees, etc. will also be measured to project growth and yield. The sample size and plot selection also depends on the terrain and physical inspection of the sites. All the trees/sample from each plot will be identified and marked for analysis purposes. As Poyry was in China for some time, its database has a lot of information related to trees and environment of the PRC. The information is refined through time.
5. SFC's forest is more dynamic compared to say some large North American forestry companies that has a relatively stable/static inventory of the same type of trees subject to a stable set of environmental factors.
6. Poyry will then proceed to calculate the total volume and deduct waste or non-harvestable portion to arrive at a recoverable yield.
7. The valuation method Poyry uses is common in the industry and is an income expectation approach based on projected wood flows. The asset value has been estimated using a pre-tax cash flows and a discounted rate expressed in real terms on a perpetual basis.
8. Poyry is generally satisfied with the reliability of information given to them by SFC.
9. The value arrived at by Poyry is USD843.2 million vs. USD752 million book value on the balance sheet of SFC as at 31 December 2007
10. The entire valuation process comprises of mainly:
    i. Data assembly and updating of the forest description
    ii. Field inspection
    iii. Review harvest reconciliation and yield tables
    iv. Review and update relevant direct and indirect costs
    v. Update log price data and allocation
    vi. Estimation of value of the forest and timber plantation
11. The primary tree types of SFC are: eucalyptus, pine and Chinese fir.

7. Other matters - Continued

Additional significant audit items - Continued

12. The plantation are spread over four provinces with the predominant tree type as follows:
    i. Guandong (24.6%) (eucalyptus)
    ii. Guangxi (25.1%) (pine)
    iii. Jiangxi (30.36%) (pine)
    iv. Hunan (19.88%) (Chinese fir)
13. BDO also reviewed the valuation process and verified the variables used in the valuation as opposed to actual amounts on the books of SFC as well as data collected through discussions with SFC's suppliers and customers, forestry bureau's, other industry contacts.
14. Poyry utilized the following parameters in valuing the timber plantation:
    i. Operating costs
    ii. Harvesting costs
    iii. Transport costs
    iv. Taxes at harvest
    v. Overhead allocation
    vi. Land rental
    vii. Log trader margins (5%)
15. These cost parameters provide additional information in assisting our audit procedure concerning costing as well as sales.
16. We found that the data and variables used in the valuation to be relatively comparable with those of actual figures per the consolidated books of SFC.
17. We are of the opinion that the Poyry valuation is a reasonable estimation of the present value of the timber plantation as at 31 December 2006 and that there are not write-down of the carrying value on the consolidated balance sheet of SFC at year-end 2006.

Taxation

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises. In accordance with Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to corporate income tax. Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements made with the AI, the AI are responsible for paying all PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities, including but not limited to, corporate income tax, value-added tax and business tax. Accordingly, the BVI Subsidiaries are not required to and therefore did not directly pay any PRC taxes with respect to the profits earned in the PRC. The relevant income remitted to the Company should have already been taxed and not subject to additional PRC taxes.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes as required on the Authorized Sales Activities on behalf of the BVI Subsidiaries, they may attempt to recover the applicable PRC taxes or any shortfall from the BVI Subsidiaries. Since the BVI Subsidiaries are unable to ascertain whether the AI have properly handled such tax settlements and/or able to recover relevant PRC taxes required to be paid by the BVI Subsidiaries from the AI, a provision for the corporate income tax at an amount representing management's best estimate of the amount the PRC tax authorities might seek to recover, is recognized in the financial statements each year. The yearly provision is reversed to the income statement after a period of three years based on management' best estimate of the liability. This means that the Company always maintains a three-year provision for tax on the profits earned from the Authorized Sales Activities of the three most recent years.

7. Other matters - Continued

Additional significant audit items - Continued

The measurement basis remained the same in 2006 with a calculation by management pursuant to SFC's accounting policy. However, upon review of the calculation, there should be some adjustments to reflect a change in accounting estimate.

The major change to the accounting estimate relates to the percentage used in calculating the provision for tax related liabilities. A change was made to increase the 50% GP rate to 60% as a result of increase of revenue with no relative increase in operating expenses for the timber plantation sales.

The breakdowns per revenue categories are as follows:

Standing Timber

Profit before tax (PBT) was calculated using a basis of 50% of Gross Profit per consolidated books. A tax rate of 15% on account of PRC tax is applied therein. There is no provision made for HK tax. A three-year provision is made at each balance sheet date and provisions made prior to this three-year period are reversed on the fourth year.

During our current tax review, it has come to our attention that this basis used should be revised to 60% of Gross Profit per consolidated book. This rate reflects the actual PBT attributed to the standing timber profit margin increase with no corresponding increase in operating expenses in 2006.

Import Logs

PBT was calculated on a basis of 50% of GP per consolidated books. A tax rate of 17.5 HK tax rate is applied therein. A similar three-year accrual and reversal is applied therein.

During 2006, the calculation of PBT for tax related liabilities was changed to a basis based on actual Gross Profit less actual financing costs. The effect of this change is immaterial as the contribution margin of log sales is only very marginal.

Wood chip commission income and wood chips income

PBT was calculated on a basis of 100% the gross amount per consolidated books. A tax rate of 15% is applied therein plus business tax of 5% on the gross commission income.

This estimation remains unchanged during 2006.

Pursuant to CICA Handbook Section 1506:

".34 an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.

7. Other matters - Continued

Additional significant audit items - Continued

.35 a change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate."

The measurement basis remained the same in this case. Pursuant to the Note 18 disclosure, "significant estimates and judgement are applied...to determine the appropriate amount of tax related liabilities and contingencies..."

BDO reviewed the calculation and determined that the change is for the estimation of tax related liabilities as at 31 December 2006.

Legal opinion

During our 2006 audit, we reviewed the 2005 legal memorandum and coupled with discussions with contacts in the PRC legal community, we requested SFC provide us with a full legal opinion.

Also, as a basis for our conclusion, we visited two county level and one provincial level forestry bureaus in Hunan and Guangxi.

The following is a summary of the discussions:

1. The forestry reform in the PRC commenced around 2003 and progress are slowly made.
2. The county level forestry bureau has the authority to issue forestry permits and during the transition period from the old to the new forestry permit issuance, the acknowledgement from the forestry bureaus are evidence of title ownership of timber plantation.
3. The county forestry bureau will act as a buffer to mitigate discrepancies and disputes between SFC and the local land owners.
4. Also, during the issuance of logging permits, this forestry permit is required together with the acknowledgement from the prefecture and village government.
5. The forestry bureau act as a mitigator, administrator, and controller over the process of the forestry related transactions.
6. These forestry bureaus, at the request of SFC, issues acknowledgement of timber purchased. The legal opinion indicated that by obtaining these acknowledgements, SFC will have legal title to the standing timber.

The opinion includes the following:

1. SFC have legal title to the timber plantation it records on its balance sheet
2. During the forestry reform and in the interim period, SFC, by obtaining acknowledgement/confirmation from forestry bureau at the county level (official empowered to issue forestry permits) will suffice the lack of the original forestry permit.
3. Taxation borne by the authorized intermediaries through the execution of the contract and the intermediaries' responsibility to remit these taxes pursuant to the terms of the sales contracts.

Upon review of the legal opinion received from SFC's legal counsel, Gongtian Gongcheng Law Firm, the above areas have been included in the opinion.

7. Other matters - Continued

Additional significant audit items - Continued

Impairment of long lived assets

SFC provided an impairment memorandum and sensitivity what-if analysis for the Gaoyao, Heilongjiang and Suzhou manufacturing plants. Copies have been included in the fixed assets section of the file.

The Suzhou manufacturing plant started operations in 2006. The Gaoyao plant has two lines installed with a third line under testing. The Heilongjiang remains an OSB manufacturing line.

The impairment analysis took into account various factors such as production capacity, price, different cost components, useful life of machinery, company's strategies, etc.

The underlying assumptions were also reviewed in light of historical results in 2006. In general, we found that the assumptions to be reasonable.

Based on a 5-year budget provided from the various business units, an undiscounted cash flow method is used to estimate the present value of cash flows. Furthermore, a sensitive analysis and weighted probability were applied to the calculation to provide a more comprehensive and objective estimation (including a reduction of production volume and an increase costs) of future revenue streams. The resulting NPV of the DCF in all three geographic locations exceeds the carrying value of the plant and facility.

Budget, Forecast and New Business Model

During mid to late 2006, SFC began its move to include manufacturing as part of its business strategy to utilize its inventory of timber plantation and increase the value of its operations. Also geographically, SFC sold a substantial amount of plantation in the Heyuan area and purchased an equivalent amount of timber plantation in Hunan. Towards the end of 2006, SFC have purchased two factories (license, etc. transfer to be completed in 2007) and has been test running its new business in the manufacturing finger joint and block board core.

SFC provided us with a 4 year budget. The budget includes a shift from traditional timber plantation generated revenues to include manufacturing based units in Suzhou, Hunan, Gaoyao and Heilongjiang.

This new business model is also an attempt to mitigate the taxation issue since SFC will be generating internal/PRC after tax cash flow that can be repatriated to its foreign parent.

According to Tom Maradin and conversations with Allen Chan, Alvin Lim and Alfred Hung, this process has been initiated with the set up of new WFOE's that are directly owned by new BVI parent companies to provide for a channel for the after tax cash to flow back outside of the PRC.

Alfred Hung indicated that even without this new business model and assuming SFC do not have any additional purchases of timber plantation, the existing inventory will be sufficient to repay any of the bonds as it become due in four to five years' time. With the new business model, the contribution margin of the manufacturing sector is equivalent to that of timber plantation sales GP.

Upon review of the 4 year budget, the following factors are considered crucial to the on going business and SFC's ability to repay the USD450 million as it becomes due commencing in 2010:

7. **Other matters - Continued**

Additional significant audit items - Continued

1. Cash position will accumulate to USD506 m at 2010. This is a result of positive cash inflow commencing 2008.
2. Revenue stream is broken down into contribution from timber plantation and manufacturing.
3. Capex on timber plantation purchase remains at USD300 m per annum. According to Alfred, this is required to balance the sale of timber plantation inventory as well as to supply own manufacturing factories.
4. The manufacturing sector does not only include the Hunan province but also the Jiangxi and Inner Mongolia areas. In fact, during the course of the audit, SFC is negotiating a financing of USD200 m for investment in Yunnan where the tress are more matured and yield is higher than those of Hunan.
5. The variables and assumptions used in the 4 year budget appeared plausible and there is no reason to believe the budgeted transactions cannot be attained.

Mandra Investment

SFC provided the following documents to assist BDO in assessing the carrying value of the receivable and investment in Mandra:

1. Memo analyzing and justifying the carrying value of the Mandra related assets as at 31 December 2006.
2. Mandra's 2006 Q3 financial statements.
3. Mandra 2006 Q4 update.
4. Mandra management presentation to bond holders during a site visit to the plantation.
5. Poyry presentation to bond holders during the above site visit.
6. Morgan Stanley's research report.
7. Management's revised budget from 2006 to 2008.

A summary of the analysis is as follows:

1. Mandra has a cash position of USD123 m at 31 December 2006.
2. Mandra indicated that they have the financial capability and is in negotiation to purchase additional plantation to meet the target 140,000 hectares by May 2007.
3. Upon review of the financial statements, Mandra's primary expense is mainly amounts related to debt servicing interest payments. Other revenue, cos and G&A are incidental.
4. There was a tour of the timber plantation in late November and presentations are conducted by Mandra management and Poyry. The two presentations are relatively consistent with the target projections.
5. Morgan Stanley also issued a "equal-weight" position on Mandra.
6. Dave Horsley represented that nothing has changed in the marketplace over the last quarter that would lead him to conclude that there has been a permanent impairment in the value of the investment. SFC management and the Board believed that the revised business plan will produce results sufficient to service the debt and build equity value in the Company. The pricing assumptions used in the projections are reasonable and reflects actual market prices. The demand for fiber continues to grow and so does the selling price of fiber on an m^3 basis. The cost assumptions used by mgmt in the projections are conservative in light of the Poyry report. There are no new significant competitors that have entered the province of Anhui. The province of Anhui is in the final stages of attracting financing and a partner to build a significant pulp mill in the province of Anhui. This will only serve to increase demand in the area and therefore continue to increase price of pulp on an m^3 basis.

7. Other matters - Continued

Additional significant audit items - Continued

7. As a result of the above analysis, Dave does not believe that anything has changed in the marketplace over the last quarter that would lead him to conclude that there has been a permanent impairment in the value of the investment.
8. However, SFC continues not to accrue interest on the debt. Dave indicated that SFC will continue to build the asset value on its books during a time when it is not clear that there is sufficient information to confirm that the increasing value (principal and interest) can be realized in the future. Therefore, management have taken the position that the Company will no longer accrue interest on the debt.
9. We find that the above analysis and conclusion to be reasonable in light of the information available to us and agree with SFC that there is no impairment of the investment in and collectability of loan from Mandra.

Inner Mongolian Project

1. On 31 July 2006, the Company entered into a Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure a long-term supply of wood fibre while managing a regeneration programme of secondary forests. Under the Master Agreement, the Company will acquire at least 1.5 million cubic meters of wood fibre annually for 12 years at a price which is RMB80 less than the lowest price at the timber trading market. As at 31 December 2006, the Company has paid a refundable deposit of US$10M regarding to this agreement. The deposit will be refunded over 5 years in equal proportion after the first anniversary of signing the contract dated on 31 July 2006. As a result, the amount is split into non-current assets of US$8M (included in other assets) and current assets of US$2M (included in prepaid expenses and other).
2. On 4 January 2007, we have discussed with Allen Chan regarding this Inner Mongolia project. He advised that they choose Inner Mongolia because the forestry industry there is still under-developed and the geographical location enable Sino-Forest to import logs from Russia more efficiently. He also plans to set up or acquire wood product manufacturing plants to enjoy a higher margin though downstream operation.
3. The contracted party, 上海森海林業科技有限公司, has expertise in forestry research and development, and has maintained good relationship with forestry bureau. Allen advised that the contracted parties in this Inner Mongolian project are not related parties. He also confirmed that no equity interest in Inner Mongolian Forest and Timer Resources Co. Ltd. was held by Sino-Forest. According to the master agreement of long term log supply, if Inner Mongolian Forest and Timer Resources Co. Ltd. fails to supply the logs, the forestry bureau has to provide Sino-Forest the log instead. This secure Sino-Forest a long term log supply.

Forex gain on P&L

1. During the course of our 2006 audit, the Company determined that a foreign exchange of approx. USD 5 m should have been included in cumulative translation adjustment on the balance sheet instead of the consolidated P&L.
2. This comprises of USD914,000, 876,000 and 3,210,000 for Q1, 2 & 3. The respective materiality level taking into account the aforementiioned would have been 8, 4 and 6.55% (client erred in calculating 5% in the analysis below)of net profit.

7. **Other matters - Continued**

Additional significant audit items - Continued

3. The client has consulted with the OSC on a no name basis and provided the following analysis:
   i. Based on their analysis, management do not consider the adjustments to be material in any of the quarters based on the following quantitative and qualitative reasons
   ii. In Q2 and Q3, and Q4, the amount is below the 5% of NI level
   iii. The amount is not part of ongoing operations.
   iv. The amount is recorded below the line as another income/expense and is shown separately
4. The amount is a non cash, unrealized F/X gain and therefore not part of EBITD which is used by analysts and shareholders in valuing the Company
5. The amount is not considered by analysts and shareholder
6. The client spoke with one of the accountants at the OSC today (Marcel Tillie), and he indicated that from their perspective the requirement for a restatement of financial statements is based upon qualitative and/or quantitative materiality, and whether the matters which are the subject matter of the adjustment are material enough to result in a material change in the stock price. He referred to the 5% rule of thumb for quantitative materiality, but noted that it is only a rule of thumb, and that it would depend on what the particular issue related to. If the swing turned a profit into a loss (or vice versa), or if it related to an issue which would be of particular importance to the marketplace, or if it related to a segment which a company had signaled to the marketplace had "high hopes", but was turning out to not be, these would all be potential qualitative issues of materiality.

Based on the qualitative and quantitative analysis above, we concur that the forex gain should have been included as part of the CTA on the balance sheet upon consolidation and no restatement of the last 3 quarters' financial statements is required. The audited financial statements as at 31 December 2006 is properly presented.

供应商资料 (list of suppliers interviewed)

上海深圳宏基木业有限公司
负责人 ： 朱宜林
通迅地址：上海市长宁区虹梅路 2896 号 A-1 座
办公地址：上海市长宁区虹梅路 2896 号 A-1 座

上海长城森林木资源有限公司
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7. Other matters - Continued

Additional significant audit items - Continued

销售客户资料 (list of customers interviewed)

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孝义市嘉华杰木业贸易有限公司
负责人 ： 刘小统
通迅地址：山西省孝义市迎宾路（孝义市煤炭运销公司）
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THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND EASTERN CANADA *et al.* Plaintiffs	and	SINO-FOREST CORPORATION *ET AL.* Defendants	Court File No: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto
Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF LI YIN FAN
(SWORN AUGUST 20, 2012)

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