

Court File No. CV-12-9667-00-CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE AND
ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No.: CV-11-431153-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N :

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND
EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF
OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING ENGINEERS
IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT and ROBERT WONG

Plaintiffs

- and -

SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly
known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON MARTIN,
KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES P. BOWLAND,
JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER WANG, GARRY J.
WEST, PÖYRY (BEIJING) CONSULTING COMPANY LIMITED, CREDIT SUISSE
SECURITIES (CANADA), INC., TD SECURITIES INC., DUNDEE SECURITIES
CORPORATION, RBC DOMINION SECURITIES INC., SCOTIA CAPITAL INC., CIBC
WORLD MARKETS INC., MERRILL LYNCH CANADA INC., CANACCORD
FINANCIAL LTD., MAISON PLACEMENTS CANADA INC. CREDIT SUISSE
SECURITIES (USA) LLC, and MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

MOTION RECORD
(Motion for Approval of Counsel Fees,
returnable May 11, 2015)

May 4, 2015

Cohen Milstein Sellers & Toll PLLC
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Action

TO: SEE ATTACHED SERVICE LIST

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TAB 1

Court File No. CV-12-9667-00-CL

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INCORPORATED (successor by merger to Banc of America Securities LLC)

Defendants

Proceeding under the *Class Proceedings Act, 1992*

NOTICE OF MOTION
(Motion for Approval of Counsel Fees,
returnable May 11, 2015)

TAKE NOTICE that the Plaintiffs in the U.S. Class Action (as defined below) will make a motion to the Court on May 11, 2015, at 10:00 a.m., at 330 University Avenue, Toronto, Ontario, or at such other time and place as the Court may direct.

PROPOSED METHOD OF HEARING: The motion will be heard orally.

THE MOTION IS FOR:

1. an Order approving the fees and disbursements of Cohen Milstein Sellers & Toll PLLC (“Cohen Milstein” or “U.S. Class Counsel”); and
2. such further and other relief as counsel may request and this Honourable Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

1. On July 20, 2011, this action was commenced against Sino-Forest, certain underwriters and other defendants in Ontario under the *Class Proceedings Act, 1992* (the “Ontario Class Action”) on behalf of purchasers of Sino-Forest securities in Canadian markets, but generally not on behalf of investors in U.S. markets;
2. On January 12, 2012, plaintiffs filed a complaint in the Supreme Court of the State of New York on behalf of Sino-Forest investors that was subsequently removed to the United States District Court for the Southern District of New York where it remains pending (the “U.S. Class Action”);
3. The U.S. Class Action asserts claims on behalf of “all persons or entities who purchased (i) Sino-Forest’s common stock during the Class Period (March 19, 2007 through August 25, 2011) on the over the counter market who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased Debt Securities issued by Sino-Forest other than in Canada and who were damaged thereby” (“Plaintiffs in the U.S. Class Action”);
4. On March 30, 2012, Sino-Forest applied for and was granted protection from its creditors pursuant to the Companies’ *Creditors Arrangement Act* (“*CCAA*”). Counsel

- for Plaintiffs in the U.S. Class Action filed proofs of claim in the *CCAA* proceeding relating to the U.S. Class Action;
5. In December 2014, months of arms-length negotiations resulted in a settlement agreement (the “Dealer Settlement”) among Credit Suisse Securities (Canada) Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominions Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd., Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC, Merrill Lynch, Pierce Fenner & Smith Incorporated (successor by merger to Banc of America Securities LLC) (“the Underwriters”) and the plaintiffs. The Dealer Settlement provides for payment of (CAD) \$32.5 million in full settlement of all claims that relate to Sino-Forest against Underwriters, subject to court approval;
 6. U.S. Class Counsel has expended significant efforts to advance the U.S. Class Action while simultaneously acting to protect class members’ interests in connection with ongoing proceedings in Canada, including implementation of the Dealer Settlement;
 7. U.S. Class Counsel have acted in these proceedings on a contingency fee basis and collectively seek approval of (CAD) \$194,620 for fees plus (USD) \$89,477.11 for disbursements;
 8. The requested fees and disbursements are fair and reasonable having regard to the significant risk that U.S. Class Counsel undertook in prosecuting claims against the Underwriters because of the multiple legal impediments to establishing liability and recovering damages against the Underwriters;
 9. U.S. Class Counsel took on the high risk of no success and minimal recovery, while at the same time having to devote a substantial amount of time, money and other resources to the prosecution of a difficult, complex and expensive case;
 10. The fees requested by U.S. Class Counsel fall within the range of reasonableness for awards of attorneys’ fees in class action securities cases as reflected in decisions both in the U.S. and in Canada;

11. The fees and disbursements requested by U.S. Class Counsel are consistent with the contingency fee retainer agreement entered into with the U.S. lead plaintiffs;
12. The settlement obtained, (CAD) \$32.5 million, represents a significant success for U.S. investors;
13. The lead plaintiffs in the U.S. Class Action have approved the fees requested by U.S. Class Counsel, subject to court approval;
14. *Companies Creditors' Arrangement Act*, R.S.C. 1985, c. C-36;
15. *Class Proceedings Act, 1992*, S.O.1992, c. 6;
16. *Courts of Justice Act*, R.S.O.1990, c. C.43; and
17. such further and other grounds as this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

1. Affidavit of Richard A. Spiers, sworn May 4, 2015;
2. Affidavit of Charles Wright re: settlement and plan of allocation and distribution approval, sworn April 13, 2015;
3. Affidavit of Charles Wright re: Class Counsel fee approval, sworn April 13, 2015; and

4. such further and other materials as counsel may advise and this Honourable Court may permit.

May 4, 2015

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U.S. Class Action

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Local counsel for Plaintiffs in the U.S. Class
Action

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c.C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No: CV-12-9667-00-CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

Proceedings Under the *Class Proceedings Act, 1992*

Proceeding commenced at **Toronto**

NOTICE OF MOTION

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Local counsel for Plaintiffs in the U.S. Class Action

TAB 2

Court File No. CV-12-9667-00-CL

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BETWEEN:

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND
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Plaintiffs

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Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF RICHARD A. SPEIRS

I, RICHARD A. SPEIRS, of the City of New York, State of New York, in the United States, MAKE OATH AND SAY:

1. I am Of Counsel at Cohen Milstein Sellers & Toll PLLC (“Cohen Milstein” or “U.S. Class Counsel”), counsel for the plaintiffs in the class action *Leopard v. Chan, et al.* Case No. 1:12-cv-01726 (AT) currently pending in the United States District Court for the Southern District of New York (the “U.S. Class Action”). In connection with these proceedings, U.S. Class Counsel has previously joined with counsel in this action in supporting the settlement with the underwriters in this action (the “Dealer Settlement”) and has been assisting in jointly prosecuting the class actions and implementing the Horsley and E&Y settlements in the U.S. through Sino-Forest Corp.’s (“Sino-Forest”) Chapter 15 proceedings. Accordingly, I have knowledge of the matters herein deposed. Where I make statements in this affidavit that are not within my personal knowledge, I have indicated the source of my information and I believe such information to be true.

2. I swear this affidavit in support of the motion for approval of the Dealer Settlement (defined below) and in support of Cohen Milstein’s request for attorneys’ fees and reimbursement of disbursements, and for no other or improper purpose.

BACKGROUND

3. These proceedings relate to the precipitous decline of Sino-Forest Corporation (the “Company”) following allegations on June 2, 2011 that there was fraud at the Company and that its public disclosures contained material misrepresentations regarding its business and affairs.

4. On July 20, 2011, this action was commenced against Sino-Forest, Ernst & Young LLP (“E&Y”), David J. Horsley (“Horsley”) and other defendants in Ontario under the *Class Proceedings Act, 1992* (the “Ontario Class Action”) on behalf of purchasers of Sino-Forest securities in Canadian markets, but generally not on behalf of investors in U.S. markets. On January 12, 2012, plaintiffs in the U.S. Class Action filed a complaint in the Supreme Court of the State of New York on behalf of Sino-Forest investors that was subsequently removed to the United States District Court for the Southern District of New York where it remains pending. Along with other defendants, certain underwriters were named as defendants in the U.S. Class Action. The U.S. Class Action asserts claims on behalf of “all persons or entities who purchased (i) Sino-Forest’s common stock during the Class Period March 19, 2007 through August 25, 2011 on the over the counter market who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased Debt Securities issued by Sino-Forest other than in Canada and who were damaged thereby.” The Amended Complaint in the U.S. Class Action is attached as **Exhibit “A”**.

5. On March 30, 2012, Sino-Forest applied for and was granted protection from its creditors pursuant to the Companies’ *Creditors Arrangement Act* (“*CCAA*”). Counsel for plaintiffs in the U.S. Class Action filed proofs of claim in the *CCAA* proceeding relating to the U.S. Class Action on behalf of U.S. investors.

A. The Prior Settlements

6. In November 2012, counsel for the plaintiffs in this action participated in mediation with E&Y and negotiated a settlement (the “E&Y Settlement”) and the framework for implementing the settlement through the *CCAA* proceeding which provided for payment

of (CAD) \$117 million in full settlement of all claims (including the claims of U.S. and other foreign investors) that relate to Sino-Forest as against Ernst & Young LLP, Ernst & Young Global Limited and their affiliates, subject to certain conditions including approval of Sino-Forest's Plan of Compromise and Reorganization (the "Plan of Reorganization"). On December 10, 2012, the Plan of Reorganization was approved by this Court which included a mechanism for approving the E&Y Settlement and all future settlements. On March 20, 2013, this Court approved the E&Y Settlement. The Ontario Plaintiffs then brought a motion for approval of the method of distribution of the E&Y Settlement funds to Securities Claimants and claims filing procedure, which was granted on December 27, 2013. E&Y subsequently filed a motion in the U.S. Bankruptcy Court for an order recognizing the E&Y Settlement which was supported by both Plaintiffs in this Action and in the U.S. Action. An order recognizing the E&Y Settlement was issued by the U.S. Bankruptcy Court on November 26, 2013.

7. Settlement negotiations with remaining defendants continued, and in May 2014, after months of arms-length negotiations, the plaintiffs reached a settlement with defendant Horsley. The Horsley Settlement provided, in part, for payment of (CAD) \$4.2 million in full settlement of all claims that relate to Sino-Forest against Horsley (the "Class Settlement Fund"), subject to court approval. The Horsley Settlement was approved by this Court in July 2014. Subsequently, the Horsley Settlement was also presented for approval in the U.S. pursuant to the Chapter 15 proceeding. The Horsley Settlement was recognized by the U.S. Bankruptcy Court on July 25, 2014.

B. The Dealer Settlement

8. In December 2014, a hard-fought settlement was reached with the Underwriters (defined below). The Dealer Settlement provides for payment of (CAD) \$32.5 million by the Underwriters in full settlement of all claims that relate to Sino-Forest as against the Underwriters, subject to court approval.¹ Following final approval of the Dealer Settlement by this Court, the Dealer Settlement will be presented to the U.S. Bankruptcy Court for recognition pursuant to the pending Chapter 15 proceeding.

PROPOSED SETTLEMENT TERMS

9. The Ontario Plaintiffs, the US Plaintiffs, and Credit Suisse Securities (Canada) Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd., Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (successor by merger to Banc of America Securities LLC) (the "Underwriters") have entered into Minutes of Settlement in order to resolve all causes of action, claims and/or demands, on all counts howsoever arising and in all jurisdictions, made against the Underwriters, including the Class Actions (as defined in Sino-Forest's Plan of Compromise and Reorganization (the "Plan")).² The Dealer Settlement

¹ Affidavit of Charles Wright (Fee Approval), Plaintiffs' Motion Record re: Fee Approval, Returnable May 11, 2015 Approval at Tab 2, para. 8.

² The Dealer Settlement is marked and attached hereto as **Exhibit "A"** to the Affidavit of Charles Wright (Settlement Approval), Plaintiffs' Motion Record re: Fee Approval, Returnable May 11, 2015. Appended as Schedule "A" to the Dealer Settlement is the form of a draft settlement approval order (the "Settlement Order") that was agreed to by the parties and will be sought for approval of the Dealer Settlement. Unless otherwise defined or the context requires otherwise, all capitalized terms in this affidavit have the meanings attributed to them in the Settlement Order.

provides for payment of (CAD) \$32.5 million by the Underwriters in full settlement of all claims that relate to Sino-Forest as against the Underwriters, subject to court approval.³

10. The settlement and proposed distribution protocol allocates (CAD) \$22.5 million to primary market share claims and (CAD) \$10 million to primary market note claims. The US action did not assert primary market share claims, and the plaintiffs in that action did not make a claim against TD Securities, Inc., one of the Note Underwriters who underwrote approximately 2.7% of one of the Note offerings. Consequently, the settlement funds allocated by Class Counsel to primary market share claims and to TD Securities, Inc. in respect of its note offering do not form part of the notional allocation to US claims. Canadian and US counsel have agreed to a gross allocation of (CAD) \$31,526,900 to Canada and (CAD) \$973,100 to the United States, which reflects a 90% / 10% split for the claims asserted in the two actions. This is consistent with prior settlements approved by this Court and is appropriate under all the circumstances. This notional allocation is based on the relative class sizes of the Canadian and US class actions and the worked performed by the law firms.

U.S. CLASS COUNSEL'S REQUEST FOR ATTORNEYS' FEES AND REIMBURSEMENT OF EXPENSES

A. U.S. Class Counsel's Role In the Sino-Forest Related Litigations and Settlements

11. U.S. Class Counsel has expended significant efforts to advance the Class Action while simultaneously acting to protect U.S. class members' interests in connection with ongoing proceedings in Canada, including the Dealer Settlement. As described in detail

³ Affidavit of Charles Wright (Settlement Approval), Plaintiffs' Motion Record re: Settlement Approval at Tab 2, para. 40.

below, lead plaintiffs in the U.S. Class Action have taken the following steps to advance the litigation and the Dealer Settlement:

- (a) undertook a thorough investigation of the allegations against Sino-Forest that emanated from a variety of sources, including the Muddy Waters Report, *The Globe and Mail*, the Ontario Securities Commission, and the Independent Committee of the Board of Directors of Sino-Forest, which included a review of hundreds of reports, exhibits, public filings, and other documents related to the investigations;
- (b) conducted an in-depth analysis of the unique cross-border legal issues related to the scope of the Québec, Ontario and U.S. Class Actions and the basis for claims asserted in the U.S. Class Action;
- (c) consulted with clients and class members regarding possible class action; researched, drafted and filed the initial Verified Class Action Complaint on January 27, 2012 in the Supreme Court of the State of New York, County of New York,⁴ which was removed to federal court in the Southern District of New York on March 8, 2012;
- (d) researched and drafted memoranda regarding to the consequences of the removal to federal court and possible remand, and related jurisdictional issues;
- (e) researched opposition to defendants' proposed motion to dismiss and negotiated tolling agreement;
- (f) researched and investigated additional legal claims and factual developments, and prepared an Amended Complaint in the U.S. Class Action alleging claims under the Securities Act of 1933 and Securities Exchange Act of 1934;
- (g) prepared Private Securities Litigation Reform Act ("PSLRA") notice which was disseminated to class members as required under the U.S. Securities Act at 15 U.S.C. § 77z-1(a)(3) as well as the U.S. Exchange Act at 15 U.S.C. § 78u-4(a)(3);
- (h) researched and briefed lead plaintiff motion and supporting pleadings in December 2012 for appointment as lead plaintiff and lead counsel in the U.S. Class Action;
- (i) monitored developments in the Canadian Class Actions and the *CCAA* proceeding; retained and consulted with both U.S. Bankruptcy counsel and insolvency counsel in Canada, Davies Ward Phillips Vineberg

⁴ *Leopard v. Chan, et al*, Index No. 650258/2012.

LLP, regarding the potential effects of those proceedings and the various settlements on the U.S. Class Action;⁵

- (j) appeared at certain hearings in Sino-Forest's *CCAA* proceeding together with the participation of the Davies Firm;
- (k) consulted with Canadian Class Counsel regarding the terms and conditions of the various settlements;
- (l) reviewed and analyzed terms of various settlements and its impact on U.S. Class Members which included the review of documents, interviews and discussions with key participants;
- (m) retained expert to prepare damage analysis for U.S. investors and to review damage analysis prepared by Canadian Class Counsel;
- (n) retained U.S. bankruptcy counsel, Lowenstein Sandler LLP, to advise plaintiffs in the U.S. Class Action regarding consequences of *CCAA* proceedings in Canada as well as the proceedings in the U.S. Bankruptcy Court for the Southern District of New York for recognition of the settlements approved in the *CCAA* proceeding under U.S. Chapter 15, Title 11 of the U.S. Code;
- (o) negotiated agreement with class counsel in the Ontario Class Action regarding participation of U.S. investors in the various settlements and coordination of prosecution of Canadian and U.S. class actions;
- (p) participated in the drafting and review of notices sent to U.S. class members, and the development of the various notice programs related to the motions to recognize the various settlement and the motion for approval of the Claims and Distribution Protocol and Request for Attorneys' Fees and Reimbursement of Expenses;
- (q) worked jointly with Canadian Class Counsel in the Ontario Action in reviewing and analyzing over 1.2 million Chinese and English documents produced by Sino-Forest in that action;
- (r) worked with bankruptcy counsel to support recognition in the U.S. Bankruptcy Court of the various settlements so that final approval could be achieved;
- (s) responded directly by email, mail and telephone to various individual class member inquiries related to the various settlements and directed class members to the proper sources for current information about the

⁵ The "various settlements" now include the E&Y Settlement, the Horsley Settlement and the Dealer Settlement.

Sino-Forest class actions and submission of their individual claim forms;

- (t) developed claims distribution protocol, payment allocations, claims process, and notice to class members, in conjunction with Canadian counsel, with respect to the allocation of the E&Y settlement proceeds to U.S. and Canadian class members;
- (u) worked with Canadian class counsel in extensive, protracted, and hard-fought negotiations with Horsley and the Litigation Trust to reach the Horsley Settlement;
- (v) worked with Canadian class counsel to help design and implement a notice program advising class members of the Horsley Settlement, and developed a notice program for U.S. class members with respect to the hearing on recognition of the settlement by the U.S. Bankruptcy Court;
- (w) worked with Canadian class counsel in hard-fought negotiations with Underwriters to reach the Dealer Settlement;
- (x) worked with Canadian class counsel to help design and implement a notice program advising class members of the Dealer Settlement, and developed a notice program for U.S. class members with respect to the hearing on recognition of the settlement by the U.S. Bankruptcy Court;
- (y) worked with bankruptcy counsel to support recognition in the U.S. Bankruptcy Court of the Dealer Settlement so that final approval could be achieved; and
- (z) worked with Canadian class counsel to support the filing of the motion for settlement approval of the Dealer Settlement as well as appearances by counsel on behalf of U.S. class members at the scheduled Canadian approval hearing and U.S. Bankruptcy Court approval hearing.

(a) Steps Leading to the Proposed Settlement with the Underwriters

12. Shortly after the publication of the fraud allegations against Sino-Forest in the Muddy Waters report Cohen Milstein communicated with various investors in Sino-Forest securities and commenced an investigation into the allegations published in the Muddy Waters report.

13. U.S. Class Counsel conducted an extensive investigation, and Plaintiffs drafted and filed a complaint in New York Supreme Court, based on various common law theories of liability including, among others, common law fraud, negligence and negligent misrepresentation. The initial complaint was removed to federal court in the Southern District of New York.

14. After removal to federal court, plaintiffs in the U.S. Class Action researched and briefed issues related to Defendants' proposed motions to dismiss the original claims pled under New York State law. The U.S. Plaintiffs conducted further review and analysis of factual developments based on the ongoing investigations of Defendants and information disclosed in the *CCAA* proceedings.

15. On March 30, 2012, Sino-Forest obtained an initial order under the *CCAA*, including a stay of proceedings with respect to Sino-Forest and certain of its subsidiaries. Immediately thereafter, U.S. Class Counsel commenced monitoring the *CCAA* proceedings, reviewed all motions and related papers, and reviewed the voluminous record in Sino-Forest's *CCAA* case as it developed, including all the Monitor's Reports and exhibits. On May 8, 2012, following negotiations between Canadian Class Counsel and other stakeholders in the *CCAA* proceeding, the stay of proceedings was extended to the other defendants in this action. The parties entered a tolling agreement reflecting the delay caused by the insolvency proceeding and there was an order permitting a settlement approval hearing and certification hearing relating to a settlement with the defendant Pöyry (Beijing). Given these developments, Plaintiffs in the U.S. Class Action agreed to a stay of their case against Sino-Forest.

16. Shortly thereafter, in order to protect the interests of U.S. Class Members, U.S. Class Counsel filed proofs of claim in Sino-Forrest's *CCAA* proceeding on behalf of Lead Plaintiffs and class members in the U.S. Class Action.

17. By order dated July 25, 2012, this Court ordered mediation of the claims in the Ontario and Québec actions. The all-party mediation took place on September 4 and 5, 2012. It did not result in a settlement with any of the parties. However, it provided the starting point for further bilateral negotiations with, among others, the Underwriters.

18. Following the failed court-ordered mediation in September 2012, Class Counsel continued settlement discussions with counsel to the Underwriters.

19. On September 17, 2014, Class Counsel and the Underwriters attended a mediation before Justice Goudge. In advance of this mediation, Class Counsel and the Underwriters prepared lengthy mediation briefs, and Class Counsel requested and was provided with back-up information from the Underwriters' damages analyses. U.S. Class Counsel assisted in preparation of the mediation statements and analysis of claims and damages. This mediation did not result in a settlement.

20. On November 10, 2014, Class Counsel and the Underwriters again attended a mediation before Justice Goudge and engaged in further negotiations, finally resulting in an agreement in principle to settle the action. Settlement negotiations continued.

21. Over the next two months, U.S. Class Counsel, along with Class Counsel engaged in further negotiations and discussions regarding the terms of the Dealer Settlement.

22. The protracted settlement negotiations with the Underwriters were conducted on an adversarial, arm's length basis.

23. In connection with the terms of the Dealer Settlement, U.S. Class Counsel participated in proceedings before the U.S. Bankruptcy Court with their local U.S. Bankruptcy counsel, Lowenstein Sandler, to develop an appropriate notice program for recognition of the Dealer Settlement in the U.S. through the pending Chapter 15 proceeding of Sino-Forest. On February 25, 2015, bankruptcy counsel filed a Motion to Approve Manner of Service of Motion Seeking Recognition and Enforcement of the Order of the Ontario Superior Court Approving the Dealer Settlement, which the Bankruptcy Court approved on March 12, 2015. In the event final approval is granted at the hearing scheduled in Ontario Superior Court on May 11, 2015, U.S. Class Counsel and U.S. Bankruptcy counsel will file a motion for recognition of the order approving the Dealer Settlement, which is scheduled to be heard pursuant to notice issued in the U.S. Class Action in the Chapter 15 proceeding in the U.S. on June 9, 2015.

Factors In Assessing Reasonableness Of Class Counsel Fees

24. The requested fees of U.S. Class Counsel reflect a percentage of 20% of the notional Dealer Settlement amount as described below. In counsel's view, this amount is fair and reasonable and falls within the range of reasonableness for awards of attorneys' fees in class action securities cases as reflected in decisions both in Canada and the U.S. and is consistent with prior fee approvals in the Action.

25. The prosecution of these claims involved significant risks and the result achieved for claims against Underwriters was significant under the circumstances. The risks

to U.S. investors claims were substantial and similar to the risks faced by the Canadian Class Actions. In particular,

- (a) U.S. Class Counsel took on significant litigation risk for claims against the Underwriters because of the multiple potential impediments to establishing liability under both Canadian and U.S. law; and
- (b) U.S. Class Counsel took on the risk of no success, while at the same time devoting significant time, money and other resources to the prosecution of this action. U.S. Class Counsel has already committed over (USD) \$1,640,105.00 in attorneys' fees to this action, including 3,098.25 hours of attorney and legal support staff time and total out-of-pocket disbursements of (USD) \$312,513.33. U.S. Class Counsel has accrued (USD) \$112,032.50 in additional attorneys' fees and (USD) \$89,477.11 in unpaid expenses in connection with this matter subsequent to the approval of the Horsley Settlement.

(a) Recovery risk was very high from the outset

26. U.S. Class Counsel were always confident that they would establish liability against Sino-Forest and the senior insiders at Sino-Forest. U.S. Class Counsel was successful in helping Canadian Class Counsel obtain an excellent recovery in the E&Y and Horsley Settlements. However, obtaining relief against remaining defendants, including the Underwriters, posed additional hurdles, and in light of the associated risks, the Dealer Settlement is a significant success.

27. Obtaining a judgment for damages against the Underwriters would likely have been much more challenging, given numerous defenses available to underwriters under U.S. securities laws. To obtain damages against the Underwriters, Plaintiffs would first have had to overcome the Underwriters' claim that no claim existed under U.S. law, and if any claim were pled properly, that they diligently reviewed all material related to the Sino-Forest securities and otherwise did nothing wrong. U.S. law provides a "due diligence" defense, among many others, that underwriters may invoke to avoid liability – even where a court

finds that defendants have made an actionable misrepresentation under the securities laws otherwise entitling plaintiffs to recovery. Under this defense, if underwriters can demonstrate that they conducted a reasonable investigation and were not made aware of any problems, a jury may find the Underwriters not liable.⁶

28. It is likely that the Underwriters would have asserted that they met the standard of care required for the Note Offerings. The Underwriters would likely have claimed that they had experience dealing with forestry issuers and Chinese issuers, and that they completed comprehensive due diligence for each prospectus offering. The Underwriters would likely have claimed that they hired and relied upon legal counsel for each offering, and relied upon forestry expertise and valuation reports prepared on behalf of Sino-Forest as well as the financial statements audited by Ernst & Young and BDO Limited. In addition, the Underwriters would likely have argued that they had no due diligence obligation at all, given that they made explicit statements in the offering memoranda that they made no representations concerning the quality of Sino-Forest's securities. These due diligence defenses added additional risk, particularly with respect to the Note claims where the Underwriters made explicit warnings that they made no representations concerning the quality of Sino-Forest's securities.

29. The risks to recovering from Underwriters as to (both the claims of Canadian investors and U.S. investors) are set out in detail at paragraphs 56 to 76 of the affidavit of

⁶ This is provided for under the U.S. Code by the PSLRA, under 15 U.S.C. § 77k(b); *Federal Housing Fin. Agency v. Nomura Holding Amer. Inc.*, --- F. Supp. 3d ---, 2014 WL 7232443, at *27 (S.D.N.Y. Dec. 18, 2014) (underwriters may "seek[] the protection of the [Securities Act]'s due diligence defense" to liability); *Fejko v. Yuhe Intern., Inc.*, No. CV 11-05511, 2013 WL 816409, at *8 n.5 (C.D. Cal. Mar. 5, 2013).

Charles Wright in support of approval of the Dealer Settlement.⁷ I repeat and adopt the contents of that affidavit.

(b) The high risk of prosecuting a difficult and expensive case

30. U.S. Class Counsel took on the major risk that there would be little or no recovery from the defendants, including Underwriters, with the means to satisfy judgment, while at the same time having to commit an incredible amount of time, money and resources to the prosecution of this action. U.S. Class Counsel has already expended a total of over (USD) \$1,640,105.00 in attorneys time and approximately (USD) \$312,513.33 in out-of-pocket expenses from inception.

31. There are at least four reasons this action has been and will continue to be difficult and costly to pursue.

32. First, this is a highly complex action and Sino-Forest is in organizational disarray. This case relates to a multi-billion alleged fraud over the course of more than 4 years and took place in 9 countries. Compounding this complexity is the fact that Sino-Forest has filed for insolvency and its records are in disarray and incomplete.

33. The difficulty in mining Sino-Forest's records and prosecuting this action is best demonstrated by the challenges faced by Sino-Forest's "independent committee" of its directors (the "IC"). After the allegations of fraud in June 2011, Sino-Forest's directors formed the IC to investigate the allegations. They produced three reports and expended *in excess of \$50 million* attempting to determine the validity of the allegations. They were

⁷ Affidavit of Charles Wright (Settlement Approval), Plaintiffs' Motion Record re: Settlement Approval at Tab 2, paras. 56-76.

unable to complete their mandate given the poor records and lack of cooperation faced in China. Plaintiffs face and will continue to face similar challenges, if not greater ones, to advancing this case.

34. Second, even with proper discovery, proving the facts in this case will be unusually difficult. Most of the key witnesses are likely in China. Their voluntary cooperation is doubtful and the enforcement of letters rogatory by the courts of the People's Republic of China seems equally unlikely. Further, the documentary evidence in the Canadian Class Action already exceeds 1 million documents. To date, Sino-Forest has produced millions of pages of documents to Canadian Class Counsel. Approximately 30% of the documents are in Chinese and Siskinds LLP hired translators to assist in going through the documents. Canadian Counsel and U.S. Class Counsel expect that substantially more documents will be produced and anticipate continued protracted proceedings.

35. Third, to prove their claims, plaintiffs for the U.S. Class Action would be required to overcome a due diligence and other defenses, as explained above.

36. Finally, this case will require extensive and expensive expert evidence. In advancing this action, U.S. Class Counsel has already retained experts on insolvency issues and damages, as noted above in paragraph 11. The prosecution of the case against defendants with respect to Sino-Forest's financial statements would further require retention of a costly Canadian forensic accounting and auditing expert and experts on due diligence and underwriting of securities.

37. U.S. Class Counsel undertook these challenges at the commencement of this action, knowing this action would be very expensive and resource intensive, all with the real

possibility of little or no recovery after trial, and many defendants who might be out of reach or unable to satisfy a large judgment. This risk increased significantly with Sino-Forest's insolvency filing which eliminated a potential source of recovery. Moreover, U.S. Class Counsel has pursued the U.S. Class Action on a contingency fee basis, which requires upfront payment of all costs, including significant fees to our consulting expert for damages and two sets of consulting counsel, as noted above in paragraph 11. U.S. Class Counsel has also supported Class Counsel in the Ontario Class Action by shouldering significant efforts in conducting document review and managing the proceedings in the U.S. with respect to the Chapter 15 process for recognition of the various settlements and class notice.

The Requested Fees are in Line With the Range of Fees Found Reasonable by U.S. Courts

38. In U.S. class action securities cases, “courts traditionally award plaintiffs’ counsel fees in class actions based on either a reasonable percentage of the settlement fund” known as a percentage of the fund method, “or an assessment by the court of the market value of the work plaintiffs’ attorneys performed.”⁸ Yet, “in complex securities fraud class actions, courts have long observed that the ‘the trend in this Circuit has been toward the use of a percentage of recovery as the preferred method of calculating the award for class counsel in common fund cases.’”⁹

39. This notional allocation is based on the relative class sizes of the Canadian and U.S. class actions and the worked performed by the law firms. Accordingly, Canadian Class

⁸ *In re Citigroup Inc. Sec. Litig.*, 965 F. Supp. 2d 369, 387 (S.D.N.Y. Aug. 1, 2013).

⁹ *Id.* (citation omitted).

Counsel request fees based on a recovery under the Dealer Settlement of \$31,526,900 million and US Class Counsel request fees based on a recovery of \$973,100.

40. U.S. courts in the Southern District of New York, where the U.S. Class Action is pending, have frequently found reasonable and approved fees that are equivalent to more than 20% of the recovery obtained through settlement. As just a few examples, in the following cases courts have approved settlement fees such as:

- a) 33.3% of recovery in *Landmen Partners Inc. v. Blackstone Grp.*, No. 08-cv-03601 (S.D.N.Y. Dec. 18, 2013);
- b) 27.5% of recovery in *Cornwell v. Credit Suisse Grp.*, No. 08-cv-03758 (S.D.N.Y. July 20, 2011);
- c) 22.5% of recovery in *In re Merrill Lynch Tyco Research Sec. Litig.*, 249 F.R.D. 124 (S.D.N.Y. 2008);
- d) 25% of recovery in *In re Telik, Inc. Sec. Litig.*, 576 F. Supp. 2d 570 (S.D.N.Y. 2008);
- e) 24% of the total recovery in *In re Merrill Lynch & CO., Inc. Research Reports Sec. Litig.*, 246 F.R.D. 156 (S.D.N.Y. 2007);
- f) a 19%-18% sliding scale fee of the total recovery in *In re Global Crossing Sec. and ERISA Litig.*, 225 F.R.D. 436 (S.D.N.Y. 2004); and
- g) 33% of the total recovery in *Maley v. Del Global Tech. Corp.*, 186 F. Supp. 2d 358 (S.D.N.Y. 2002).

Here, the percentage requested by Cohen Milstein is 20% of the notional amount of the settlement allocated to U.S. investors (described below).

The Ontario Plaintiffs Support the Fee Request

41. The representative plaintiffs in the Ontario action have approved the fee request. The descriptions of the Ontario Plaintiffs are provided at paragraph 41 of the

affidavit of Charles Wright in support of approval Canadian Counsel's attorney's fees related to the Dealer Settlement.¹⁰ I repeat and adopt the contents of that affidavit.

The U.S. Plaintiffs Support the Fee Request

42. The representative plaintiffs in the U.S. action have approved the Settlement and the fee request of U.S. Counsel related to the Dealer Settlement, consistent with U.S. Plaintiffs' prior support of U.S. Counsel's requests for attorney's fees in the E&Y Settlement and the Horsley Settlement.

APPROVAL OF RETAINER AND U.S. CLASS COUNSEL FEES AND DISBURSEMENTS

43. Cohen Milstein Sellers & Toll PLLC are counsel to the Lead Plaintiffs in the U.S. Class Action and were designated lead counsel in the U.S. Class Action. Cohen Milstein has assisted Canadian Class Counsel in the Ontario Class Action as well as the proceedings in this action as described above. Counsel have also worked jointly throughout the Canadian and U.S. class actions and on implementing the various settlements, including the Dealer Settlement, in the U.S. Bankruptcy Court. Cohen Milstein undertook this case on a contingent fee basis and seeks approval of (CAD) \$194,620.00 (exclusive of tax) in respect of legal fees. US Class Counsel request fees based on a notional allocation reflecting a recovery of (CAD) \$973,100 as well as unreimbursed disbursements of (USD) \$89,477.11.

44. The approved settlement with the Underwriters provides for a total payment of (CAD) \$32.5 million. The plaintiffs and class counsel in the Ontario, Québec and U.S. Class Actions have agreed to a notional allocation of that settlement amount between the Canadian and U.S. claims solely for the purpose of determining class counsel fees. We have agreed that

¹⁰ Affidavit of Charles Wright (Fee Approval), Plaintiffs' Motion Record re: Fee Approval at Tab 2, para. 41.

the fees of Canadian Class Counsel will be determined on the basis that 90% of the gross settlement is allocated to the Canadian claims and the fees of Cohen Milstein will be determined on the basis that 10% of the gross settlement is allocated to the U.S. claims. This allocation is based on the risk adjustment factors discussed above and the relative class sizes in the Canadian and U.S. class actions.

Conclusion on U.S. Class Counsel's Fees

45. As set out above, the requested fees reflect four key factors: (a) the contingent nature of the fee retainer agreement for this action; (b) the significant risks undertaken by counsel that existed from the outset of this action; (c) the significant undertaking of time, money and resources required to prosecute this action, with a risk of little or no compensation for counsel; and (d) the considerable success achieved for claims against the Underwriters.

46. The detail of the attorneys' time and disbursements is set forth in the chart below in U.S. dollars:

DOCKETED TIME FROM INCEPTION TO-DATE			
	Hours	Rate	Total
Cohen Milstein Sellers & Toll PLLC			(USD)
Partners			
Steven J. Toll	191.75	\$915	\$175,451.25
Daniel S. Sommers	10.00	\$815	\$8,150.00
Joshua S. Devore	1.75	\$655	\$1,146.25
Christopher Lometti	0.75	\$615	\$615.00
Of Counsel			
Richard A. Speirs	792.75	\$795	\$630,236.25
Associates and Staff Counsel			
Joshua Kolsky	0.25	\$505	\$126.25
Kenneth Rehns	59.50	\$500	\$29,750.00
Matthew B. Kaplan	172.75	\$495	\$85,511.25
Genevieve O. Fontan	146.75	\$440	\$64,570.00
Elizabeth A. Aniskevich	35.75	\$420	\$15,015.00
Stefanie Ramirez	205.75	\$415	\$85,386.25
Paul A. Kemnitzer	1,291.50	\$385	\$497,227.50
Paralegals and Law Clerks			
Jihoon Lee	31.50	\$270	\$8,505.00
Cameron Clark	105.75	\$245	\$25,908.75
Tyler Gaffney	14.00	\$245	\$3,430.00
Brett D. Watson	3.25	\$245	\$796.25
Shay Lavie	22.00	\$240	\$5,280.00
Shayda Vance	12.50	\$240	\$3,000.00
Total Docketed Time	3,098.25		\$1,640,105.00¹¹

DISBURSEMENTS FROM INCEPTION TO-DATE	
Category	Total (USD)
In-House Duplicating	\$77.10
Long Distance Tele./Long Distance (third-party)	\$230.63
Postage/Local Courier/Air Courier	\$998.16
Process Server Fee	\$1,636.00
Other Court Fees	\$704.00
Lexis/Other Computer Services	\$5,254.65
Travel	\$3,598.95

¹¹ At the time this Court approved U.S. Class Counsel's previous request for attorneys' fees of 20% of the notional Horsley Settlement, U.S. Class Counsel's lodestar was \$1,528,072.50. As such, U.S. Class Counsel have incurred an additional (USD) \$112,032.50 in attorney and legal support staff time in connection with the Plaintiffs claims as well as the Dealer Settlement.

Staff Overtime Expenses	\$288.99
Local Transportation	\$160.45
Professional Services and Consultants	\$299,564.40
TOTAL DISBURSEMENTS TO-DATE	\$312,513.33
Previous Disbursements Reimbursed	- \$223,036.22
OUTSTANDING UNREIMBURSED DISBURSEMENT	\$89,477.11

47. The disbursements are composed of costs that to-date remain unreimbursed and that were necessarily incurred to further the U.S. Action and obtain resolution of class members' claims through achieving settlements, including the Dealer Settlement, as well as recognition of those settlements in the U.S. Bankruptcy Court. These costs are printing and copying costs, court fees, incidental travel costs for court appearances, and other disbursements. In approving U.S. Class Counsel's request for reimbursement of disbursements to-date in support of the E&Y and Horsley Settlements, this Court approved the reimbursement of (USD) \$223,036.22 in disbursements, leaving a total of (USD) \$89,477.11 in remaining disbursements that have not been reimbursed.

48. For clarity, this notional allocation has no bearing on the actual distribution of settlement proceeds to Securities Claimants. The requested fees accord with the Lead Plaintiffs' contingency fee retainer agreement with U.S. Class Counsel and is equivalent to 20% of the notional settlement. A copy of the retainer agreement is attached here as "Exhibit B".

SWORN BEFORE ME at the City of New York, in the State of New York, United States, on May 5, 2015.

Theresa A. Graham
New York County Notary, New York, United States

Richard A. Speirs
RICHARD A. SPEIRS

THERESA A. GRAHAM
Notary Public, State of New York
No. 01GR5054854
Qualified in Bronx County
Commission Expires Jan. 29, 2018
Kings

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, c.C-36, AS AMENDED AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF SINO-FOREST CORPORATION

Court File No: CV-12-9667-00-CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

Proceedings Under the *Class Proceedings Act, 1992*

Proceeding commenced at **Toronto**

AFFIDAVIT OF RICHARD A. SPEIRS

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U.S. Class Counsel for Lead Plaintiffs in the U.S. Class
Action

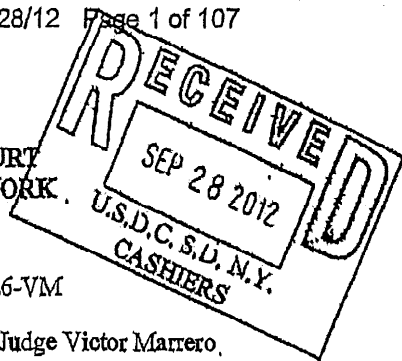
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Local counsel for plaintiffs in the U.S. Class Action

Tab A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



DAVID LEAPARD and IMF FINANCE SA;
on their own behalf and on behalf of all
others similarly situated,

1:12-cv-01726-VM

U.S. District Judge Victor Marrero.

Plaintiffs,

v.

AMENDED CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED

ALLEN T.Y. CHAN, DAVID J. HORSLEY,
KAI KIT POON, W. JUDSON MARTIN,
WILLIAM E. ARDELL, JAMES P.
BOWLAND, JAMES M.E. HYDE,
EDMUND MAK, GARRY J. WEST,
ALBERT IP, ALFRED C.T. HUNG,
GEORGE HO, SIMON YEUNG, POYRY
(BEIJING) CONSULTING COMPANY
LIMITED, BANC OF AMERICA
SECURITIES LLC, CREDIT SUISSE
SECURITIES (USA) LLC, SINO-FOREST
CORPORATION, and ERNST & YOUNG
LLP,

Defendants.

This is Exhibit A referred to in the
affidavit of RICHARD A. SPEIRS
sworn before me, this 5th
day of MAY 2015

Theresa A. Graham

A COMMISSIONER FOR TAKING AFFIDAVITS

Theresa A. Graham
Notary Public, State of New York Kings
No. 01GR5054854
Qualified in Bronx County
Commission Expires Jan: 29, 2018

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Plaintiffs, David Leopard and IMF Finance SA, on behalf of themselves and all others similarly situated (the "Class" or "Class Members"), allege the following upon personal knowledge as to themselves and their own acts and upon information and belief as to all other matters. Plaintiffs' information and belief is based on the investigation of counsel including, *inter alia*, review and analysis of: (i) government and regulatory documents relating to Defendant Sino-Forest Corporation ("Sino-Forest" or the "Company"); (ii) press releases, Company filings and other public statements by Sino-Forest; (iii) investigation related documents released by the Company and the Ontario Securities Commission ("OSC"); (iv) reports of securities analysts; and (v) court records and other publicly available materials. Many of the facts related to Plaintiffs' allegations are known only to Defendants or are exclusively within their custody or control. Plaintiffs believe that substantial additional evidentiary support for the allegations set forth below will be developed after reasonable opportunity for discovery.

I. INTRODUCTION

1. Plaintiffs bring this class action on behalf of: (i) all persons or entities who, from March 19, 2007 through August 26, 2011 (the "Class Period") purchased the common stock of Sino-Forest on the Over-the-Counter ("OTC") market and who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased debt securities issued by Sino-Forest other than in Canada and who were damaged thereby (the "Class").

2. The Class Period begins on March 19, 2007 – the date the Company's 2006 Consolidated Financial Statement was filed.

3. Sino-Forest is a Canadian company engaged in the commercial forest plantation business whose principal operations are in the People's Republic of China ("PRC" or "China"). Among Sino-Forest's businesses are the ownership and management of forest plantation trees,

sales of standing timber and wood logs, and the manufacture of related wood products. Substantially all of the Company's sales during the Class Period were supposedly generated in the PRC. The Company maintains offices in Toronto, Hong Kong and the PRC. Its common stock is registered in Canada and traded on the Toronto Stock Exchange and in the United States on the OTC market. Sino-Forest's debt securities are also traded in the open market. As a result of the fraudulent conduct described herein, trading in Sino-Forest common stock was halted on August 26, 2011 and, to date, has not resumed trading.

4. In stark contrast to the investing public's perception of an enormously successful forestry business in the fast growing PRC market, during the Class Period Sino-Forest was, in fact, materially misleading both investors and regulators. Sino-Forest's assets, revenues, and income were all materially overstated in the Company's financial statements, and other disclosures were materially misleading because they failed to disclose that many of Sino-Forest's significant business transactions were with unknown or related parties. Further, Sino-Forest misrepresented and failed to disclose the true terms of certain agreements it entered into in the PRC for the acquisition of plantation acreage, vastly overstating the amount of timber it acquired during the Class Period. In many instances, no documentation or inadequate documentation existed to support Sino-Forest's timber holdings and related assets and the valuations attributed to those properties on Sino-Forest's financial statements. Among other things, Sino-Forest failed to disclose (1) that it engaged in multiple fraudulent transactions which resulted in the overstatement of assets, revenues and income; (2) that the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual relationships; (3) that its operations were permeated by unsubstantiated and undisclosed related party

transactions; and (4) that its financial statements were materially misleading and not prepared in accordance with the applicable accounting standards.

5. The massive fraud perpetrated on investors by Sino-Forest and the Individual Defendants could not have been accomplished without the abject failure of the gatekeepers (Sino-Forest's auditors and underwriters) to perform their duties to investors. Notwithstanding the fact that the fraud permeated virtually every aspect of Sino-Forest's business, and that these gatekeepers were fully aware of both the lack of transparency and lack of internal controls over financial reporting, they ignored or recklessly disregarded numerous "red flags" indicating the existence of fraudulent transactions including the simple fact that the Company did not have sufficient proof of ownership of "a majority of its standing timber assets" as described herein. As a result, during the Class Period, Sino-Forest issued years of materially false and misleading financial statements that, among other things, overstated its assets, revenues, and income. These financial statements were purportedly audited by Defendant E&Y and repeatedly published in offering documents used for billions of dollars of securities sold to investors by the Underwriter Defendants and others.

6. Certain information regarding Sino-Forest's questionable financial practices first came to light on June 2, 2011 when Muddy Waters, a firm specializing in the analysis of Chinese companies whose stock trades in the U.S. and Canada, published a detailed report alleging improper and illegal conduct at the Company. Over the ensuing weeks, there was a flurry of articles, investigations, and news reports about the Company's misconduct, as well as the Company's denials of the Muddy Waters allegations. On June 18, 2011, *The Globe and Mail* reported on its own investigation regarding some of the allegations against Sino-Forest, finding that there were "doubts about the company's public statements regarding the value of [its]

assets” and “broader questions about its business practices.” The Company denied the allegations in statements issued over the next two months.

7. Ultimately, in late August 2011, the Ontario Stock Commission (“OSC”) confirmed that there was evidence of fraud at Sino-Forest and ordered a halt in trading of Sino-Forest’s common stock on the Toronto Stock Exchange, effective August 26, 2011. Reportedly, the OSC accused Sino-Forest of “fraudulently inflating its revenues and exaggerating the extent of its timber holdings.” The OSC also noted that the Company “engaged in significant non-arms-length transactions.” Similarly, trading of Sino-Forest common stock was halted in the U.S. on the OTC Bulletin Board. Two days later it was reported that the Company’s CEO, Defendant Chan, resigned; that three of the Company’s vice-presidents were placed on leave; and that another senior vice-president was relieved of most of his duties. On November 15, 2011, Sino-Forest announced that it was deferring the release of its interim financial report for the third quarter of 2011.¹ To date, Sino-Forest has not filed any required periodic reports or issued financial statements for the third quarter of 2011 or later.

8. On November 11, 2011, the Company announced that it was also the subject of a criminal investigation by the Royal Canadian Mounted Police (“RCMP”) regarding the allegations surrounding its business and finances. Sino-Forest has failed to make payments due on its outstanding debt and belatedly advised the investing public that its historical financial statements and audit reports should not be relied upon.

9. On March 30, 2012, Sino-Forest filed for protection under the Ontario Companies Creditors Arrangement Act (“CCAA”), which is similar to a bankruptcy filing in the United States. Numerous entities have or are conducting investigations regarding Sino-Forest’s

¹ The financial year-end of Sino-Forest is December 31.

financial reporting. In addition to the OSC and RCMP, the Company appointed an Independent Committee of the Board of Directors (the "IC") to investigate, and the Hong Kong Securities and Futures Commission ("HKSF") commenced an investigation. The IC issued three reports (the "IC Reports") describing its investigation (principally into the Muddy Waters allegations) and the OSC issued a Statement of Allegations ("OSC Allegations") setting forth claims of fraud against Sino-Forest and Defendants Chan and Horsley. On April 30, 2012, Defendant Ernst & Young resigned as the Company's independent auditor.

10. The OSC Allegations describe a fraudulent scheme that inflated the assets and revenues of Sino-Forest and resulted in the issuance of materially misleading financial statements and other misleading statements to investors. As described by the OSC, Sino-Forest and the Individual Defendants engaged in fraudulent conduct with respect to (i) the assets and revenues derived from the purchase and sale of standing timber; (ii) the acquisition of Greenheart Limited Group ("Greenheart Acquisition"); (iii) false evidence of ownership of a vast majority of the Company's timber holdings; and (iv) failure to disclose that the Company's internal controls were insufficient to protect against the significant fraudulent transactions and misconduct alleged.

11. Notwithstanding Sino-Forest's and the Individual Defendants' fraudulent conduct, E&Y and the Underwriter Defendants were forewarned about the Company's lack of transparency and internal control weaknesses, yet allowed such misconduct to continue for years, while ignoring the inadequate processes and lack of competent evidentiary material supporting the Company's financial results. Among some of the "red flags" ignored by E&Y and the Underwriter Defendants were the following:

a. Sino-Forest's admitted lack of segregation of duties, which created risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing internal controls, either of which may lead to the possibility of inaccurate financial reporting;

b. The lack of transparency into Sino-Forest's complex corporate structure and opaque business practices and relationships with its Suppliers, AIs, and other nominee companies in the BVI Network. Sino-Forest established a collection of "nominee"/"peripheral" companies that were controlled, on its behalf, by various "caretakers."² Sino-Forest conducted a significant level of its business with these companies, the true economic substance of which was misstated in Sino-Forest's financial disclosures;

c. Sino-Forest's lack of proof of ownership for the vast majority of its timber holdings which included backdated Purchase Contracts and Sales Contracts, and missing supporting documentation. Sino-Forest then relied upon these documents to evidence the purported purchase, ownership, and sale of Standing Timber in the BVI Model;

d. The missing documentation from Sino-Forest's BVI timber purchase contracts, in particular failure to have as attachments either (i) Plantation Rights Certificates from either the Counterparty or original owner or (ii) villager resolutions, both of which are contemplated as attachments by the standard form of BVI timber purchase contract employed by Sino-Forest;

² These "nominee"/"peripheral" companies and "caretakers" are described in greater detail in paragraphs 93-95.

e. Sino-Forest's BVI Subs failure to obtain certificates of ownership of Standing Timber from the PRC and the fact that purported confirmations from forestry officials were not recognized as evidence of ownership of timber assets in PRC;

f. Sino-Forest's 2010 sale of Standing Timber, despite the fact that these same Standing Timber assets were offered as collateral for a bank loan by Sino-Forest in 2011; so the sale of those assets in 2010 could not have taken place and been recorded as revenue in that year;

g. Circular cash flows and unusual offsetting arrangements by which money flowed between various Sino-Forest controlled companies;

h. The lack of bank records or other adequate documentation confirming cash flows from complex and unusual transactions involving Suppliers and Authorized Intermediaries; and

i. The recognition of revenues from sales of standing timber where sales contracts were not created until the quarter after the date of the alleged sale.

12. Thus, the entities who were in the best position to protect investors from the massive fraud that occurred here (E&Y and the Underwriter Defendants) missed every potential warning sign in their audits and due diligence of Sino-Forest, despite being armed with the knowledge that hundreds of millions of dollars in transactions were ultimately controlled by a handful of individuals, through a murky structure of corporate entities from around the world, while relying on a deeply flawed process for verifying transactions and business relationships. E&Y's and the Underwriter Defendants' reckless disregard for these red flags in the face of the Company's inadequate internal controls and processes constitutes gross recklessness which resulted in the publication of misleading financial statements and audit reports, and the issuance

of inflated securities to investors. Strikingly, it was only after an investigation by an outside securities analyst who, unlike Defendant E&Y and the Underwriter Defendants, had no access to internal Company documents or personnel that these fraudulent activities came to light. Indeed, many of the fraudulent activities were unsophisticated and simply disregarded by E&Y and the Underwriter Defendants – e.g. the creation of purchase or sales documents after the end of a quarter and backdating of documents to support transactions; missing attachments from significant transaction documents; lack of bank statements or confirmations of off-book financial transactions, and the use of multiple related parties to facilitate fraudulent transactions.

13. The disclosures relating to Defendants' misconduct and the ultimate halt in trading occasioned by the OSC charges of fraud caused the trading prices of the Company's stock and its debt securities to decline dramatically, thereby damaging Class Members. Sino-Forest's common stock, which traded as high as \$26.64, last traded at \$1.38 before trading was halted in the U.S and is now virtually worthless. Moreover, Sino-Forest's debt securities are now priced at a fraction of their original value.

A. Jurisdiction and Venue

14. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC, and Sections 12 and 15 of the Securities Act.

15. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, Section 27 of the Exchange Act, and Section 22 of the Securities Act. This Court also has supplemental jurisdiction under 28 U.S.C. § 1367(a) over all state law claims asserted by Plaintiffs and Class Members because they arise from the same nucleus of operative facts

alleged in this Complaint, and are so related to the Exchange Act claims over which this Court has original jurisdiction that they form part of the same case or controversy.

16. Venue is proper in this District pursuant to 28 U.S.C. § 1391(b), Section 27 of the Exchange Act, and Section 22 of the Securities Act. Many of the acts alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in the District.

17. This Court also has jurisdiction, and venue is proper, because, in connection with the sale of \$600 million in notes which occurred in October 2010 (the "Note Offering" or "Offering") that will come due in 2017 (the "2017 Notes"), Sino-Forest "... irrevocably and unconditionally submits to the non-exclusive jurisdiction of any New York State or United States Federal court sitting in the Borough of Manhattan, New York City over any suit, action or proceeding arising out of or relating to this Indenture, any Note or any Subsidiary Guarantee." In addition, the Indenture provides that "[a]s long as any of the Notes remain Outstanding, the Company and each of the Subsidiary Guarantors will at all times have an authorized agent in New York City, upon whom process may be served in any legal action or proceeding arising out of or relating to this Indenture, any Note or any Subsidiary Guarantee." Finally, as contemplated by the Indenture, "[e]ach of the Notes, the Subsidiary Guarantees and the Indenture shall be governed by, and construed in accordance with, the laws of the State of New York."

18. In addition, the Underwriter Defendants are located in New York and all Defendants do substantial business in New York. Also, purchases and sales of Sino-Forest common stock occurred on the OTC market in the United States, including New York. Moreover, the trustee for the 2017 Notes is the Law Debenture Trust Company of New York which is located at 400 Madison Avenue, Suite 4D, New York, New York 10017.

19. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone and Internet communications, and the facilities of the national securities markets.

II. PARTIES

A. Plaintiffs

20. Plaintiff David Leopard is a resident of South Carolina and purchased the common stock of Sino-Forest during the Class Period in the OTC market in the United States as set forth in the attached Certification and suffered damages when the price of those shares declined as a result of Defendants' misconduct.

21. Plaintiff IMF Finance SA ("IMF") is an entity with offices in the British Virgin Islands ("BVI") and purchased 2017 Notes from Defendant Credit Suisse pursuant to the October 2010 Note Offering as set forth in the attached Certification and suffered damages when the price of the 2017 Notes declined as a result of Defendants' misconduct. Plaintiff IMF asserts claims on behalf of purchasers of Sino-Forest debt securities, including purchasers of the 2017 Notes.

B. Defendants

22. Defendant Sino-Forest purports to be a commercial forest plantation operator, principally based in the PRC but with additional operations in other locations. At all material times, Sino-Forest's registered office was located in Mississauga, Ontario and its common stock traded on the OTC market in the United States using the symbol "SNOFF." As a reporting issuer in Ontario, Canada, Sino-Forest was required to file certain periodic reports (described below) regarding its business and operations, including audited financial statements, which were made

available to investors. Sino-Forest's common stock and various debt instruments were traded in Canada, the United States and elsewhere. Sino-Forest derives substantial revenue from interstate or international commerce.

23. Sino-Forest was required to file Management Discussion and Analysis Reports ("MD&As"), which are a narrative explanations of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects. The MD&A must discuss important trends and risks that are reasonably likely to affect the company's business in the future. MD&As are filed quarterly and at fiscal year end.

24. Another required filing, Annual Information Forms ("AIFs"), are annual disclosure documents intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF describes the company, its operations and prospects, risks and other external factors that impact the company specifically.

25. The Company also filed its audited financial statements, which were included in Annual Reports disseminated to investors.

26. As directors, board members, and executives in Sino-Forest during the Class Period, the Individual Defendants controlled the contents of its MD&As, financial statements, AIFs, Annual Reports, and other documents particularized herein and the misrepresentations and omissions made therein were made by the Individual Defendants as well as the Company itself.

27. Defendant **Allen T. Y. Chan** is a co-founder of Sino-Forest and was the Chairman, Chief Executive Officer, and a director of the Company from 1994 until August 28, 2011, when he resigned in the wake of the disclosure of the misconduct described in this Complaint. As Sino-Forest's CEO, Chan certified the accuracy of the Company's securities

filings, including its financial statements, during the Class Period. Chan signed each of the Company's Annual Consolidated Financial Statements issued from 2006 through 2010. Chan is a resident of Hong Kong and, on information and belief, is a citizen of the PRC.

28. Chan certified each of materially false and misleading annual and quarterly MD&As and financial statements issued by Sino-Forest during the Class Period. During the Class Period, Chan signed each of Sino-Forest's materially false and misleading annual financial statements. Chan reviewed and approved the financial statements, public filings, and other statements issued by the Company and caused Sino-Forest to make the misrepresentations particularized below.

29. During the Class Period, Chan received substantial compensation from the Company. For example, for 2008 to 2010, Chan's total compensation was, respectively, \$5.0 million, \$7.6 million, and \$9.3 million. In addition, during the Class Period, while in possession of material adverse information regarding the business and finances of Sino-Forest, Chan sold nearly \$3 million worth of Sino-Forest common stock to unsuspecting investors. Chan also received millions in undisclosed compensation through certain hidden related party transactions, including the acquisition of Greenheart, as described below.

30. As of May 1, 1995, shortly after Sino-Forest became a reporting issuer, Chan held 18.3% of Sino-Forest's outstanding common shares and 37.5% of its preference shares. As of April 29, 2011, he held 2.7% of Sino-Forest's common shares.

31. Defendant Albert Ip is a former senior executive for Sino-Forest who engaged in a fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest's public filings and other statements related to its business and financial results.

32. Defendant Alfred C.T. Hung is a former senior executive for Sino-Forest who engaged in a fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest's public filings and other statements related to its business and financial results.

33. Defendant George Ho is a former senior executive for Sino-Forest who engaged in a fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest's public filings and other statements related to its business and financial results.

34. Defendant Simon Yeung is a former senior executive for Sino-Forest who engaged in a fraudulent scheme to inflate the assets and revenue of Sino-Forest and made materially misleading statements in Sino-Forest's public filings and other statements related to its business and financial results.

35. Defendant David J. Horsley, former Senior Vice President and Chief Financial Officer ("CFO") of Sino-Forest, was responsible for the Company's accounting, internal controls, and financial reporting, including the preparation of the Company's financial statements. Horsley signed and certified the Company's disclosure documents during the Class Period. Horsley resides in Ontario.

36. Horsley certified each of Sino-Forest's Class Period materially false and misleading annual and quarterly MD&As and financial statements. Horsley signed each of Sino-Forest's Class Period materially false and misleading annual financial statements. As an officer, he caused Sino-Forest to make the misrepresentations particularized below.

37. During the Class Period, Horsley received substantial compensation from Sino-Forest. For 2008 to 2010, Horsley's total compensation was, respectively, \$1.7 million, \$2.5

million, and \$3.1 million. During the Class Period, while in possession of material adverse information concerning the business and finances of Sino-Forest, Horsley sold almost \$11 million worth of shares of Sino-Forest common stock.

38. Defendant **Kai Kit Poon** is a co-founder of Sino-Forest, a member of its Board of Directors and has been President of the Company since 1994. Poon resides in Hong Kong and, on information and belief, is a citizen of the PRC. During the Class Period, while in possession of material adverse information concerning the business and finances of Sino-Forest, Poon sold over \$30 million worth of shares of Sino-Forest common stock.

39. While Poon was a board member, he caused Sino-Forest to make the misrepresentations or omit material facts particularized below.

40. Poon rarely attended board meetings while he was on Sino's board. From the beginning of 2006 until his resignation from the Board in 2009, he attended 5 of the 39 board meeting, or less than 13% of all board meetings held during that period.

41. Defendant **W. Judson Martin** has been a director of Sino-Forest since 2006, and was appointed vice-chairman in 2010. On or about August 25, 2011, Martin replaced Chan as Chief Executive Officer of Sino-Forest. Martin was a member of Sino-Forest's audit committee prior to early 2011 and, as a member of the audit committee, was responsible for reviewing and approving the Company's audited and unaudited financial statements. Martin has made in excess of \$474,000 through the sale of Sino-Forest shares. He resides in Hong Kong. As a board member, he reviewed and approved the financial statements, public filings and other statements issued by the Company and caused Sino-Forest to make the misrepresentations or omit material facts particularized herein.

42. Defendant **Edmund Mak** is a director of Sino-Forest and has held this position since 1994. Mak was a member of Sino-Forest's audit committee prior to early 2011 and, as a member of the audit committee, was responsible for reviewing and approving the Company's audited and unaudited financial statements. Mak and persons connected with Mak have made in excess of \$6.4 million through sales of Sino-Forest shares. Mak resides in British Columbia. As a board member, he reviewed and approved the financial statements, public filings and other statements issued by the Company and caused Sino-Forest to make the misrepresentations or omit material facts particularized below.

43. Defendant **James M. E. Hyde** is a director of Sino-Forest, and has held this position since 2004. Hyde was previously a partner of E&Y. Hyde is the chairman of Sino-Forest's Audit Committee and, as a member of the Audit Committee, was responsible for reviewing and approving the Company's audited and unaudited financial statements. Hyde is also a member of the Compensation and Nominating Committee. Hyde has made in excess of \$2.4 million through the sale of Sino-Forest's shares. Hyde resides in Ontario. As a board member, he reviewed and approved the financial statements, public filings and other statements issued by the Company and caused Sino-Forest to make the misrepresentations or omit material facts particularized below.

44. Defendant **William E. Ardell** is a director of Sino-Forest, and has held this position since January 2010. Ardell is a member of Sino-Forest's audit committee and, as a member of the Audit Committee, was responsible for reviewing and approving the Company's audited and unaudited financial statements. Ardell resides in Ontario. As a board member, he reviewed and approved the financial statements, public filings and other statements issued by the

Company and caused Sino-Forest to make the misrepresentations or omit material facts particularized below.

45. Defendant **James P. Bowland** was a director of Sino-Forest from February 2011 until his resignation from the Board of Sino-Forest in November 2011. While on Sino-Forest's board, Bowland was a member of Sino-Forest's Audit Committee and, as a member of the Audit Committee, was responsible for reviewing and approving the Company's audited and unaudited financial statements. Bowland resides in Ontario. As a board member, he reviewed and approved the financial statements, public filings and other statements issued by the Company and caused Sino-Forest to make the misrepresentations or omit material facts particularized below.

46. Defendant **Garry J. West** is a director of Sino-Forest, and has held this position since February 2011. West was previously a partner at E&Y. West is a member of Sino-Forest's Audit Committee 2011 and, as a member of the Audit Committee, was responsible for reviewing and approving the Company's audited and unaudited financial statements. West resides in Ontario. As a board member, he reviewed and approved the financial statements, public filings and other statements issued by the Company and caused Sino-Forest to make the misrepresentations or omit material facts particularized below.

47. Defendants **Martin, Mak, Hyde, Ardell, Bowland, and West** are referred to herein as the **Audit Committee Defendants**. Defendants **Chan, Ip, Hung, Ho, and Yeung** are referred to herein as **Overseas Management Defendants**. The **Overseas Management Defendants** together with Defendant **Horsley** are referred to herein as the **Officer Defendants**. The **Officer Defendants** and Sino-Forest are collectively referred to as **the Sino-Forest Defendants**. Defendants **Martin, Mak, Hyde, Ardell, Bowland, West, Chan, Ip, Hung, Ho, Yeung, and Horsley** are herein referred to as the **Individual Defendants**.

48. As officer and/or directors of Sino-Forest, the Individual Defendants were fiduciaries of Sino-Forest, and they made the misrepresentations or omitted material facts alleged herein, and/or caused Sino-Forest to make such misrepresentations and omissions. In addition, Defendants Chan, Poon, Horsley, Martin, Mak, and Murray were unjustly enriched in the manner and to the extent particularized below.

49. Defendant **Poyry (Beijing) Consulting Company Limited** ("Poyry") is an international forestry consulting firm which purported to provide certain forestry consultation services to Sino-Forest.

50. Poyry, in providing what it purported to be "forestry consulting" services to Sino-Forest, made statements that it knowingly intended to be, and which were, disseminated to Sino-Forest's current and prospective security holders. At all material times, Poyry was aware of that class of persons, intended to and did communicate with them, and intended that prospective investors and the market, among others, would rely on Poyry's statements relating to Sino-Forest, which they did to their detriment.

51. Poyry consented to the inclusion in the June 2007, June 2009, and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009, and October 2010 Offering Memoranda, of its various reports, as detailed below in paragraph 207.

52. Defendant **Banc of America Securities LLC** ("BOA") is a financial services company which, using the name "BofA Merrill Lynch" or "Merrill Lynch Canada", acted as one of two "Joint Global Coordinators and Lead Bookrunning Managers" for the October 2010 Offering. BOA's affiliate, Merrill Lynch, Canada, acted as an underwriter for the June 2007, July 2008, June 2009, and December 2009 Offerings. In this capacity, BOA acted as an underwriter in one or more of the Offerings. BOA operates in and has its principal place of

business in New York County, New York. This Complaint seeks damages on behalf of the purchasers of the 2017 Notes against any and all Bank of America entities that may be liable for the misconduct described herein.

53. Defendant Credit Suisse Securities (USA) LLC ("Credit Suisse") is a financial services company which acted as one of two "Joint Global Coordinators and Lead Bookrunning Managers" for the following Note Offerings: July 2008 and October 2010. Credit Suisse's affiliate, Credit Suisse, Canada, acted as an underwriter for the June 2007, June 2009, and December 2009 Offerings. In this capacity, Credit Suisse acted as an underwriter for this and additional Offerings. Credit Suisse operates in and has offices in New York County, New York. This Complaint seeks damages on behalf of the purchasers of the 2017 Notes against any and all Credit Suisse entities that may be liable for the misconduct described herein.

54. BOA and Credit Suisse are collectively referred to as the **Underwriter Defendants**. The Underwriter Defendants who are located in New York, NY, offered and sold the 2017 Notes pursuant to a materially false and misleading Offering Memorandum dated October 14, 2010 (the "Offering Memorandum") to certain Class Members in the United States who purportedly satisfied the requirements to be considered a "qualified institutional buyer" pursuant to Rule 144 of the U.S. Securities and Exchange Commission ("SEC"). The Underwriter Defendants also sold certain notes in the Offering to foreign investors relying on the exemption set forth in SEC Regulation S.

55. In connection with the Offerings made pursuant to the June 2007, June 2009, and December 2009 Prospectuses, the Underwriters who underwrote these Offerings were paid, respectively, an aggregate of approximately \$7.5 million, \$14.0 million, and \$14.4 million in underwriting commissions. In connection with the offerings of Sino-Forest's notes in July 2008,

December 2009, and October 2010, BOA and Credit Suisse were paid, respectively, an aggregate of approximately \$2.2 million, \$8.5 million, and \$6 million. Those commissions were paid in substantial part as consideration for the Underwriters' purported due diligence examination of Sino-Forest's business and financial condition.

56. None of the Underwriters conducted a reasonable due diligence into Sino-Forest in connection with any of the Offerings. None of the Underwriters had reasonable grounds to believe that there was no material misrepresentation or material omissions in any of the representations made to investors. The Underwriter Defendants ignored the existence of multiple warning signs regarding the misconduct described herein, and permitted Sino-Forest to go forward with the sale of securities inflated to investors based on materially false and misleading offering documents which the Underwriter Defendants assisted in preparing and provided to investors.

57. In the circumstances of this case, including the facts that Sino-Forest operated in an emerging economy, Sino-Forest entered Canada's capital markets by means of a reverse merger, and Sino-Forest reported extraordinary results over an extended period of time that far surpassed those reported by Sino-Forest's peers, the Underwriter Defendants all ought to have exercised heightened vigilance and caution in the course of discharging their duties to investors, which they did not do. Had they done so, they would have uncovered Sino-Forest's true financial results and performance, and the Class Members to whom they owed their duties would not have sustained the losses that they sustained on their Sino-Forest investments.

58. Defendant Ernst & Young LLP, a part of Ernst & Young Global Limited, has offices in Toronto, Canada. Ernst & Young LLP has been Sino-Forest's auditor since August 13, 2007 and was also Sino-Forest's auditor from 2000 to 2004. Sino-Forest's shareholders,

including numerous Class Members, appointed E&Y as auditors of Sino-Forest by shareholder resolutions passed on various dates, including on June 21, 2004, May 26, 2008, May 25, 2009, May 31, 2010, and May 30, 2011. This Complaint seeks damages against any and all Ernst & Young entities that may be liable for the misconduct described herein.

59. Ernst & Young LLP Chartered Accountants is referred to as "E&Y". For Sino-Forest's 2007 through 2010 fiscal years, E&Y provided an "Auditor's Report" addressed directly to Sino-Forest's shareholders, which gave the Company a "clean" audit report on its financial statements. At all material times, E&Y knew that its audit report was directed to Sino-Forest's shareholders, prospective shareholders and prospective purchasers of Sino-Forest's securities, and that investors would and did rely on E&Y's statements relating to Sino-Forest in making their investment decisions. Each of E&Y's audit reports informed the Company's investors and the purchasers of its securities that, based on its audits, Sino-Forest's financial statements were presented in accordance with Canadian GAAP and that it had performed its audits in accordance with applicable Canadian auditing standards. E&Y's audit report was materially false and misleading and omitted material facts as described herein.

60. The Individual Defendants earned millions of dollars in compensation because of Sino-Forest's artificially inflated stock price. Moreover, their misleading portrayal of the Company's finances allowed Sino-Forest to raise billions of dollars by issuing debt and equity securities to investors. This was critical to the Company's survival since the Company had a negative cash flow -- it was spending more money than it was taking in -- yet was spending enormous sums purportedly to purchase new assets. Sino-Forest's inflated stock price also allowed it to use its shares as currency to acquire other companies and assets.

61. It was only because of Defendants' concealment of Sino-Forest's true financial condition that the Company was able to complete the \$600 million Note Offering in October 2010. Investors would not have purchased these Notes or would not have purchased them at the prices they did, if the truth about Sino-Forest had been known.

62. Thus, during the Class Period, Defendants, acting in concert with others, made materially false statements and misleading statements and omitted material facts about the true financial condition and business operations of Sino-Forest, causing the prices of Sino-Forest's common stock and Debt Securities to be artificially inflated during the Class Period. Despite the obviously false and misleading nature of these statements, E&Y and the Underwriter Defendants facilitated the improper conduct of Sino-Forest and the Individual Defendants – E&Y by repeatedly ignoring red flags which would have led to the discovery of the Sino Forest Defendants' misconduct, and repeatedly certifying that the Company's financial statements were prepared in compliance with applicable accounting standards; and the Underwriter Defendants by failing to perform adequate due diligence on multiple occasions and disseminating the misleading Offering Memorandum to investors.

H. BACKGROUND

63. During the Class Period, Sino-Forest conducted its business through a network of approximately 137 related entities: 67 PRC incorporated entities (with 12 branch companies), 58 BVI incorporated entities, 7 Hong Kong incorporated entities, 2 Canadian entities, and 3 entities incorporated in other jurisdictions.

64. Sino-Forest portrayed itself as one of the world's largest and most successful forestry companies. According to the Company's Annual Information Form for the year ended December 31, 2010 (the "2010 Annual Form") Sino-Forest "had approximately 788,700 hectares

of forest plantations under management which are located primarily in southern and eastern China.” Between 2006 and 2010, Sino-Forest’s assets (primarily plantation acreage) purportedly grew nearly five-fold from approximately \$1.2 billion to over \$5.7 billion, while revenues grew from \$555 million to \$1.9 billion and net income more than tripled from \$113 million to \$395 million, as reflected in the Company’s financial statements³

65. In addition, from June 30, 2006 to March 31, 2011, Sino-Forest’s share price rose from \$5.04 (US) to \$26.08 (US). By March 31, 2011 Sino-Forest’s market capitalization was well over \$6 billion dollars.⁴

66. From 2007 through 2010, the Company’s annual financial statements were audited by Defendant E&Y which certified that they had been prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) and that the audit had been conducted in conformance with Canadian Generally Accepted Auditing Standards (“Canadian GAAS”).

67. Sino-Forest’s tremendous growth was ostensibly fueled by increasingly large acquisitions of valuable tree plantations and revenues generated from operations relating to that business. In addition, the Company’s escalating growth allowed it to raise enormous sums of capital from investors around the world through the sale of debt securities and common stock, including the sale of \$600 million in notes which occurred in October 2010 (the “Offering”) that will come due in 2017 (the “2017 Notes”). The Note Offering was underwritten by Defendants Banc of America Securities LLC and Credit Suisse Securities (USA) LLC. In total, the Company issued *over \$1.8 billion* in debt instruments during the Class Period.

³ Except where otherwise indicated, all amounts in this Complaint are in U.S. dollars.

⁴ This figure is an extrapolation from 12/31/10 number.

68. Moreover, Defendant E&Y annually audited Sino-Forest's financial statements and reviewed its interim financial information for compliance with Canadian GAAP. For fiscal years 2007 through 2010 E&Y gave Sino-Forest a "clean" audit opinion.

A. SINO-FOREST'S OPAQUE BUSINESS MODEL

69. Although ostensibly a forestry company, Sino-Forest's purported business was, in many respects, more that of a trader or financial intermediary than of a traditional forestry company. The Company seldom sold wood products directly to end-user customers. Instead, it claimed that most of its earnings came from buying logs and the right to harvest trees and then reselling these logs and harvesting rights at higher prices.

70. Sino-Forest's corporate structure is a complex web of dozens of interconnected Canadian, Chinese, Hong Kong, Cayman Islands and British Virgin Islands subsidiaries, most of which are wholly-owned or in which the Company has a majority interest. A total of 137 entities make up the Sino-Forest Companies: 67 PRC incorporated entities (with 12 branch companies), 58 BVI incorporated entities, 7 Hong Kong incorporated entities, 2 Canadian entities, and 3 entities incorporated in other jurisdictions.⁵

71. Sino-Forest is the sole shareholder of Sino-Panel Holdings Limited (incorporated in the BVI), Sino-Global Holdings, Inc. (incorporated in the BVI), Sino-Panel Corporation (incorporated in Canada), Sino-Wood Partners Limited (incorporated in Hong Kong), Sino-Capital Global Inc. (incorporated in the BVI), and Sino-Forest International (Barbados) Corporation (incorporated in Barbados). Sino-Forest also holds all of the preference shares of

⁵ Sino-Forest's recently released corporate organizational chart, attached as Exhibit A, illustrates in part, the complexity

Sino-Forest Resources, Inc. (incorporated in the BVI). Some of these subsidiaries have further direct and indirect subsidiaries.

72. Sino-Forest's business model is further complicated by the fact that much of its business is done through "Authorized Intermediaries" ("AIs"), supposedly independent companies that are largely responsible for the actual sale of forestry products to the users of these products. Despite the critical role that these Authorized Intermediaries play in its business, little is known of the financial relationships with these AIs and Sino-Forest has, with one exception, refused to disclose the identity of these companies. As Defendant Martin acknowledged in Sino-Forest's creditors proceedings, "there has always been very little insight into the business of the AIs including their books and records, cash collections and disbursements." Martin further noted that there continue to be "on-going issues with respect to many of the business transactions between Sino-Forest and the AIs, including the nature of many of these relationships."

73. Because Sino-Forest principally operates in China, Sino-Forest's convoluted structure and business practices did not initially arouse investor suspicions. Because of the unusual aspects of doing business in China, where foreign investments are tightly regulated, a number of legitimate foreign companies operating in that country have unusually complex structures. But, unbeknownst to investors, there was little or no business justification for the way Sino-Forest structured itself and its operations. Sino-Forest's structure was not meant to facilitate compliance with Chinese law, but rather to make it easier for Defendants to materially mislead investors about the Company's operations, revenue, earnings, and assets.

74. One specific example of this complex organization is Sino-Forest's relationship with one of its most important subsidiaries, Greenheart Group Ltd. ("Greenheart"), a public company listed on the Hong Kong Stock Exchange. In 2010, following a complex series of

transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart. Sino-Forest's 64% interest in Greenheart was acquired using cash and shares of Company stock. Greenheart holds natural forest concessions, mostly in Suriname.

75. Greenheart controls most of Sino-Forest's supposedly substantial forestry assets outside of China. But, Sino-Forest also holds a 39.6% stake in Greenheart Resources Holdings Ltd. ("GRH"), a subsidiary of Greenheart. GRH, in turn, indirectly owns 100% of Greenheart's forest assets and operations in the western part of Suriname, supposedly one of Sino-Forest's principal timber holdings.

76. In its Annual Information Form ("AIF") for 2010, Sino-Forest stated that its operations were comprised of two core business segments which it titled "Wood Fibre Operations" and "Manufacturing and Other Operations." Wood Fibre Operations had two subcomponents entitled "Plantation Fibre" and "Trading of Wood Logs."

77. According to Sino-Forest, the Plantation Fibre subcomponent of its business was derived from the purported acquisition, cultivation, and sale of either "standing timber" or "logs" in the PRC. For the purpose of this Amended Complaint, the Plantation Fibre subcomponent of Sino-Forest's business will be referred to as "Standing Timber" as most, if not all, of the revenue from the sale of Plantation Fibre was derived from the sale of "standing timber."

78. From 2007 to 2010, Sino-Forest reported Standing Timber revenue totaling approximately \$3.56 billion, representing about 75% of its total revenue of \$4.77 billion. The following table provides a summary of Sino-Forest's stated revenue growth for the period from 2007 to 2010 and illustrate the importance of the revenue derived from the sale of Standing Timber:

	2007	2008	2009	2010	TOTAL
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Plantation Fibre (defined as Standing Timber herein)	\$521.5m	\$685.4m	\$954.2m	\$1,401.2m	\$3,562.3m
Trading of Wood Logs	\$154.0 m	\$153.5m	\$237.9m	\$454.0m	\$999.4m
TOTAL Wood Fibre Operations	\$675.5m	\$838.9m	\$1,192.1m	\$1,855.2m	\$4,561.7m
***	***	***	***	***	***
Manufacturing and Other Operations	\$38.4m	\$57.1m	\$46.1m	\$68.3m	\$209.9 m
TOTAL REVENUE	\$713.9m	\$896.0m	\$1,238.2m	\$1,923.5m	\$4,771.6m

79. Standing Timber was purchased, held, and sold by Sino-Forest in two distinct legal structures or models: the "BVI Model" and the "WFOE Model."

80. In the BVI Model, Sino-Forest's purchases and sales of Standing Timber in the PRC were conducted using wholly owned subsidiaries of Sino-Forest incorporated in the British Virgin Islands (the "BVI Subs"). The BVI Subs purported to enter into written purchase contracts ("Purchase Contracts") with suppliers in the PRC ("Suppliers") and then purported to enter into written sales contracts ("Sales Contracts") with its AIs.

81. In the WFOE Model, Sino-Forest used subsidiaries incorporated in the PRC called Wholly Foreign Owned Enterprises ("WFOEs") to acquire, cultivate, and sell the Standing Timber. The Sino-Forest WFOEs also entered into Purchase Contracts and Sales Contracts with other parties in the PRC.

B. SINO-FOREST'S UNDISCLOSED FRAUDULENT TRANSACTIONS

1. The Standing Timber Fraud

82. During the Class Period, Sino-Forest and the Individual Defendants engaged in numerous deceitful and dishonest courses of conduct (the "Standing Timber Fraud") that ultimately caused the assets and revenue derived from the purchase and sale of Standing Timber (which constituted the majority of Sino-Forest's business) to be fraudulently overstated, thereby misleading Plaintiffs and Class Members.

83. The Standing Timber Fraud was primarily comprised of three elements:
- a. Sino-Forest concealed its control over Suppliers, AIs, and other nominee companies and misstated the true economic substance of the relationships in Sino-Forest's financial disclosures;
 - b. Sino-Forest falsified the evidence of ownership for the vast majority of its timber holdings by engaging in a deceitful documentation process; and
 - c. Sino-Forest concealed internal control weaknesses/failures that obscured the true nature of transactions conducted within the BVI Network.

84. Placed on notice of Sino-Forest's internal control weaknesses/failures and its inadequate processes E&Y (which had access to both company personnel and documents, *inter alia*) should have scrutinized the related parties or the transactions at issue during the course of its audit – particularly the incomplete documentation process by which the purchase, sale, and ownership of Standing Timber were supposedly evidenced. Had E&Y fulfilled its obligations as an auditor in certifying the accuracy of Sino-Forest's purchase, sale, and ownership records and in determining the nature of the related parties involved in the transactions, this fraudulent scheme would likely have been detected sooner. Similarly, the Underwriter Defendants, having known of Sino Forest's internal control weaknesses, should have examined the related party transactions during the course of their due diligence.

85. As set out in paragraph 93, the vast majority of Sino-Forest's Standing Timber assets were held in the BVI Model. However, the available underlying documentation for these Standing Timber assets does not provide sufficient evidence of legal ownership of those assets. As of this date, the OSC has found that Sino-Forest has not been able to confirm full legal ownership of the Standing Timber assets that it claims to hold in the BVI.

86. The following examples detail the fraudulent course of conduct that Sino-Forest and the Individual Defendants perpetrated with respect to financial transactions involving its timber assets, resulting in the issuance of materially false and misleading financial statements to investors.

- a. "off-book" transactions and undocumented set-offs;
- b. the Dacheng Fraud;
- c. the 450,000 Fraud;
- d. Gengma Fraud #1; and
- e. Gengma Fraud #2.

87. On December 31, 2010, Sino-Forest reported total timber holdings of \$3.1 billion, comprising 799,700 hectares. About \$2.5 billion or approximately 80% of the total timber holdings (by value) were held in the BVI Model, comprising approximately 467,000 hectares of Standing Timber. The WFOE Model purportedly held approximately 97,000 hectares of Standing Timber valued at \$295.6 million, or approximately 10% of the total timber holdings (by value). The timber holdings in the BVI Model and the WFOE Model comprised approximately 90% of the total timber holdings (by value) of Sino-Forest as of December 31, 2010.

2. Off-Book Transactions and Undocumented Set-Offs

88. The cash-flows associated with the purchase and sale of Standing Timber executed in the BVI Model took place "off-book" pursuant to a payables/receivables arrangement (the "Offsetting Arrangement"), whereby the BVI Subs would not directly receive the proceeds on the sale of Standing Timber from the purchasing AI. Rather, Sino-Forest would direct the AI that purchased the timber to pay the sales proceeds to a new Supplier in order to buy additional Standing Timber. Consequently, Sino-Forest also did not make payment directly to Suppliers for purchases of Standing Timber.

89. According to the OSC, Sino-Forest did not possess the appropriate records to confirm that these "off-book" cash-flows in the Offsetting Arrangement actually took place. Set-off documentation was inadequate as it did not relate to a particular sales transaction and was not a record of a BVI sales transaction. Nor did Sino-Forest have any other documentation besides the set-off to evidencing payment and sale of the earlier timber sales. This lack of transparency within the BVI Model meant that independent confirmation of these "off-book" cash-flows was reliant on the good faith and independence of Suppliers and AIs.

90. Further, pursuant to the terms of Sales Contracts entered into between a BVI Sub and an AI, the AI assumed responsibility for paying any PRC taxes associated with the sale that were owed by the BVI Sub. This obligation purportedly included paying the income tax and valued added tax on behalf of Sino-Forest.

91. Sino-Forest dealt with relatively few Suppliers and AIs in the BVI Model. For example, in 2010, six Suppliers accounted for 100% of the Standing Timber purchased in the BVI Model and five AIs accounted for 100% of Sino-Forest's revenue generated in the BVI Model.

92. From 2007 to 2010, revenue from the BVI Model totaled \$3.35 billion, representing 94% of Sino-Forest's reported Standing Timber revenue and 70% of Sino-Forest's total revenue. The importance of the revenue from the BVI Model is demonstrated in the following table:

	2007	2008	2009	2010	TOTAL
BVI Model Revenue	\$501.4m	\$644.9m	\$882.1m	\$1,326m	\$3,354.4m
WFOE Model Revenue	\$20.1m	\$40.5m	\$72.1m	\$75.2m	\$207.9m
Standing Timber Revenue	\$521.5m	\$685.4m	\$954.2m	\$1,401.2m	\$3,562.3m
TOTAL REVENUE	\$713.9m	\$896m	\$1,238.2m	\$1,923.5m	\$4,771.6m
BVI Model as % of Total Revenue	70%	72%	71%	69%	70%

3. Undisclosed Control Over Parties within the BVI Network

93. Almost all of the buying and selling of Standing Timber in the BVI Model was generated through transaction between BVI Subs and a small number of Suppliers and AIs. Sino-Forest also conducted a significant level of this buying and selling with companies that are described in various Sino-Forest documents and correspondence as "peripheral" companies. Sino-Forest established and used a network of "nominee" companies that were controlled, on its behalf, by various so-called "caretakers."

94. For the purpose of this Amended Complaint, the BVI Subs, Suppliers, AIs, "nominee" companies, and "peripheral" companies involved in the buying and selling of Standing Timber in the BVI Model are collectively referred to as the "BVI Network." Some of

the companies within the BVI Network were also involved in the buying and selling of Standing Timber within the WFOE Model.

95. One Sino-Forest document (the "Caretaker Company List") lists more than 120 "peripheral" (nominee) companies that are controlled by 10 "caretakers" on behalf of Sino-Forest. The "caretakers" include Huang Ran (legal representative of Huaihua City Yuda Wood Ltd. ("Yuda Wood"), described in greater detail in paragraphs 99 to 108 below), a relative of Chan, a former Sino-Forest employee, the sole director/shareholder of Montsford Ltd. (an acquaintance of Chan and Chan's nominee in the Greenheart Transaction as outlined in paragraphs 169 to 173 below), a former shareholder of Greenheart Resources Holdings Limited ("GRHL") and a shareholder of Greenheart, and an individual associated with some of Sino-Forest's Suppliers.

96. The control and influence that Sino-Forest exerted over certain Suppliers, AIs, and peripheral companies within the BVI Network bring the bona fides of numerous contracts entered into in the BVI Model into question. Sino-Forest wielded this control and influence through the Overseas Management Defendants and these caretakers. Sino-Forest's control of, or influence over, certain parties within the BVI Network was not disclosed to Plaintiffs and Class Members.

97. Some of the counterparties to the transactions described below (Dacheng Fund, the 450,000 Fraud, Gengma Fraud #1, and Gengma Fraud #2) are companies that are included in the Caretaker Company List, as outlined in more detail in paragraphs 135 to 166 below.

98. Among other undisclosed relationships, Sino-Forest did not disclose the true nature of its relationship with the following two key companies in the BVI Network: Yuda Wood and Dongkou Shuanglian Wood Company Limited ("Dongkou").

i. Sino-Forest Controlled Yuda Wood, a Major Supplier

99. Huaihua City Yuda Wood Co. Ltd., based in Huaihua City, Hunan Province (“Yuda Wood”), was a major supplier of Sino during the Class Period. Yuda Wood was founded in April 2006 and, from 2007 until 2010, its business with Sino totaled approximately 152,164 Ha.

100. Yuda Wood was a Supplier that was controlled by Sino-Forest during the Class Period. In the Second Interim Report, the Independent Committee of the Board of Directors of Sino-Forest Corporation (“IC”) acknowledged that *“there is evidence suggesting close cooperation [between Sino and Yuda Wood] (including administrative assistance, possible payment of capital at the time of establishment, joint control of certain of Yuda Wood’s RMB bank accounts and the numerous emails indicating coordination of funding and other business activities)”* [emphasis added].

101. The fact that Yuda Wood was a related party of Sino-Forest during the Class Period was a material fact and was required to be disclosed under Canadian GAAP, but, during the Class Period, that fact was not disclosed by Sino-Forest in any of the Financial Statements, MD&As, Prospectuses, Offering Memoranda, or otherwise.

102. From 2007 to 2010, Yuda Wood was purportedly Sino-Forest’s largest Supplier, accounting for 18% of all purchases in the BVI Model. Sino-Forest claimed to have paid Yuda Wood approximately \$650 million during that time. Because Yuda Wood was Sino-Forest’s largest Supplier, both E&Y (during the course of its audits) and the Underwriter Defendants (as part of their due diligence) should have closely scrutinized the relationship between the Yuda Wood and Sino-Forest and the transactions between the companies.

103. Yuda Wood was registered and capitalized by certain Individual Defendants, including Defendants Yeung, Ip, Ho, Hung, who also controlled bank accounts of Yuda Wood and key elements of its business.

104. The legal representative of Yuda Wood is Huang Ran, a former employee of Sino-Forest and also a shareholder and director of Hong Kong Sonic Jita Engineering Co., Ltd. ("Sonic Jita"), the sole shareholder of Yuda Wood. In addition, Huang Ran had significant interests in other Suppliers of Sino-Forest and was identified as the "caretaker" of several nominee/peripheral companies.

105. Yuda Wood and other companies controlled by Sino-Forest through Huang Ran were used to perpetrate portions of the Standing Timber Fraud including the Dacheng Fraud, the 450,000 Fraud, Gengma Fraud #1 and Gengma Fraud #2.

106. During the Class Period, Sino-Forest had at least thirteen (13) Suppliers for which former Sino-Forest employees, consultants, or others are or were directors, officers and/or shareholders. Due to these and other connections between these Suppliers and Sino-Forest, some or all of these Suppliers were, in fact, undisclosed related parties of Sino-Forest. These facts suggest that these relationships resulted in improper control over these related parties.

107. Including Yuda Wood, the thirteen (13) Suppliers referenced above accounted for 43% of Sino-Forest's purported plantation purchases during the Class Period.

108. Sino-Forest failed to disclose, in Financial Statements, Offering Memoranda, MD&As, AIFs, or other documents, that any of these Suppliers were related parties, nor did it disclose sufficient information regarding its relationship with such Suppliers as would have enabled investors to ascertain that those Suppliers were related parties and that the transactions

with these entities should have been identified in Sino Forest's financial statements and other disclosures as related party transactions.

ii. Sino-Forest Controlled Dongkou, a Major AI

109. Dongkou was an AI that was controlled by Sino-Forest during the Class Period.

110. In 2008, Dongkou was Sino-Forest's most significant AI, purportedly purchasing approximately \$125 million in Standing Timber from Sino-Forest, constituting about 18% of Sino-Forest's Standing Timber revenue for that year. Because Dongkou was a significant AI, both E&Y and the Underwriter Defendants should have closely scrutinized the relationship between Dongkou and Sino-Forest and the transactions between the companies.

111. Sino-Forest controlled Dongkou through one of its WFOE subsidiaries, Shaoyang Jiading Wood Products Co. Ltd. ("Shaoyang Jiading"). Correspondence indicates that, according to an agreement dated November 18, 2006, Shaoyang Jiading purchased Dongkou for approximately \$200,000.

112. By November 2006, the six original shareholders of Dongkou had been replaced with two Sino-Forest employees. These two people became the sole Dongkou shareholders with Shareholder #1 holding 47.5% and Shareholder #2 holding 52.5%.

113. Also, in 2007, at the direction of Defendant Ip and others, employees of Sino-Forest drafted purchase contracts to be entered into by Dongkou and its suppliers (other than Sino-Forest). Essentially, Sino-Forest, through Individual Defendants, controlled Dongkou's business with certain counterparties and these transactions should have been identified in Sino Forest's financial statements and other disclosures as related party transactions.

D. Creation and Backdating of Sales Contracts and Other Documents

i. Purchase Contracts in the BVI Model

114. As set out in paragraph 87, approximately 80% (by value) of Sino-Forest's timber assets were held in the BVI Model as of December 31, 2010.

115. Sino-Forest used the Purchase Contracts to acquire and evidence ownership of Standing Timber in the BVI Model. The Purchase Contracts purported to have three attachments:

- a. Plantation Rights Certificates ("Certificates") or other ownership documents;
- b. Farmers' Authorization Letters ("Farmers' Authorizations"); and
- c. Timber Survey Reports ("Survey Reports").

116. The Purchase Contracts and their attachments were fundamentally flawed in at least four respects, thereby making those transactions suspect and unverifiable.

117. First, Sino-Forest did not hold Certificates evidencing ownership of the Standing Timber allegedly purchased by the BVI Subs. Instead, Sino-Forest claimed that, since the BVI Subs could not obtain Certificates from the PRC government to evidence ownership, it purported to rely on confirmations issued by the forestry bureaus in the PRC as such evidence ("Confirmations"). However, Confirmations are not legally recognized documents evidencing ownership of timber assets in the PRC. These Confirmations were purportedly granted to Sino-Forest as favors by the PRC forestry business. According to Sino-Forest, the PRC forestry bureaus did not intend that these Confirmations would be disclosed to third parties. Also, certain PRC forestry bureau employees obtained gifts and cash payments from Suppliers of Sino-Forest, further undermining the value of the Confirmations as evidence of ownership.

118. If E&Y had conducted a proper audit of Sino-Forest, the inadequacy of the Confirmations as proof of ownership and the questionable circumstances by which these Confirmations were issued likely would have been discovered sooner.

119. Second, during the Class Period, Sino-Forest employed a systematic quarterly documentation process in the BVI Model whereby the purported Purchase Contracts were not drafted and executed until the quarter *after* the date in which the purchase allegedly occurred, although the transaction was accounted for in the preceding fiscal quarter. This was in violation of both the Company's accounting policies and relevant accounting principles.

120. Like the Purchase Contracts, the Confirmations were also created by Sino-Forest and backdated to the *previous* quarter. These Confirmations were created contemporaneously with the creation of the corresponding Purchase Contracts. These Confirmations were then allegedly provided to the relevant PRC forestry bureau for verification and execution.

121. Third, the Purchase Contracts referred to Farmers' Authorizations as additional proof of Sino Forest's ownership of the assets. However, none were attached. In the absence of Farmers' Authorizations, there is no evidence that ownership to the Standing Timber was properly transferred to Sino-Forest or to the Supplier prior to the purported transfer of ownership to Sino-Forest. Ownership of the Standing Timber would have remained with the original Certificate holder and the related transaction should not have been booked.

122. Fourth, the Survey Reports, which purported to identify the general location of the purchased timber, were all prepared by a single firm during the Class Period. A 10% shareholder of this survey firm was also an employee of Sino-Forest. Drafts of certain Survey Reports purportedly prepared by this independent survey company were located on the computer of

another employee of Sino-Forest. Like the Purchase Contracts and Confirmations, these drafts of the Survey Reports were backdated to the quarter prior to their creation.

123. In the absence of both Certificates and Farmers' Authorizations, Sino-Forest relied on the validity of the Purchase Contracts and the Confirmations as proof of ownership of the Standing Timber it held in the BVI Model. However, the Purchase Contracts and available attachments, including Confirmations, were prepared after the close of the quarter as outlined above, and do not constitute proof of ownership of the trees purported to have been bought by Sino-Forest in the BVI Model.

124. Moreover, the Purchase Contracts and readily available attachments, including the Confirmations, did not identify the precise location of the Standing Timber being purchased such that the existence of this Standing Timber could not be readily verified and valued independently.

ii. Sales Contracts in the BVI Model

125. Like the Purchase Contracts, many of the Sales Contracts purportedly entered into by the BVI Subs in the BVI Model were not actually created and executed until the quarter after the date of the alleged transaction.

126. In fact, in its 2010 Annual Report, the Company expressed the following revenue recognition policy: "The timing of recognition of revenue from plantation fibre sales is dependent on the terms and conditions of the Company's contractual arrangements with its customers. To date, substantially all of the Company's plantation fibre revenue has been recognized when the Company and the buyer enter into a binding sales agreement. In situations where the Company is harvesting the plantation fibre and is responsible for all such related harvesting costs, revenue is recognized at the point in time when the logs are delivered to the

buyer.” This revenue recognition policy is consistent with those reported in other Annual Reports.⁶

127. Accordingly, the revenue from the Sales Contracts in the BVI Model was improperly recognized in the quarter prior to the creation of the Sales Contracts. Therefore, the Financial Statements and public statements of Sino-Forest regarding its revenue from Standing Timber were materially false and misleading as revenue was improperly recognized in violation of applicable Company policies and accounting principles.

E. Undisclosed Internal Control Weaknesses/Failures

128. In its MD&A for 2010 dated March 15, 2011, Sino-Forest stated the following on page 27 regarding its “Disclosure Control and Procedures and Internal Controls Over Financial Reporting”:

The success of the Company’s vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting. By taking additional steps in 2011 to address this deficiency, management will continue to monitor and work on mitigating this weakness. [Emphasis added]

129. Sino-Forest made similar disclosure in its annual MD&A from 2006 to 2009 regarding this concentration of authority or lack of segregation and the risk resulting from these.

⁶ See Sino-Forest Corporation Condensed Interim Consolidated Financial Statements For the Six Months Ended June 30, 2011; 2007 MD&A; 2008 Annual Report; 2009 Annual Report.

weaknesses. These material weaknesses were not remedied during the Class Period by Sino-Forest, Overseas Management, the Audit Committee Defendants or Defendant Horsley.

130. Sino-Forest failed to disclose the extent of the concentration of duties in Overseas Management. It did not disclose that Overseas Management and their nominees had complete control over the operation of the BVI Model, including control over related parties, described in paragraphs 93 to 113, the creation and execution of the Purchase Contracts and Sales Contracts, described in paragraphs 114 to 127 and the extent of the "off-book" cash flow, set out in paragraphs 88 to 92. This concentration of control in the hands of Overseas Management facilitated the fraudulent course of conduct perpetrated in the BVI Model.

131. Although Sino-Forest did state that the concentration of authority in Overseas Management, their improper control over significant transactions and related entities, and lack of segregation of duties created a risk in terms of "measurement and completeness of transactions," and of "non-compliance with existing controls," Defendants omitted the fact that these were not simply risks but were, in fact, actually causing the issuance of materially false and misleading financial statements in violation of Canadian GAAP.

F. Four Examples of Fraudulent Transactions within the Standing Timber Fraud

132. During the Class Period, the Sino-Forest Defendants engaged in significant fraudulent transactions related to their purchase and sale of Standing Timber. These fraudulent transactions overstated Sino-Forest's assets, revenue, and income during the Class Period.

133. By way of example, four series of fraudulent transactions are detailed below: (i) the Dacheng Fraud; (ii) the 450,000 Fraud; (iii) Gengma Fraud #1; and (iv) Gengma Fraud #2.

134. In these transactions, Sino-Forest used certain Suppliers, AIs, and other nominee companies that it controlled to falsify the financial disclosure of Sino-Forest, including the value of its Standing Timber assets, revenue, and income.⁷

i. The Dacheng Fraud

135. Sino-Forest and the Individual Defendants committed fraud (the "Dacheng Fraud") in a series of purported transactions commencing in 2008, related to purchases of timber plantations (the "Dacheng Plantations") from a Supplier called Guangxi Dacheng Timber Co. Ltd. ("Dacheng"). Companies controlled by Sino-Forest through Huang Ran were used in the Dacheng Fraud.

136. The Dacheng Fraud involved duplicating the same Standing Timber assets within the Dacheng Plantations in the records of two Sino-Forest subsidiaries. Sino-Forest recorded the same assets once in the WFOE Model and again in the BVI Model.

137. In 2008, these Standing Timber assets were recorded at a value of RMB 47 million (approximately \$6.3 million) in the WFOE Model and this amount was paid to Dacheng. These funds were then funneled through Dacheng back to other subsidiaries of Sino-Forest, as the purported collection of receivables.

138. At the same time, Sino-Forest recorded these Standing Timber assets in the BVI Model at a value of approximately \$30 million. In 2009, Sino-Forest purported to sell the Standing Timber assets from the Dacheng Plantations held in the BVI Model for approximately \$48 million. This revenue was recorded in Q3 of 2009.

139. As a result of the Dacheng Fraud, in 2008, Sino-Forest overstated the value of certain Standing Timber assets by approximately \$30 million and, in 2009, Sino-Forest

⁷ These fraudulent transactions have been identified by the OSC.

overstated its revenue by approximately \$48 million. The effect of this revenue overstatement in Q3 of 2009 is set out in the table below:

Approximately Effect of the Dacheng Fraud on Q3 of 2009 (\$ millions)

Quarterly Reported Revenue	367.0
Overstated Revenue	47.7
Overstated Revenue as a % of Quarterly Reported Revenue	13.0%

140. Sino-Forest improperly reported this revenue for Q3 of 2009 on page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the “2009 Quarterly Highlights.” Accordingly, Sino-Forest’s Financial Statements for 2009 were also materially false and misleading.

ii. The 450,000 Fraud

141. Sino-Forest and Individual Defendants committed fraud (the “450,000 Fraud”) in a complex series of transactions involving the purchase and sale of 450,000 cubic meters of timber in Q4 of 2009, again utilizing companies controlled by Sino-Forest through Huang Ran. In an email, Defendant Yeung described this purchase and sale of timber as “a pure accounting arrangement.”

142. Three subsidiaries of Sino-Panel (the “Sino-Panel Companies”) purported to purchase 450,000 cubic meters of Standing Timber at a cost of approximately \$26 million from Guangxi Hezhou Yuangao Forestry Development Co. Ltd. (“Yuangao”) during October 2009.

143. In Q4 of 2009, the Sino-Panel Companies purportedly sold this Standing Timber to the following three customers:

- a. Gaoyao City Xinqi Forestry Development Co., Ltd. (“Xinqi”);
- b. Guangxi Rongshui Meishan Wood Products Factory (“Meishan”); and

c. Guangxi Pingle Haosen Forestry Development Co., Ltd. ("Haosen").

144. The sales price for this Standing Timber was approximately \$33 million for an apparent profit of approximately \$7.1 million.

145. The purported supplier (Yuangao) and the purported customers (Xinqi, Meishan, and Haosen) are all so-called "peripheral" companies of Sino-Forest, *i.e.*, they are nominee companies controlled by Huang Ran on behalf of Sino-Forest. Xinqi, Meishan, and Haosen are also companies included in the Caretaker Company List, and Haung Ran is identified as the "caretaker" of each company. *See* ¶ 93 herein.

146. This \$33 million sale of Standing Timber was recorded in Sino-Forest's WFOE Model, as opposed to its BVI Model. As noted in paragraph 88, the BVI Model employs the Offsetting Arrangement whereby payables and receivables are made and collected "off-book." However, in the WFOE Model, Sino-Forest takes receipt of the sales proceeds directly or "on-book."

147. By July 2010, none of the sales proceeds had been collected and the receivable was long overdue. In order to evidence the "collection" of the \$33 million in sales proceeds, Sino-Forest devised two separate "on-book" payables/receivables offsetting arrangements, one in 2010 and one in 2011, whereby Sino-Forest made payments to various companies, including Yuangao and at least two other Sino-Forest nominee companies.⁸

148. To account for the purported profit of \$7.1 million, Sino-Forest had to "collect" more than just the purchase price (\$26 million). Consequently, Sino-Forest created additional "payables" to complete the circular flow of funds needed to collect the sales proceeds of \$33

⁸ Dao County Juncheng Forestry Development Co., Ltd. And Guangxi Rongshui Taiyuan Wood Co., Ltd.

million. These "on-book" offsetting arrangements, therefore, included the purported settlement of various accounts payable, not just the Yuangao payable arising from the 450,000 Fraud.

149. The companies funneled the money to Xinqi, Meishan and Haosen who, in turn, repaid the money to the Sino-Panel Companies to achieve the purported collection of the \$33 million in revenue.

150. The "on-book" offsetting arrangements required that Suppliers and customers have bank accounts through which the funds could flow. In July and August 2010, Sino-Forest set up bank accounts for the suppliers and customers associated with the 450,000 Fraud to facilitate the circular cash flows. These bank accounts were overseen by Defendants Ip and Ho, as well as a former Sino-Forest employee and his associate.

151. Had the E&Y properly conducted its audit properly, utilizing procedures designed to obtain competent evidence of these transactions, the true substance of these transactions would have been revealed.

152. These circular cash-flows commenced in July 2010 and continued until February 2011. The circular flow of funds underlying the 450,000 Fraud demonstrates that the sales contracts purportedly entered into between the Sino-Panel Companies and Xinqi, Meishan, and Haosen are fraudulent and have no true economic substance. As a result of the 450,000 Fraud, Sino-Forest overstated the value of its revenue by approximately \$30 million for Q4 of 2009. The effect of this revenue overstatement on the financial statements of Sino-Forest for Q4 of 2009 is set out in this table:

Approximately Effect of the 450,000 Fraud on Q4 of 2009 (\$ millions)

Quarterly Reported Revenue	469.6
Fraudulently Overstated Revenue	30.1
Fraudulently Overstated Revenue as a % of	6.4%

Quarterly Reported Revenue	
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153. Sino-Forest reported its revenue for Q4 of 2009 at page 20 of its annual MD&A for 2009 (dated March 16, 2010) and page 87 of its 2009 Annual Report, summarizing the "2009 Quarterly Highlights." Accordingly, Sino-Forest's Financial Statements for 2009 were also materially false and misleading as they overstated revenue, income and assets.

iii. Gengma Fraud #1

154. Sino-Forest entered into a fraudulent transaction in 2007 related to Standing Timber assets purchased from Gengma Dai and Wa Tribe Autonomous Region Forestry Co., Ltd. ("Gengma Forestry") by Sino-Panel (Gengma) Co., Ltd. ("Sino-Panel Gengma"), a Sino-Forest subsidiary ("Gengma Fraud #1").

155. In 2007, Sino-Panel Gengma purchased certain land use rights and Standing Timber for approximately \$14 million from Gengma Forestry. These contracts were signed by Chan. However, this transaction between Sino-Panel Gengma and Gengma Forestry was not recorded. Instead, Sino-Forest purported to purchase the same assets from Yuda Wood, allegedly paying approximately \$68 million for the Standing Timber in 2007 and approximately \$15 million for certain land use rights during the period from June 2007 to March 2009. This purchase was recorded and these Standing Timber assets remained on the books of Sino-Forest until 2010.

156. These fraudulent transactions resulted in an overstatement of Sino-Forest's timber holdings for 2007, 2008, and 2009.

157. In 2010, this Standing Timber was purportedly sold for approximately \$231 million. However, these same Standing Timber assets were offered as collateral for a bank loan

by Sino-Forest in 2011, so the sale of those assets in 2010 could not have taken place and been recorded as revenue in that year.

158. Sino-Forest included these revenues in its reports for Q1 and Q2 at page 20 of its annual MD&A for 2010 (dated March 15, 2011) and page 88 of its 2010 Annual Report, summarizing the "2010 Quarterly Highlights."

The Gengma Fraud #1's Effect on the Reported Revenue of Sino-Forest

159. Gengma Fraud #1 resulted in Sino-Forest fraudulently overstating its revenue for Q1 and Q2 of 2010 as set out in the table below:

	Q1 2010	Q2 2010
Quarterly Reported Revenue	251.0	305.8
Amount Overstated Revenue	73.5	157.8
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	29.3%	51.6%

160. This income fraudulently inflated Sino-Forest's revenue, income, and assets for Q1 and Q2 of 2010, misleading Class Members.

iv. Gengma Fraud #2

161. In 2007, Sino-Forest and the Individual Defendants committed fraud in another series of transactions to artificially inflate its assets and revenue from the purchase and sale of Standing Timber.

162. In September 2007, Sino-Forest recorded the acquisition of Standing Timber from Yuda Wood at a cost of approximately \$21.5 million related to Standing Timber in Yunnan

Province (the “Yunnan Plantation”). However, Yuda Wood did not actually acquire these assets in the Yunnan Plantation until in September 2008 – one year later. (“Gengma Fraud #2”)

163. In 2007, Sino-Forest also purportedly purchased the land use rights to the Yunnan Plantation from Yuda Wood at a cost of approximately \$7 million, about 99% of which was paid to Yuda Wood during the period from January 2009 to April 2009. Sino-Forest then fabricated the sale of the land use rights to Guangxi Hezhou City Kun’an Forestry Co., Ltd. (“Kun’an”) pursuant to a contract dated November 23, 2009. Kun’an was controlled by Sino-Forest through Person #1 and is a company included in the Caretaker Company list referred to in paragraph 93 above.

164. Sino-Forest then purported to sell the Standing Timber in the Yunnan Plantation in a series of transactions between March 2008 and November 2009 for approximately \$49 million. As Yuda Wood did not own this Standing Timber asset until September 2008, Sino-Forest could not have recorded sales of this Standing Timber prior to that time. Accordingly, Sino-Forest’s Financial Statements for 2007 through 2009 were materially false and misleading as they overstated revenues, income, and assets.

The Gengma Fraud #2’s Effect on the Reported Revenue of Sino-Forest

165. The purported transactions underlying Gengma Fraud #2 resulted in Sino-Forest fraudulently overstating its revenue for Q1, Q2, Q3 of 2008, and Q4 of 2009 as set out in this table:

Approximate Effect of Gengma Fraud #2 on Q1, Q2, and Q3 of 2008 and Q4 of 2009 (\$ millions)

	Q1 2008	Q2 2008	Q3 2008	Q4 2009
Quarterly Reported Revenue	136.1	187.1	295.5	469.6
Fraudulently	5.7	4.9	5.9	32.6

Overstated Revenue				
Fraudulently Overstated Revenue as a % of Quarterly Reported Revenue	4.2%	2.6%	2.0%	6.9%

166. Sino-Forest reported its revenue for Q1, Q2, and Q3 of 2008 at page 19 of its annual MD&A for 2008 (dated March 16, 2009) and page 73 of its 2008 Annual Report summarizing the "2008 Quarterly Highlights." Revenue for Q4 of 2009 was reported as set out above in paragraph 141. Accordingly, Sino-Forest's Financial Statements for 2008 and 2009 were also materially false and misleading as they overstated revenues, income, and assets.

G. The Greenheart Transaction

167. In 2010, following a complex series of transactions, Sino-Forest completed the purchase of a controlling interest in Greenheart Group Ltd. ("Greenheart"), a public company listed on the Hong Kong Stock Exchange. Sino-Forest's 64% interest in Greenheart was acquired for approximately \$120 million in cash and Company stock. Greenheart holds natural forest concessions, mostly in Suriname. Greenheart controls most of Sino-Forest's supposedly substantial forestry assets outside of China. Sino-Forest also holds a 39.6% stake in Greenheart Resources Holdings Ltd. ("GRH"), a subsidiary of Greenheart. GRH, in turn, indirectly owns 100% of Greenheart's forest assets and operations in the western part of Suriname, supposedly one of Sino-Forest's principal timber holdings.

168. The Sino-Forest Defendants made materially misleading statements in Sino-Forest's AIFs for 2008, 2009, and 2010 by not disclosing Chan's interest in the Greenheart Transaction. These misleading statements were also contained in Sino-Forest's short form

prospectuses filed in 2009 (which incorporated by reference the relevant AIFs and MD&A as required by Ontario securities law).⁹

169. Two of the companies holding shares of GRHL, thus benefitting from the Greenheart Transaction, were Fortune Universe Ltd. ("Fortune Universe") and Montsford Ltd. ("Montsford"). Both Fortune and Montsford were BVI shelf companies incorporated in 2004 and subsequently acquired by, or for the benefit of, Chan in 2005.

170. As a result of the Greenheart Transaction, Fortune Universe and Montsford received over \$22.1 million, comprised of approximately \$3.7 million in cash and approximately \$18.4 million in securities of Sino-Forest. The Sino-Forest securities received by Fortune Universe and Montsford appreciated in value and were subsequently sold for a total of approximately \$35 million. With the help of Chan's assistant, these securities were sold through brokerage accounts of Fortune Universe and Montsford, which were opened at her direction on the instructions of Chan. However, Chan arranged for the sole director/shareholder of Fortune Universe and the sole director/shareholder of Montsford to act as Chan's nominees. Chan was the true beneficial owner of Fortune Universe and Montsford.

171. The sole director/shareholder of Fortune Universe was the legal representative and director of one of Sino-Forest's largest Suppliers during the Class Period. The sole director/shareholder of Montsford was an acquaintance of Chan based in the PRC.

172. While Sino-Forest disclosed that another director of Sino-Forest had an interest in the Greenheart Transaction in its AIFs for 2008, 2009, and 2010, it did not disclose that Chan benefitted directly or indirectly from the Greenheart Transaction through Fortune Universe and Montsford.

⁹ See also the Company's short form prospectuses filed in 2008 and 2010.

173. Chan failed to disclose his substantial personal interest in the Greenheart Transaction and the over \$22 million received by entities under his control. Chan and Sino-Forest misled the investing public in Sino-Forest's filings and public statements. Chan falsely certified the accuracy of Sino-Forest's AIFs for 2008, 2009, and 2010, as these documents failed to disclose his interest in the Greenheart Transaction. Accordingly, Sino-Forest's Financial Statements for these years were also materially false and misleading for improperly reporting related party transactions.

IV. SINO-FOREST'S MATERIALLY FALSE AND MISLEADING STATEMENTS

174. During the Class Period, Sino-Forest made numerous statements that were materially false and misleading and which had the effect of artificially inflating the value of Sino-Forest's securities. These false statements were contained in the Company's public filings, press releases, reports and other statements to the investing public. As described above, during the Class Period, the Company reported steadily increasing holdings of timber assets (mostly in the PRC) achieved through acquisitions and purchases, and increasing revenues and earnings, all of which contributed to the Company's rising stock price and its ability to issue additional debt and equity securities to investors.

175. By omitting material facts and failing to disclose the improper recognition of revenues, overstatement of assets, and other misconduct described above, the Sino-Forest Defendants made materially misleading statements or omitted material facts in its filings to the Ontario Securities Commission during the Class Period. The materially false and misleading statements or omitted facts related to Sino-Forest's business and financial results were contained in (or absent from) the Company's public filings, including its audited annual financial

statements, AIFs, prospectuses, and MD&As filed with the Ontario Securities Commission during the Class Period as required by Canadian securities law.

176. Besides the issuance of false and misleading financial statements, examples of other materially false and misleading statements include:

a. Sino-Forest's statement in its 2010 AIF that the Company applied for Plantation Rights Certificates and obtained confirmation of ownership from the forestry bureaus: "For our purchased plantations, we have applied for the corresponding Plantation Rights Certificates with the relevant local forestry bureaus. As the relevant locations where we purchased our purchased plantations have not fully implemented the new form of Plantation Rights Certificate, we are not able to obtain all the corresponding Plantation Rights Certificates for our purchased plantations. Instead, we obtained confirmation of our ownership of our purchased plantations from the relevant forestry bureaus. Based on the relevant purchase contracts and the approvals issued by the relevant forestry bureaus, we legally own our purchased plantations."

b. Sino-Forest's statement in its 2010 AIF that "The PRC government is in the process of gradually implementing the issuance of the new form of certificates on a nationwide scale. However, the registration and issuance of the new form plantation rights certificates by the PRC State Forestry Administration have not been fully implemented in a timely manner in certain parts of the PRC. We have obtained the plantation rights certificates or requisite approvals for acquiring the relevant plantation rights for most of the purchased plantations and planted plantations currently under our management, and we are in the process of applying for

the plantation rights certificates for those plantations for which we have not obtained such certificates.”¹⁰

177. Thus, beginning at least as early as March 19, 2007, the Company’s MD&A and annual filings were materially false and misleading with respect to the Company’s operations and financial performance because they described the Company as a fast-growing, legitimate business that followed good corporate governance practices, while failing to disclose: (1) that the Company engaged in multiple fraudulent transactions which resulted in the overstatement of assets, revenues and income; (2) that the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual relationships; (3) that its operations were permeated by unsubstantiated and undisclosed related party transactions; and (4) that its financial statements were materially misleading and not prepared in accordance with the applicable accounting standards. These material facts were omitted from the Company’s filings and reports listed in Paragraphs 190 and 192 herein.

178. These misleading statements and omissions, including the assets, revenue, and income recorded as a result of the Standing Timber Fraud, among other things, were material as they related to Sino-Forest’s primary business in the BVI Model and the WFOE Model, representing approximately 90% of Sino-Forest’s stated timber assets as of December 31, 2010 and 75% of its stated revenue from 2007 to 2010.

179. In addition, Sino-Forest’s statements in its public disclosures, including its AIFs and its MD&As filed with the Ontario Securities Commission during the Class Period, regarding the extent of its internal control weaknesses and deficiencies were wholly inadequate and

¹⁰ See also the Company’s 2007, 2008, and 2009 AIFs wherein the Company gives conflicting responses as to the issuance of plantation rights certificates.

misleading in light of the pervasive control management had over the transactions and entities Sino-Forest conducted business with and their ability to circumvent the Company's accounting practices and policies.

C. Misrepresentations and Omissions With Respect to Sino-Forest's Financial Statements

180. Sino-Forest's financial statements, which were disseminated on a quarterly and annual basis via press releases and public filings, consistently portrayed Sino-Forest as a profitable and rapidly expanding company. As set forth in Sino-Forest's 2006 Annual Consolidated Financial Statements, dated March 19, 2007; its 2007 Annual Consolidated Financial Statements, dated March 18, 2008; its 2008 Annual Consolidated Financial Statements, dated March 16, 2009; its 2009 Annual Consolidated Financial Statements, dated March 16, 2010; and its 2010 Annual Consolidated Financial Statements, dated March 15, 2011, the Company's revenue, earnings, and assets supposedly grew during the Class Period as follows:

	2006	2007	2008	2009	2010
Assets	\$1,207,255,000	\$1,837,497,000	\$2,603,924,000	\$3,963,899,000	\$5,729,033,000
Revenue	\$555,480,000	\$713,866,000	\$896,045,000	\$1,238,185,000	\$1,923,536,000
Net Income	\$113,480,000	\$152,273,000	\$228,593,000	\$286,370,000	\$395,426,000

181. Each of the annual financial statements, except for the 2006 statements, were accompanied by an audit opinion from E&Y stating that E&Y had conducted annual audits in accordance with Canadian GAAS and that these financial statements were presented in accordance with Canadian GAAP. Defendant Chan signed each annual financial statement.

182. E&Y consented to the inclusion in the June 2009 and December 2009 Prospectuses, as well as the July 2008, June 2009, December 2009, and October 2010 Offering

Memoranda, of its audit reports on Sino's Annual Financial Statements issued during the Class Period.

183. Defendants Hyde and West are former E&Y partners and employees. They served on Sino-Forest's Audit Committee but purported to exercise oversight of their former E&Y colleagues. In addition, Sino-Forest's Vice-President, Finance (Corporate), Thomas M. Maradin, is a former E&Y employee. Also, during the Class Period, at least 3 other former E&Y staff members were employed by Sino-Forest.

184. The charter of Sino-Forest's Audit Committee required that Ardell, Bowland, Hyde, and West review and take action to eliminate all factors that might impair, or be perceived to impair, the independence of the Auditor. Sino-Forest's practice of hiring numerous former E&Y staff and appointing former E&Y partners to its board and the audit committee – and paying them handsomely (for example, Hyde was paid \$163,623 by Sino-Forest in 2010, \$115,962 in 2009, \$57,000 in 2008, and \$55,875 in 2007, plus stock options and other compensation) – undermined the Audit Committee's oversight of E&Y.

185. E&Y's independence was further impaired by the significant non-audit fees it was paid during 2008-2010, which total \$712,000 in 2008, \$1,225,000 in 2009, and \$992,000 in 2010.

186. As described above, the Sino-Forest Defendants created and executed the Purchase Contracts in the BVI Model in the quarters after the assets acquired in those transactions were recognized. This made Sino-Forest's audited annual financial statements, AIFs, and MD&A for the years 2006, 2007, 2008, 2009, and 2010 materially false and misleading as revenues, income, and assets were all overstated. See paragraphs 114 to 124 above.

187. Further, given that Sino-Forest did not have sufficient proof of ownership of the majority of its Standing Timber assets due to the conduct described above, the information regarding Sino-Forest's timber holdings in its audited annual financial statements, AIFs, and MD&As for the years 2006, 2007, 2008, 2009, and 2010 were materially false and misleading. For the same reasons, the information regarding Sino-Forest's timber holdings in its short form prospectuses filed in 2007 and 2009 (which incorporated by reference the relevant audited annual financial statements, AIFs, and MD&As as required by Ontario securities law) was materially false and misleading as revenues, income, and assets were all overstated.

188. In addition, the creation and execution of sales contracts in the BVI model following the close of a quarter where the revenue related to those transactions was recognized, was contrary to the revenue recognition process set out in Sino-Forest's public filings including its MD&A and the notes to its audited annual financial statements – making those representations therefore, materially false and misleading as revenues, income, and assets were all overstated. *See* paragraphs 126 to 127 above.

189. The Company also issued materially false and misleading unaudited "Interim Financial Statements" during the Class Period, which incorporated prior period audited financial statements and similarly overstated the Company's revenue, earnings, and assets. The Company's materially false and misleading quarterly financial statements (through 2010) which, like the annual financial statements, showed increasing revenue, earnings, and assets, were released on the following dates:

Document	Date of Filing
2007 Q-1 Interim Financial Statements	5/14/2007
2007 Q-2 Interim Financial Statements	8/13/2007
2007 Q-3 Interim Financial Statements	11/12/2007

Document	Date of Filing
2008 Q-1 Interim Financial Statements	5/13/2008
2008 Q-2 Interim Financial Statements	8/12/2008
2008 Q-3 Interim Financial Statements	11/13/2008
2009 Q-1 Interim Financial Statements	5/11/2009
2009 Q-2 Interim Financial Statements	8/10/2009
2009 Q-3 Interim Financial Statements	11/12/2009
2010 Q-1 Interim Financial Statements	5/12/2010
2010 Q-2 Interim Financial Statements	8/10/2010
2010 Q-3 Interim Financial Statements	11/10/2010

Each of the financial statements listed above, as well as the reports listed in Paragraph 192, contained materially false and misleading financial statements and statements regarding the Company's financial results that omitted material facts described in Paragraph 191.

190. Sino-Forest's quarterly and annual financial statements (through December 31, 2010) were materially false and misleading because they failed to comply with Canadian GAAP. Specifically, at the time each of these financial statements was issued, it overstated the Company's assets, inflated the reported revenue and earnings, and misled investors regarding the Company's then-current financial situation and future prospects. Defendants failed to disclose to investors that: (1) the Company engaged in multiple fraudulent transactions which resulted in the overstatement of assets, revenues, and income; (2) the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual relationships; (3) the Company's operations were permeated by unsubstantiated and undisclosed related party transactions; and (4) the Company's financial statements were materially misleading and not prepared in accordance with the applicable accounting standards. Sino-Forest's quarterly financial statements for the first two quarters of fiscal year 2011 also overstated the Company's

assets, revenues, and net earnings at the time they were issued and were not presented in accordance with the applicable Canadian accounting standards.

D. Other Misrepresentations and Omissions In Annual And Quarterly Filings

191. In addition to filing false and misleading financial statements, the Company made numerous other false and misleading statements to investors in other periodic securities filings made pursuant to Canadian disclosure regulations. During the Class Period, the Sino-Forest Defendants repeatedly made statements in Sino-Forest's periodic filings that falsely and misleadingly described the Company as a fast-growing, legitimate business that followed good corporate governance practices.

192. The Company's periodic reports to investors included (in addition to the separately filed financial statements) a "Management Discussion and Analysis" ("MD&A") that Sino-Forest filed each quarter during the Class Period, "Annual Information Forms" ("AIFs") and annual reports. These documents provided to investors and others gave narrative explanations of the Company's business, operations and financial performance for the specific period, and of the Company's financial condition and future prospects. Canadian law specifically requires that the MD&A discuss important trends and risks that have affected the Company and that are reasonably likely to affect it in future. The dates of these false and misleading statements are set out in the table below:

Document	Date of Filing
2006 MD&A	3/19/2007
2006 AIF	3/30/2007
2006 Annual Report	5/4/2007
2007 Q-1 MD&A	5/14/2007
2007 Q-2 MD&A	8/13/2007

Document	Date of Filing
2007 Q-3 MD&A	11/12/2007
2007 MD&A	3/18/2008
2007 AIF	3/28/2008
2007 Annual Report	5/6/2008
2008 Q-1 MD&A	5/13/2008
2008 Q-2 MD&A	8/12/2008
2008 Q-3 MD&A	11/13/2008
2008 MD&A	3/16/2009
2008 AIF	3/31/2009
2008 Annual Report	5/4/2009
2009 Q-1 MD&A	5/11/2009
2009 Q-2 MD&A	8/10/2009
2009 Q-3 MD&A	11/12/2009
2009 MD&A	3/16/2010
2009 AIF	3/31/2010
2009 Annual Report	5/11/2010
2010 Q-1 MD&A	5/12/2010
2010 Q-2 MD&A	8/10/2010
2010 Q-3 MD&A	11/10/2010
2010 MD&A	3/15/2011
2010 AIF	3/31/2011
2010 Annual Report	5/10/2011

Each of the reports listed above contained materially false and misleading financial statements and contained statements regarding the Company's financial results that omitted material facts described in Paragraph 176.

E. False Certifications

193. Each annual financial statement, AIF, and MD&A filing was accompanied by separate certifications signed by Defendants Chan and Horsley, which asserted the following:

1. Review: I have reviewed the AIF, if any, annual financial statements and annual MD&A, including, for greater certainty, all documents and information that are incorporated by reference in the AIF (together, the "annual filings") of Sino-Forest Corporation (the "issuer") for the financial year ended December 31...

2. No misrepresentations: Based on my knowledge, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, for the period covered by the annual filings.

3. Fair presentation: Based on my knowledge, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the annual filings.

194. Similarly, each of the quarterly interim financial statements and quarterly MD&As were accompanied by separate certifications signed by Defendants Chan and Horsley, which also asserted the following:

1. Review: I have reviewed the interim financial report and interim MD&A (together, the "interim filings") of Sino-Forest Corporation (the "issuer") for the interim period ended....

2. No misrepresentations: Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. Fair presentation: Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

195. However, these publicly filed certifications were materially false and misleading because the Company's quarterly and annual financial statements overstated its assets, revenues and earnings, and the narrative statements were materially false and misleading. These statements failed to disclose (1) that the Company engaged in multiple fraudulent transactions which resulted in the overstatement of assets, revenues and income; (2) that the Company lacked adequate internal controls to substantiate its financial performance or verify its assets and contractual relationships; (3) that its operations were permeated by unsubstantiated and undisclosed related party transactions; and (4) that its financial statements were materially misleading and not prepared in accordance with the applicable accounting standards.

F. Misrepresentations and Omissions Relating To Yunnan Forestry Assets

196. On March 23, 2007, Sino-Forest issued a press release announcing that it had entered into an agreement to sell 26 million shares to several institutional investors for gross proceeds of \$200 million and that the proceeds would be used for the acquisition of standing timber including, pursuant to a new agreement, the purchase of standing timber in China's Yunnan Province. The press release further stated that Sino-Forest-Panel (Asia) Inc. ("Sino-Forest-Panel"), a wholly-owned subsidiary of Sino-Forest, entered into (on that same day) an agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd., ("Gengma Forestry") in Lincang City, Yunnan Province in the PRC. Under that Agreement, Sino-Forest-Panel would acquire approximately 200,000 hectares of non-state owned commercial standing timber in Lincang City and surrounding cities in Yunnan for \$700 million to \$1.4 billion over a 10-year period.

197. Similar representations regarding the acquisition of these assets were also made in Sino-Forest's Q1 2007 MD&A. Moreover, throughout the Class Period, Sino-Forest discussed

its purported Yunnan acquisitions in other filings and public statements. In the Company's 2010 AIF, filed on March 31, 2010, the Company asserted that "[a]s of December 31, 2010, we have acquired approximately 190,300 hectares of plantation trees for US \$925.9 million under the terms of the master agreement" which was entered into in March 2007. It made a similar statement in its 2010 annual report, which was filed on May 10, 2011.

198. However, as discussed above in paragraphs above 196 to 198, Sino-Forest's and Defendants' statements concerning the acquisition of assets in Yunnan Province were materially false and misleading because, among other reasons, Sino-Forest acquired the rights to far less timber than the Company claimed and/or the value attributed to the timber assets purportedly owned by Sino-Forest was materially overstated. As a result, the Company's representations relating to its financial results and business were materially misleading as Defendants failed to disclose the true amount of timber acquired from Gengma Forestry, thereby overstating the assets carried on the balance sheet.

G. Misrepresentations and Omissions Relating to the Offering of 2017 Notes

199. On October 14, 2010, Sino-Forest, through the Underwriter Defendants, offered and sold the 2017 Notes. The Underwriter Defendants served as Joint Global Coordinators and Lead Bookrunning Managers. The 2017 Notes were purportedly exempt from registration requirements under the U.S. Securities Act because they were offered, pursuant to SEC Rule 144A, to qualified institutional buyers (including those in the U.S.), and in offshore transactions to investors other than U.S. persons under SEC Regulation S.

200. The 2017 Notes were sold pursuant to the Offering Memorandum, which was materially false and misleading as described below, and which was prepared by the Sino-Forest Defendants and the Underwriter Defendants. The Offering Memorandum specifically

incorporates by reference Sino-Forest's misleading 2007, 2008, and 2009 annual financial statements, its misleading unaudited interim financial statements for the six months ended June 30, 2009 and June 30, 2010, and Defendant E&Y's audit reports dated March 13, 2009 and March 16, 2010 (with E&Y's consent). The Offering Memorandum states that the documents incorporated by reference "form [an] integral part of [the] Offering Memorandum."

201. As underwriters of the Note Offering, the Underwriter Defendants had a duty to investors to conduct an adequate due diligence with respect to the representations in the Offering Memorandum. The Underwriter Defendants were reckless or negligent in performing due diligence on the Note Offering by failing, among other things, to determine the legitimacy of the Company's revenues, earnings and income, its lack of internal controls, the existence of multiple related party transactions or to ascertain the true value of the assets, properties and business of Sino-Forest, resulting in the issuance of a materially false and misleading Offering Memorandum.

202. The Offering Document was signed by the Underwriter Defendants and contained both Sino-Forest's misleading financial statements and the misleading narrative description of the Company's results and its future prospects, including the portrayal of the Company as a fast-growing, legitimate business which followed good corporate governance practices with positive future prospects for growth. In particular, the Offering Memorandum cited the Company's competitive strengths including, among others, the following: (i) "Leading commercial forest plantation operator in the PRC with established track record;" (ii) "First mover advantage with strong track record of obtaining and developing commercial tree plantations and ability to leverage our industry foresight;" (iii) "Future growth supported by long-term master agreements

at agreed capped prices;" (iv) "Strong research and development capability, with extensive forestry management expertise in the PRC;" and (v) "Diversified revenue and asset base."

203. As described above, each of these additional statements in the Offering Document were materially false and misleading because, contrary to the financial results reported in its financial statements, and contrary to the description of Company with major strengths as a forest plantation operator, the Company was engaged in fraudulent practices, resulting in the overstatement of assets, revenues and earnings, and misleading statements about its contractual relationships with certain parties in the PRC related to the purchase of timber acreage. Thus, at the time of the Note Offering, investors were misled because the Company's actual financial condition, results of operation, and future business prospects were much worse than these public statements indicated.

H. Misrepresentations and Omissions Relating to Code of Business Conduct

204. At all material times, Sino-Forest maintained it had in place a Code of Business Conduct (the "Code"), which governed its employees, officers and directors. The full text of the code was posted on the Company's Internet site and available to investors. It stated that the members of senior management "are expected to lead according to high standards of ethical conduct, in both words and actions." The Code further required that Sino-Forest representatives act in the best interests of shareholders, that corporate opportunities not be used for personal gain, that insiders not trade in Sino-Forest securities based on undisclosed knowledge stemming from their position or employment with Sino-Forest, that the Company's books and records be honest and accurate, that conflicts of interest be avoided, and that any violations or suspected violations of the Code, and any concerns regarding accounting, financial statement disclosure, internal accounting or disclosure controls or auditing matters, be reported.

205. Nonetheless, as explained in this Complaint, the publicly disclosed Code contained materially false and misleading statements because, as described herein in paragraphs 204-205 Sino-Forest's top executives placed their own interests ahead of the Company's and did not actually follow the provisions of the Code in that they sold Sino-Forest stock while in possession of material, non-public information and profited from transactions entered into with related parties.

G. Misrepresentations and Omissions Relating to Poyry's Valuation of Sino-Forest's Forestry Assets

206. As particularized above, Sino-Forest overstated its forestry assets in Yunnan and Jiangxi Provinces in the PRC and in Suriname. Accordingly, Sino-Forest's total assets are overstated to a material degree in all of the Financial Statements, Annual Reports, MD&As, AIFs, and other investor documents, in violation of Canadian GAAP, and each such statement of Sino's total assets constitutes a misrepresentation or omission of material fact.

207. In addition, during the Class Period, Poyry and entities affiliated with it made statements that are misrepresented Sino-Forest's Yunnan Province "assets," namely:

- a. In a report dated March 14, 2008, filed on SEDAR (the System for Electronic Document Analysis and Retrieval of the Canadian Securities Administrators) on March 31, 2008, (the "2008 Valuations"), Poyry: (a) stated that it determined the valuation of the Sino-Forest assets to be \$3.2 billion as of December 31, 2007; (b) provided tables and figures regarding Yunnan; (c) stated that "Stands in Yunnan range from 20 ha to 1000 ha," that "In 2007 Sino-Forest purchased an area of mixed broadleaf forest in Yunnan Province," that "Broadleaf forests already acquired in Yunnan are

all mature,” and that “Sino-Forest is embarking on a series of forest acquisitions/expansion efforts in Hunan, Yunnan, and Guangxi;” and (d) provided a detailed discussion of Sino-Forest’s Yunnan “holdings” at Appendices 3 and 5. Poyry’s 2008 Valuations were incorporated in Sino-Forest’s 2007 Annual MD&A, amended 2007 annual MD&A, 2007 AIF, each of the Q1, Q2, and Q3 2008 MD&As, Annual 2008 MD&A, amended Annual 2008 MD&A, each of the Q1, Q2, and Q3 2009, annual 2009 MD&A, and July 2008 and December 2009 Offering Memoranda;

- b. In a report dated April 1, 2009 and filed on SEDAR on April 2, 2009 (the “2009 Valuations”), Poyry stated that “[t]he area of forest owned in Yunnan has quadrupled from around 10,000 ha to almost 40,000 ha over the past year,” provided figures and tables regarding Yunnan, and stated that “Sino-Forest has increased its holding of broadleaf crops in Yunnan during 2008, with this province containing nearly 99% of its broadleaf resource.” Poyry’s 2009 Valuations were incorporated in Sino-Forest’s 2008 AIF, each of the Q1, Q2, and Q3 2009 MD&As, Annual 2009 MD&A, June 2009 Offering Memorandum, and June 2009 and December 2009 Prospectuses;
- c. In a “Final Report” dated April 23, 2010, filed on SEDAR on April 30, 2010 (the “2010 Valuations”), Poyry stated that “Guangxi, Hunan, and Yunnan are the three largest provinces in terms of Sino-Forest’s holdings. The largest change in area by province, both in absolute and relative terms [sic] has been Yunnan, where the area of forest owned has almost tripled,

from around 39,000 ha to almost 106,000 ha over the past year,” provided figures and tables regarding Yunnan, stated that “Yunnan contains 106,000 ha, including 85,000 ha or 99% of the total broadleaf forest,” stated that “the three provinces of Guangxi, Hunan, and Yunnan together contain 391,000 ha or about 80% of the total forest area of 491,000 ha” and that “[a]lmost 97% of the broadleaf forest is in Yunnan,” and provided a detailed discussion of Sino-Forest’s Yunnan “holdings” at Appendices 3 and 4. Poyry’s 2010 Valuations were incorporated in Sino-Forest’s 2009 AIF, the annual 2009 MD&A, each of the Q1, Q2, and Q3 2010 MD&As, and the October 2010 Offering Memorandum;

- d. In a “Summary Valuation Report” regarding “Valuation of Purchased Forest Crops as at 31 December 2010” and dated May 27, 2011, Poyry provided tables and figures regarding Yunnan, stated that “[t]he major changes in area by species from December 2009 to 2010 has been in Yunnan pine, with acquisitions in Yunnan and Sichuan provinces” and that “[a]nalysis of [Sino’s] inventory data for broadleaf forest in Yunnan, and comparisons with an inventory that Poyry undertook there in 2008 supported the upwards revision of prices applied to the Yunnan broadleaf large size log,” and stated that “[t]he yield table for Yunnan pine in Yunnan and Sichuan provinces was derived from data collected in this species in these provinces by Poyry during other work;” and
- e. In a press release titled “Summary of Sino-Forest’s China Forest Asset 2010 Valuation Reports” and which was “jointly prepared by Sino-Forest

and Poyry to highlight key findings and outcomes from the 2010 valuation reports,” Poyry reported on Sino’s “holdings” and estimated the market value of Sino’s forest assets on the 754,816 ha to be approximately \$3.1 billion as of December 31, 2010.

208. These Poyry reports were materially false and misleading based on the lack of evidence that Sino-Forest owned the assets described therein..

V. INITIAL DISCLOSURE OF FRAUD AT SINO-FOREST

209. A report published on June 2, 2011 by Muddy Waters (the “Report”), a research firm that specializes in analyzing Chinese companies traded in the United States and Canada, reported that Sino-Forest and its financial statements were permeated by fraud.

210. The Report detailed the extensive investigative effort and resources that Muddy Waters had undertaken to discover the truth about the Company:

In order to conduct our research, we utilized a team of 10 persons who dedicated most to all of their time over two months to analyzing [Sino-Forest]. The team included professionals who focus on China from the disciplines of accounting, law, finance, and manufacturing. Our team read over 10,000 pages of documents in Chinese pertaining to the company. We deployed professional investigators to five cities. We retained four law firms as outside counsel to assist with our analysis.

211. The Muddy Waters report concluded that the Company was extensively involved in business practices that were “blatantly illegal” and that the Company’s financial statements and other reports to investors were permeated by fraud. According to the Report, Sino-Forest’s remarkably consistent growth during the Class Period was illusory – simply the result of “a Ponzi scheme,” rather than a real expansion in Sino-Forest’s business. According to Muddy Waters, the Company used its supposed growth and profitability to raise money from private

lenders and the financial markets. This money, in turn, was used to bolster an appearance of further growth and increased profitability, which in turn opened the door to additional funding from private lenders and the capital markets. According to the Report, however, the capital raised by Sino-Forest was not used to expand the Company's business, but was instead largely siphoned off by insiders in undisclosed related party transactions.

212. At the heart of the misconduct at Sino-Forest, according to Muddy Waters, is the Company's use of AIs. The Report noted that AIs apparently act as both buyers and sellers in Sino-Forest transactions. For example, in one case uncovered by Muddy Waters, an AI purchased logs from Sino-Forest and delivered them to a chipping facility. Once the logs reached the facility they were sold back to Sino-Forest. Sino-Forest then turned around and sold the logs back to the AI who then proceeded to turn the logs into wood chips. The purpose of these transactions, which were pointless from a business perspective, was to create the appearance of additional revenue for Sino-Forest. This type of "circular" transaction was also found by the Ontario Securities Commission during its investigation of the Company.

213. The Report also disclosed that Sino-Forest vastly overstated its forestry assets. In China's Yunnan Province alone, the overstatement is potentially hundreds of millions of dollars. As noted above, in March 2007 Sino-Forest publicly announced that it had entered into an agreement to purchase up to 200,000 hectares of trees in Lincang City in Yunnan for \$700 million to \$1.4 billion, but a review of relevant government documents by Muddy Waters indicated that the actual size of this purchase was about 40,000 hectares.

214. Furthermore, although Sino-Forest generally does not identify the companies from which it purchases forestry assets, Muddy Waters was able to identify many of these companies by means that included careful review of government records. Muddy Waters visited

many of these entities, finding that they “generally operated out of apartments while purportedly each doing annual revenue in the hundreds of millions from TRE [Sino-Forest] alone.” This discovery supports Muddy Waters’ conclusion that a substantial portion of the Company’s reported purchases of forestry assets were greatly exaggerated or never occurred at all.

215. The Report also noted that Sino-Forest had engaged in substantial transactions with undisclosed related parties, transactions which are in violation of the applicable accounting rules and which require disclosure of related party transactions. An example is Jiangxi Zhonggan Industrial Development Company Ltd., which was incorporated just months before it entered into an approximately \$700 million contract with Sino-Forest in June 2009. The legal representative and President of this company is Sino-Forest Executive Vice President, Lam Hong Chiu. According to Muddy Waters, Zhonggan’s 2008 and 2009 audit report shows “numerous large transactions between the Company, TRE, and other parties.” Separately, Muddy Waters identified Huaihua Yuda Wood Company Ltd., as “an undisclosed TRE subsidiary that has been receiving massive amounts of money from TRE’s subsidiaries.”

216. On publication of the Muddy Waters Report, the price of Sino-Forest’s securities dropped dramatically. On June 2, 2011, the Company’s shares, which ended trading at \$18.64 on June 1, ended trading on the OTC market at \$7.33 and then fell further, to \$5.41 on June 3, a price drop of 71% over two days on substantially larger volume than normal. The prices of the Company’s debt securities also declined significantly.

VI SINO-FOREST’S DENIALS AND FURTHER MISLEADING STATEMENTS

217. Soon after publication of the Muddy Waters Report, Defendants began an organized campaign to further mislead investors by falsely claiming that there was no

misconduct at the Company. These denials and misleading statements (¶¶ 174-179) continued to prop up the prices of Sino-Forest securities until trading was halted on August 26, 2011.

218. In a June 3, 2011 press release, the Company asserted that “[t]he Board of Directors and management of Sino-Forest wish to state clearly that there is no material change in its business or inaccuracy contained in its corporate reports and filings that needs to be brought to the attention of the market. Further we recommend shareholders take extreme caution in responding to the Muddy Waters report.” The release also quoted Defendant Chan as saying the following: “let me say clearly that the allegations contained in this report [by Muddy Waters] are inaccurate and unfounded.” The release quoted Defendant Horsley as saying “I am confident that the [Sino-Forest Board of Directors’] independent committee’s examination will find these allegations to be demonstrably wrong.”

219. In a June 6, 2011 press release, Sino-Forest further stated that “The Company believes Muddy Waters’ report to be inaccurate, spurious and defamatory.” The press release quoted Defendant Chan as saying the following: “I stand by our audited financial statements, including the revenue and assets shown therein. All material related party transactions are appropriately disclosed in our financial statements. We do business with the parties identified in the report at arm’s length. Those parties are not related or connected to the Company or any of its management.”

220. During a June 14 conference call with investors, Defendant Chan suggested that the Muddy Waters allegations were entirely inaccurate, accusing Muddy Waters of a “pattern of sloppy diligence and gross inaccuracy.”

221. Moreover, even after the release of the Muddy Waters Report, the Sino-Forest Defendants continued their practice of making false and misleading statements about Sino-

Forest's financial condition and future prospects. On both June 14, 2011 and August 15, 2011, Sino-Forest filed, respectively, its Interim Financial Statements and its MD&A covering the first quarter which were materially false and misleading.

222. The August 15, 2011 MD&A also made the following false statement: "[u]nder the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has actually acquired 230,200 hectares of plantation trees for \$1,193,459,000 as at March 31, 2011." In fact, as the Muddy Waters Report disclosed, the Company vastly overstated the value of its holdings in Yunnan under the March 2007 agreement. The statements set forth in paragraphs 196 to 198 and the financial statements and results in the June 14th and August 15th filings (which investors were later told they should not rely upon) contained material misrepresentations and omissions similar to those made in filings earlier in the Class Period: they falsely portrayed the Company as a fast-growing, legitimate business that followed good corporate governance practices with positive future prospects for growth and they materially overstated the Company's revenue, earnings, and assets.

VII. CONFIRMATION OF THE FRAUD

223. After publication of the Muddy Waters Report, additional investigations and disclosures evidence that numerous statements by Sino-Forest during the Class Period were materially false and misleading or omitted material information.

A. *The Globe and Mail* Investigation

224. A June 18, 2011 article in the highly respected *Globe and Mail*, Canada's largest-circulation national newspaper, confirmed that Sino-Forest provided materially inaccurate information about the Company's holdings in Yunnan, which comprised a substantial portion of the Company's supposed forestry assets. The article stated, in part:

The Globe's investigation raises particularly hard questions about a key agreement in March, 2007, that Sino-Forest says gave it the right to buy timber rights for up to 200,000 hectares of forest in Yunnan over a 10-year period for between \$700-million (U.S.) and \$1.4-billion. The trees were to be bought through a series of agreements with an entity called Gengma Dai and Wa Tribes Autonomous Region Forestry Co. Ltd., also known as Gengma Forestry.

The company says it has fulfilled virtually all of the agreement with Gengma and now owns more than 200,000 hectares in Yunnan.

But officials with Gengma Forestry, including the chairman, dispute the company's account of the deal, telling *The Globe and Mail* that the actual numbers are much smaller.

225. *The Globe and Mail* article reported that an interview with officials involved in the Sino-Forest transactions indicated that the Company acquired less than 14,000 hectares. The article went on to say:

Mr. Xie's account corroborates the assertions of senior forestry officials in the province. Speaking on condition of anonymity, these officials challenged the company's statements that it controls more than 200,000 hectares of Yunnan trees, and said they are now investigating.

226. *The Globe and Mail* further reported:

In a written response to questions from The Globe, Sino-Forest said it stands by its public statements regarding its Yunnan holdings. The company said it has purchased about 13,300 hectares of 'forestry assets and leased land' directly from Gengma Forestry, and another 180,000 hectares of 'forestry assets only' from other sellers, using Gengma as a purchasing agent.

'The agreement has not been yet fulfilled as we have not completed the purchase of 200,000 hectares,' the company said.¹¹

That statement from Sino-Forest appears to contradict its own publicly filed financial reports. In its first quarter 2011 report,

¹¹ Unless otherwise indicated, all emphasis in quotations is added.

the company said that 'under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has actually acquired 230,200 hectares of plantation trees for \$1,193,459,000 as at March 31, 2011.'

The company's 2010 annual information form filed with regulators earlier this year said that as of December 31, 2010, Sino-Forest had 'acquired approximately 190,300 hectares of plantation trees for \$925.9-million (U.S.) under the terms of the master agreement.'

The Globe's investigation of the company's dealings and holdings in Yunnan points to inconsistencies in the company's accounting of its timber rights and raises broader questions about its business practices.

227. In addition, it was reported that:

As of the end of 2010, the company claimed control of about 800,000 hectares of trees in nine Chinese provinces plus New Zealand. Its operation in Yunnan province, in addition to being its largest, is also the one for which it has made additional disclosures recently in an attempt to defuse the allegations made in the Muddy Waters report.

So far, however, it has disclosed purchase agreements as well as forest and woodland rights certificates for about 7,000 hectares of forest in Yunnan. The company has not disclosed significant documentation regarding its forestry holdings in other provinces.

To find Gengma Forestry, Sino-Forest's local partner in the so-called 'Yunnan master agreement' – the 2007 deal said to be worth as much as \$1.4-billion – you have to duck down an alleyway behind the drugstore on the main street of this nondescript trading city, then up a dusty cement staircase.

On the landing is the litter-strewn office with an open door and a window protected by metal bars. Despite signing a deal with Sino-Forest that should guarantee a windfall, the company has clearly fallen on hard times. 'Our relations with [Sino-Forest] were not totally good. They talked about a lot of things, but in the end it was hard to get money from them,' said Zhang Ling, Gengma Forestry's office manager.

228. Statements of local officials in Yunnan province also contradict the reported size of Sino-Forest's holdings:

Senior forestry officials in the province challenged the company's assertion that it controls about 200,000 hectares of forest in the region. Speaking on condition they not be identified, they said their records showed Sino-Forest manages far less than that and said the Yunnan Forestry Bureau would begin an investigation aimed at determining the company's true holdings.

229. Not only have the size of the holdings been questioned, but so has the value as reported in *The Globe and Mail*:

In addition to the questions about Sino-Forest's disclosures on the size of its holdings, forestry officials, as well as local timber brokers who spoke to *The Globe* raised questions regarding the value Sino-Forest attributes to its Yunnan assets.

'It's very hard for anyone to say what the value of their property is,' said one forestry official, adding that forested land in Yunnan needed to be evaluated by a special body jointly appointed by the Forestry Bureau and the Ministry of Finance. Sino-Forest has not requested such an official valuation of its land, he said. '(The valuation) must have two chops (official seals) and two forestry resource evaluation experts and two licensed evaluators.... Even I can't just go there and give it a value.'

230. Subsequently, in early September 2011, *The Globe and Mail* reported that "A *Globe* investigation, based on interviews with people associated with Sino-Forest and an examination of legal and regulatory documents in Hong Kong and mainland China, has uncovered a pattern of questionable deals and disclosures from the company that date back to its earliest days."

B. Investigations and Regulatory Actions

231. On August 26, 2011 the Ontario Stock Commission issued a "Temporary Order" stating: "Sino-Forest and certain of its officers and directors including Chan appear to be engaging or participating in acts, practices or a course of conduct related to its securities which it

and/or they know or reasonably ought to know perpetuate a fraud on any person or company contrary to section 126.1 of the [Ontario Securities] Act and contrary to the public interest.”

232. The Commission halted trading in Sino-Forest’s stock on the Toronto Stock Exchange effective August 26, 2011 and demanded that several of Sino-Forest’s executives resign. Trading was halted in the U.S. on the OTC Bulletin Board at 5:30 p.m. on August 26, 2011.

233. On August 28, 2011, *The Globe and Mail* reported that CEO Chan had resigned. The newspaper also reported that “[t]hree Sino-Forest vice-presidents – Alfred Hung, George Ho and Simon Yeung – have been placed on administrative leave. Senior vice-president Albert Ip has been relieved of most of his duties but remains with the Company to assist the internal probe.” The newspaper also explained why Chan’s departure occurred: “According to people familiar with the case, Mr. Chan was confronted by company officials in Hong Kong last week after a review of e-mail accounts outside the company’s network revealed questionable transactions and money transfers.” Despite this evidence of misconduct, Chan remains with the Company, having been granted the title “Founding Chairman Emeritus.”

234. In late August 2011, Standard & Poor’s Ratings Services announced that it was withdrawing its ratings on the Company’s debt because “[r]ecent developments point towards a higher likelihood that allegations of fraud at the company will be substantiated.”

235. As a result of the suspension in the trading of Sino-Forest’s common stock and disclosure of the suspected fraud by the OSC, the shares are now virtually worthless and the value of its securities, notes, bonds, etc. that were issued by the Company and outstanding during the Class Period (“Debt Securities”), including the 2017 Notes, have declined substantially. On

November 11, 2011, it was announced that the Royal Canadian Mounted Police had commenced a criminal investigation.

236. Subsequently, on January 10, 2012, Sino-Forest announced that investors should no longer rely upon its historical financial statements and related audit reports. The Company stated that there was "no assurance" that it would be able to release third quarter financial results or audited financial statements for its 2011 fiscal year. The Company further disclosed in the January 10, 2012 announcement that it was still unable to explain or resolve outstanding issues, relating to its financial results and business relationships, including matters raised by documents identified by its auditor E&Y and the OSC.

237. Sino-Forest was required to file its 2011 audited annual financial statements with the Ontario Securities Commission by March 30, 2012. That same day, Sino-Forest initiated proceedings in front of the Superior Court of Justice (Ontario) requesting protection from its creditors. Sino-Forest has never filed its 2011 audited annual financial statements with the Commission.

238. On April 4, 2012, the auditors of Sino-Forest, Defendant E&Y, resigned.

239. On May 9, 2012, the Toronto Stock Exchange delisted the shares of Sino-Forest.

240. On May 22, 2012, the Ontario Securities Commission filed its Statement of Allegations in the Matter of Sino-Forest Corporation, Allen Chan, Albert Ip, Alfred C.T. Hung, George Ho, Simon Yeung, and David Horsley.

VIII. ADDITIONAL SCIENTER ALLEGATIONS

241. As alleged herein, the Sino-Forest Defendants and E&Y acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company or in their own names were materially false and misleading or were extremely

reckless in not so knowing; knew that such statements or documents would be issued or disseminated to the investing public or were extremely reckless in not so knowing; and knowingly, or acting with extreme recklessness, substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, the Sino-Forest Defendants and E&Y knew or were deliberately reckless in not knowing the true facts regarding Sino-Forest that were concealed as a result of the fraud alleged herein.

242. Given the scale of the fraud alleged herein, and the degree to which it affected Sino-Forest's central business operations, there is a strong inference that the Sino-Forest Defendants and E&Y knew of the misconduct alleged herein, or, at a minimum, were deliberately reckless in not so knowing.

A. Individual Defendants Scienter Allegations

243. As alleged herein, each of the Individual Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of the Company or in their own names were materially false and misleading or were extremely reckless in not so knowing; knew that such statements or documents would be issued or disseminated to the investing public or were extremely reckless in not so knowing; and knowingly, or acting with extreme recklessness, substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.

244. Based on the facts specified above, the Sino-Forest Defendants participated directly in the scheme to falsify the Company's financial statements and financial results, and orchestrated the use of related parties to accomplish that scheme, which resulted in overstatement of revenues, earnings, and assets. Among other things:

a. The Sino-Forest Defendants established a collection of “nominee”/“peripheral” companies that were controlled, on its behalf, by various “caretakers” which they utilized to engage in improper transactions. Sino-Forest conducted a significant level of its business with these companies, the true economic substance of which was misstated in Sino-Forest’s financial disclosures;

b. The Sino-Forest Defendants falsified purchase, sale, and ownership documents related to the vast majority of Sino-Forest’s timber holdings, which included the creation of backdated Purchase Contracts and Sales Contracts and related documentation. The Sino-Forest Defendants then relied upon these documents to evidence the purported purchase, ownership, and sale of Standing Timber in the BVI Model;

c. The Sino-Forest Defendants bypassed or ignored internal controls and accounting processes in order to complete improper transactions;

d. The Sino-Forest Defendants failed to properly document the BVI timber purchases, in particular by failing to obtain required proof of ownership documents including (i) Plantation Rights Certificates from either the Counterparty or original owner or (ii) villager resolutions;

e. In 2010, Sino-Forest improperly recognized revenues from the purported sale of Standing Timber, despite the fact that these same Standing Timber assets were offered as collateral for a bank loan by Sino-Forest in 2011; so the sale of those assets in 2010 could not have taken place and been recorded as revenue in that year; and

f. The Sino-Forest Defendants engaged in and structured “circular” cash flows and unusual offsetting arrangements by which money flowed between various Sino-Forest controlled companies.

245. In addition, the Audit Committee Defendants knew or were extremely reckless in not knowing of the financial misconduct occurring at the highest levels of Company management. Among other duties, members of the Audit Committee are required to oversee (i) “the accounting and financial reporting processes of the Corporation.....and their appropriateness in view of the Corporation’s operations and current GAAP”; (ii) “the adequacy and effectiveness of management’s system of internal controls and procedures”; (iii) “the quality and integrity of the Corporation’s...financial reporting and disclosure”; (iv) “the relationship with the external auditor...”; and (v) “compliance with laws, regulations and guidelines affecting the Corporation which relate to the duties and functions of the Audit Committee.” In addition, the Audit Committee is “primarily responsible for satisfying itself and on behalf of the Board, that the Corporation (including its subsidiaries) fulfill all of its audit and financial reporting obligations....”

246. As reflected in Paragraphs 183 to 184, above, each of the Audit Committee Defendants knew of the multitude of red flags, questionable transactions, and murky corporate relationships, all of which indicated the potential for management to commit fraud and issue misleading financial statements. As directors of the Company, they had direct access to senior management and as members of the Audit Committee they had the ability and duty to investigate the “quality and integrity” of the Company’s financial reporting and disclosure which, in the face of obvious red flags, they failed to do.

B. E&Y Scienter Allegations

247. In April 2012, E&Y resigned as Sino-Forest’s independent auditor and took the highly unusual step of disassociating itself from Sino-Forest’s financial statements, which E&Y had previously audited and given a clean opinion.

248. As articulated by the staff of the OSC in a report issued on March 12, 2012 related to a review of public companies in Ontario, the “[i]ntegrity of public disclosure is the bedrock of investor protection.” In that regard, the “external auditor has a unique role in the reporting process for annual financial statements which are relied upon by the board, audit committee and most importantly, investors to provide an independent assessment of whether the information presented in the issuer’s annual financial statements has been fairly presented.” [Emphasis added].

249. In February 2012, the Canadian Public Accountability Board (“CPAB”) issued a “Special Report” regarding auditing in foreign jurisdictions, which consisted of a “review of audit files for Canadian public companies with their primary operations in China.” Audits of twenty-four higher risk issuers were reviewed. The Special Report noted that it viewed its results as “a wake-up call for Canada’s auditing profession.” The Special Report stated: “CPAB is disappointed by the results of its review. In too many instances, auditors did not properly apply procedures that would be considered fundamental in Canada, such as maintaining control over the confirmation process. CPAB’s findings indicate that auditors often did not appropriately identify and assess the risks of material misstatement in the financial statements, through a sufficient understanding of the entity and its environment. CPAB also found a lack of professional skepticism when auditors were confronted with evidence that should have raised red flags regarding potential fraud risk.”

250. Among the significant findings, which reads like a textbook of the audit deficiencies in this case, the CPAB found the following: (i) failure to control the confirmation process; (ii) reliance on confirmations with questionable reliability; (iii) insufficient evidence to support the ownership or existence of significant assets; (iv) inadequate procedures to identify

related party transactions; (v) insufficient evidence to support the recognition of revenue; and (vi) insufficient evidence to support the appropriateness of the income tax rate used. The Special Report outlines specific audit procedures that should be used in foreign jurisdictions like China to combat fraud.¹²

251. As set forth above, the fraudulent practices at Sino-Forest were so widespread and material that numerous red flags should have alerted E&Y to the materially misleading financial statements issued by Sino-Forest. That E&Y certified Sino-Forest's Financial Statements year after year and never once alerted investors or regulators to these fraudulent transactions shows that their audits were extremely reckless.

252. Although financial reporting requirements may vary from country to country, basic audit principles remain constant. These fundamental auditing principles require that:

- (a) financial statements reflect the true financial condition of the company;
- (b) financial statements are informative and complete;
- (c) financial statements do not mischaracterize an item or omit any information if that would result in a misleading statement;
- (d) related-party transactions are disclosed and subjected to scrutiny because the terms cannot be assumed to be the result of arms-length dealings; and
- (e) in performing an audit, the auditor must obtain sufficient information to support a reasonable basis for an opinion regarding the truth, accuracy, and integrity of the financial statements.

¹² On February 21, 2012, *The Globe and Mail* reported that when asked, CPAB's Chief Executive Officer, Brian Hunt, would not comment on whether Sino-Forest was one of the audits scrutinized and E&Y would not comment on the Special Report.

253. E&Y ignored and/or violated applicable auditing and accounting standards including the basic auditing principles enumerated above in the face of warning signs and numerous red flags described herein. If E&Y had complied with these standards and principles, the auditors would certainly have detected and reported the multitude of improper and fraudulent and related party transactions (which involved both large transactions and important business partners). Such transactions should have received extraordinary scrutiny particularly in light of the well-known deficiencies in the Company's internal controls. A proper audit of either Sino-Forest related party transactions or its most significant transactions, would have revealed this fraud.

254. Despite these serious audit deficiencies, E&Y misrepresented to the investing public and regulators that it had audited Sino-Forest's Financial Statements in compliance with applicable auditing standards and that the Company's financial statements were presented in accordance with Canadian GAAP.

E&Y's Materially Misleading Auditors' Reports

255. On March 11, 2011 E&Y issued an Auditor's Report for Sino-Forest's 2010 fiscal year, addressed "To The Shareholders of Sino-Forest Corporation (the "2010 Auditors Report").

In the 2010 Auditors Report, E&Y stated:

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sino-Forest Corporation as at December 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

256. On March 15, 2010, E&Y issued an Auditor's Report for Sino-Forest's 2009 fiscal year, addressed "To the Shareholders of Sino-Forest Corporation" (the "2009 Auditors Report"). In the 2009 Audit Report, E&Y stated:

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

257. On March 13, 2009, E&Y issued an Auditor's Report for Sino-Forest's 2008 fiscal year, addressed "To the Shareholders of Sino-Forest Corporation" (the "2008 Auditors Report"). In the 2008 Audit Report, E&Y stated:

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

258. On March 12, 2008, E&Y issued an Auditor's Report for Sino-Forest's 2007 fiscal year, addressed "To the Shareholders of Sino-Forest Corporation" (the "2007 Auditors Report"). In the 2007 Audit Report, E&Y stated:

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

259. These statements were materially false and misleading when made because E&Y knew, or recklessly disregarded the facts that: a) it failed to conduct its audit in compliance with Canadian GAAS; and b) Sino-Forest's financial statements were not presented in accordance with Canadian GAAP as they were materially false and misleading with respect to revenues, assets, earnings, and related party transactions.

260. The fact that the Company alerted its auditors to the material weaknesses in its internal controls (*i.e.* "This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-

compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting.”) was a clear red flag to E&Y, which had a duty to expand its audit procedures to inquire further into the nature of transactions and compliance with existing controls. Similarly, Sino-Forest’s declaration that these risks “may lead to the possibility of inaccurate financial reporting” should have served as an additional red flag requiring E&Y to scrutinize Sino-Forest’s financial statements. All of these facts, including the red flags described in Paragraph 10, required E&Y to conduct an even more rigorous audit to confirm the accuracy Sino-Forest’s financial statements and the evidentiary material supporting the Company’s presentation. Defendant E&Y was extremely reckless in either failing to modify its audit procedures in light of the Company’s known internal control problems and lack of transparency or recklessly disregarded the red flags existing at the time of the audit.

261. Given the nature of Sino-Forest’s business and lack of transparency, E&Y was required to exercise due professional care in performing its audit; to adequately plan its audit; to obtain a sufficient understanding of Sino-Forest’s internal controls; and to obtain sufficient, competent evidence in auditing Sino-Forest’s revenues, assets, and related party transactions. E&Y failed to conduct its audits in compliance with these fundamental Canadian GAAS provisions. Had E&Y performed its audits in compliance with Canadian GAAS, it would have uncovered Sino-Forest’s overstatements of revenues, assets, income, and improper related party transactions.

IX. MOTIVATION FOR FRAUD

262. The Sino-Forest Defendants had ample motive to commit fraud: the exaggerated revenue, earnings, and assets allowed the Company to continue to raise substantial funds from

lenders and investors, inflated the Company's stock price and provided a personal financial windfall to the Individual Defendants who sold highly inflated stock to unsuspecting investors.

263. The purported steady and impressive growth of Sino-Forest helped fuel a series of capital raising activities by the Company. By making the Company appear to be on a much more economically sound footing than was actually the case, Sino-Forest was able to raise the funds it needed to finance its rapid expansion. Because the Company's cash flow did not cover its operating expenses, the Company would not have been able to continue to operate absent cash infusions from debt and equity investors.

264. During the Class Period, Sino-Forest conducted numerous debt and equity offerings, issuing over \$1.8 billion in debt securities to investors and also selling investors hundreds of millions of dollars of common stock. Specifically, the following securities were issued to investors:

- On July 17, 2008, the Company closed an offering of convertible guaranteed senior notes (the "2013 Convertible Notes") for gross proceeds of \$300,000,000. On August 6, 2008, the Company issued an additional \$45,000,000 of 2013 Convertible Notes pursuant to the exercise of an over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to \$345,000,000.
- On June 24, 2009, the Company offered to eligible holders of outstanding Senior Notes due in 2011 (the "2011 Senior Notes") to exchange these notes for up to \$300,000,000 of new guaranteed senior notes due 2014 (the "2014 Senior Notes"). On July 27, 2009, the Company completed this exchange offer, issuing an aggregate principal amount of \$212,330,000 of 2014 Senior Notes,

representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes.

- In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares (including 4,500,000 common shares issued upon the exercise of the underwriters' over-allotment option) for gross proceeds of approximately \$339,810,000.
- On December 17, 2009, the Company closed an offering of convertible guaranteed senior notes (the "2016 Convertible Notes") for gross proceeds of \$460,000,000.
- In December 2009, the Company completed a public offering of 21,850,000 common shares (including an overallotment exercise) for gross proceeds of approximately \$345,318,000.
- In May 2010, Sino-Forest issued 1,990,566 shares of common stock as a \$33.3 million payment to acquire 34% of Greenheart Resources.
- In August 2010, the Company issued \$2.3 million shares of common stock in partial payment of its acquisition of Mandra Forestry Holdings Limited, a company which supposedly owned the rights to technology relevant to the Company's business. In connection with this acquisition of Mandra, the Company also exchanged nearly \$195 million of Mandra notes for Sino-Forest notes—the Sino-Forest notes had a longer duration and lower interest rate than the Mandra notes for which they were exchanged.
- On October 21, 2010, the Company completed the \$600,000,000 Note Offering of the 2017 Notes.

265. Thus, during the Class Period, while Defendants were issuing materially false and misleading financial statements and other reports to investors, Sino-Forest was taking advantage of the illusory growth portrayed to investors through these large debt and equity offerings, which in less than three years, cumulatively totaled over \$2.5 billion.

266. In addition to the billions of dollars raised by Sino-Forest during the Class Period (described above), Company insiders also benefited directly by the inflated value of Sino-Forest's stock because of their substantial stock holdings and because part of their compensation was in the form of stock options. Documents filed by the Company revealed that the Individual Defendants have sold over \$44 million of Company stock since 2006.

Defendants' Sales Of Shares During Class Period

Defendant	Net Shares Sold	Value \$Can	Value \$U.S. (on 11/15/11 \$Can 1=\$US 0.98494)
Chan	182,000.00	\$3,003,200.20	\$2,957,970
Horsley	531,431.00	\$11,157,962.93	\$10,989,900
Poon	3,037,900	\$30,054,387.32	\$29,601,800
TOTAL	3,751,331	\$44,215,550.45	\$43,549,670

X. CLASS ALLEGATIONS

267. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons or entities who purchased (i) Sino-Forest's common stock during the Class Period on the OTC market who were damaged thereby; and (ii) all persons or entities who, during the Class Period, purchased Debt Securities issued by Sino-Forest other than in Canada and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of Sino-Forest during any portion of the Class Period, members of the immediate families of the foregoing persons and the legal representatives, heirs, successors or assigns of such persons and any entity in which any

Defendant has or had a controlling interest. The Class specifically excludes any investor who purchased Sino-Forest securities on the Toronto Stock Exchange or in Canada.

268. The claims of Plaintiffs and the members of the Class have a common origin and share a common basis. The claims of all Class Members originate from the same improper conduct and arise from securities purchases entered into on the basis of the same materially misleading statements and omissions by Defendants during the Class Period. If brought and prosecuted individually, each Class Member would necessarily be required to prove his respective claims upon the same facts, upon the same legal theories and would be seeking the same or similar relief, resulting in duplication and waste of judicial resources.

269. The members of the Class are so numerous that joinder of all members is impracticable. Although all Class Members cannot be identified without discovery, Plaintiffs believe that there are many thousands of class members. Sino-Forest has over 246 million shares outstanding which actively traded on the OTC market (as well as in Canada on the Toronto Stock Exchange) and there are approximately \$1.8 billion in Debt Securities outstanding including, approximately, \$600 million in 2017 Notes.

270. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. Whether Defendants made materially false and misleading statements or omissions regarding Sino-Forest's financial statements and operations;
- b. Whether Defendants engaged in any acts that operated as a fraud or deceit, or negligently misrepresented the Company's financial condition to the Class;
- c. Whether the Company issued materially false and misleading financial statements and Defendant E&Y issued materially false audit opinions regarding Sino-Forest's financial statements;

- d. Whether Defendants' acts proximately caused injury to the Class or irreparably harmed the Class, and if so, the appropriate relief to which the Class is entitled; and,
- e. Whether Defendants' acts constitute violations of law for which the Class is entitled to recover damages or other relief.

271. The prosecution of separate actions by individual members of the Class would also create a risk of inconsistent or varying adjudications with respect to individual members of the Class which would establish incompatible rights and standards of conduct for the parties involved in this case. The prosecution of separate actions by individual members of the Class would also create a risk of adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of other members of the Class or substantially impair or impede their ability to protect their interests.

272. Plaintiffs have engaged counsel experienced in complex class litigation and will fairly and adequately represent the interests of the Class. Plaintiffs' interests are co-extensive with and not antagonistic to those of the absent members of the Class.

273. The members of the Class cannot reasonably be expected to litigate this matter individually. Whether litigated individually or as a class, the causes of action asserted in this Complaint involve complex issues of law and will likely require extensive and costly factual discovery, especially if this case proceeds to trial. The costs of successfully prosecuting such litigation will likely be beyond the resources of most members of the Class.

XI. APPLICATION OF THE FRAUD ON THE MARKET PRESUMPTION

274. During the Class Period, Sino-Forest was a high profile Company which regularly provided purportedly accurate information to investors about the Company's operations. The Company was followed by numerous securities analysts including Dundee Capital Markets,

RBC, and JP Morgan. The securities at issue, Sino-Forest common stock and debt securities, were actively traded on efficient markets and publicly disclosed information about the Company was incorporated in the price of these securities within a reasonable amount of time.

A. Common Stock

275. During the Class Period, Sino-Forest common stock was traded on the OTC market in the United States, which is an open, well-developed and efficient market. Sino-Forest common stock was simultaneously traded on the Toronto Stock Exchange, an open, well developed and efficient market. There was a substantial volume of trading in both the United States and Canada and the price of the shares traded in the United States was affected in the same way as the price of shares traded in Canada. During the Class Period over 146 million shares of Sino-Forest common stock traded in the OTC market.

276. The OTC market has no fixed location, but investors throughout the United States, including in New York County, New York, can purchase OTC securities through registered brokers. The principal regulator of the OTC market is the Financial Industry Regulatory Authority, which has its principal offices in New York, NY and Washington, DC.

B. 2017 Notes and Other Debt Securities

277. According to the Company, the 2017 Notes "offering was made on a private placement basis in Canada, the United States and internationally pursuant to available exemptions, through a syndicate of initial purchasers." The indenture agreement, which governs the 2017 Notes, provided that the notes are governed by New York law.

278. The 2017 Notes were initially purchased by the Underwriter Defendants and then sold to Plaintiff and other investors on the initial Offering. In the purchase agreement between the Underwriter Defendants and Sino-Forest, Banc of America Securities LLC listed its address

as One Bryant Park, New York, NY 10036 and Credit Suisse Securities (USA) LLC listed its address as Eleven Madison Avenue New York, NY 10010. During the Class Period and after their issuance, there was an efficient market for the 2017 Notes.

279. The 2017 Notes could only be legally sold to non-U.S. persons and to U.S. persons who were qualified institutional buyers. There is an open and well developed market for such securities, which are issued by large and well known issuers such as Sino-Forest and, specifically, there was an active and well-developed market for the 2017 Notes and Sino-Forest's other Debt Securities during the Class Period. Class Members were able to purchase 2017 Notes and other Debt Securities in the OTC market.

280. Accordingly, Class Members who purchased Sino-Forest common stock or 2017 Notes, and other Debt Securities in the secondary market are entitled to a presumption of reliance on the accuracy of the prices paid.

XII. LOSS CAUSATION

281. During the Class Period, as detailed herein, Sino-Forest and the Individual Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the prices of Sino-Forest stock by failing to disclose and misrepresenting the adverse facts detailed herein. When their misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price that purchasers were willing to pay for Sino-Forest stock fell precipitously as the prior artificial inflation came out of the stock's price. Moreover, as a direct and foreseeable result of their fraud, trading in Sino-Forest stock was halted and eventually de-listed, making the stock virtually worthless and impossible to sell. Consequently, Plaintiffs and the other Class Members suffered economic loss as a result of their conduct.

282. By failing to disclose to investors the adverse facts detailed herein, Sino-Forest, the Individual Defendants, E&Y, Poyry, and the Underwriter Defendants presented a misleading picture of Sino-Forest's business and prospects. Their false and misleading statements had the intended effect and caused Sino-Forest common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as \$26.08 per share on March 31, 2011.

283. The decline in the price of Sino-Forest shares, and the suspension in trading of these shares, was a direct result of the nature and extent of Sino-Forest and the Individual Defendants' fraud. The timing and magnitude of the price decline in Sino-Forest stock negates any inference that the loss suffered by Plaintiffs and the other Class Members was caused by changed market conditions, macroeconomic or industry features or Company-specific facts unrelated to Sino-Forest and the Individual Defendants' fraudulent conduct. The economic loss suffered by Plaintiffs and the other Class Members was a direct result of Sino-Forest and the Individual Defendants' scheme to artificially inflate the prices of Sino-Forest stock and the subsequent significant decline in the value of Sino-Forest stock when Sino-Forest and the Individual Defendants' prior misrepresentations and other fraudulent conduct were revealed and when regulators de-listed Sino-Forest stock as a result of the fraud.

XIII. CAUSES OF ACTION

COUNT ONE **AGAINST SINO-FOREST, THE INDIVIDUAL DEFENDANTS, AND E&Y FOR** **VIOLATION OF SECTION 10(b) OF THE EXCHANGE ACT AND RULE 10b-5**

284. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against Sino-Forest, the Individual Defendants, and E&Y for violation of Section 10(b) of the Exchange Act and Rule 10b-5.

285. Sino-Forest, the Individual Defendants, and E&Y:

- a. Knew or recklessly disregarded the material, adverse non-public information about Sino-Forest's financial results and then-existing business conditions, which was not disclosed; and
- b. Participated in drafting, reviewing, and/or approving the misleading financial statements, releases, reports and other public representations of and about Sino-Forest.

286. During the Class Period, with knowledge of or reckless disregard for the truth, Sino-Forest, the Individual Defendants, and/or E&Y disseminated or approved the false statements specified above, which were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

287. As described herein, Sino-Forest, the Individual Defendants, and/or E&Y made or caused to be made a series of false statements and failed to disclose various material information concerning Sino-Forest. Those material misrepresentations and omissions created a false assessment of Sino-Forest, its business, and its prospects in the market, and caused the Company's securities to be overvalued and artificially inflated at all relevant times.

288. Sino-Forest's, the Individual Defendants', and/or E&Y's false portrayal of Sino-Forest's financial results, business operations, and prospects during the Class Period resulted in Plaintiffs and other members of the Class purchasing Sino-Forest securities at market prices in excess of the actual value of those securities.

289. Plaintiffs and other members of the Class would not have purchased Sino-Forest common stock and other securities at the prices they paid, if at all, had they been aware of the true facts concerning the Company's financial statements, business operations, and prospects, as well as the true facts concerning Sino-Forest's misleading audit reports.

290. When the market determined that Sino-Forest's financial results reported during the Class Period were falsely reported by the Company and/or Individual Defendants, and that E&Y issued materially false and misleading audit reports, the Company's stock price decreased substantially in value and thereby caused injury to Plaintiffs and members of the Class.

291. Sino-Forest, the Individual Defendants, and E&Y have violated § 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they:

- a. Employed devices, schemes and artifices to defraud;
- b. Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; and/or
- c. Engaged in acts, practices and a course of business that operated as a fraud or deceit upon the purchasers of Sino-Forest stock during the Class Period.

292. At all relevant times, the material financial statement misstatements, misrepresentations, and omissions particularized herein, directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiffs and other members of the Class.

293. Plaintiffs and the Class have suffered damage because, in reliance on the integrity of the market, they paid artificially inflated prices for Sino-Forest stock.

COUNT TWO
AGAINST SINO-FOREST AND THE INDIVIDUAL DEFENDANTS FOR FRAUD

294. Plaintiffs repeat and reallege each of the allegations set forth in above. This claim is asserted against Sino-Forest and the Individual Defendants for common law fraud.

295. As set forth herein, Sino-Forest and the Individual Defendants knowingly or recklessly engaged and participated in a continuous course and scheme of fraudulent conduct to disseminate materially false information about Sino-Forest's financial condition or failed to

disclose material information with the purpose of inflating the prices of Sino-Forest's common stock, the 2017 Notes and Sino-Forest's other debt securities. As intended by the Sino-Forest Defendants, Plaintiffs and Class Members reasonably relied on these false and misleading statements and failures to disclose and suffered substantial damages as a result.

296. As a direct and proximate result of Sino-Forest's and the Individual Defendants' fraud, Plaintiffs and the Class have suffered economic losses in an amount to be determined at trial. Sino-Forest and the Individual Defendants are jointly and severally liable to the Class for common law fraud.

COUNT THREE
AGAINST SINO-FOREST AND THE INDIVIDUAL DEFENDANTS FOR CIVIL
CONSPIRACY TO DEFRAUD

297. Plaintiffs repeat and reallege each of the allegations set above. This claim is asserted against Sino-Forest and the Individual Defendants for civil conspiracy to commit fraud.

298. In furtherance of a scheme to defraud investors, the Sino-Forest Defendants corruptly agreed to combine their respective skills, expertise, resources, and reputations, thereby causing injury to Plaintiffs and the Class.

299. As set forth in detail above, one or more of the conspirators made false representations of material facts, with scienter, and Plaintiffs and Class Members justifiably relied upon these misrepresentations and were injured as a result.

300. As a direct and proximate consequence of the foregoing, Plaintiffs and the Class have suffered economic losses in an amount to be determined at trial. Because Sino-Forest and the Individual Defendants conspired amongst themselves and with others to carry out this fraudulent scheme, the Sino-Forest Defendants are jointly and severally liable both for their own

knowledge and conduct and for the knowledge and conduct of their co-conspirators in furtherance of the fraud.

COUNT FOUR
AGAINST E&Y AND POYRY FOR AIDING AND ABETTING FRAUD

301. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against E&Y and Poyry for aiding and abetting common law fraud committed by Sino-Forest and the Individual Defendants. E&Y and Poyry were aware of the fraudulent scheme that is the subject of this Complaint and each of these Defendants provided substantial assistance to the perpetrators of this scheme.

302. As a direct and proximate result of E&Y's and Poyry's aiding and abetting of the fraud, Plaintiffs and the Class have suffered economic losses in an amount to be determined at trial. E&Y and Poyry are jointly and severally liable to the Class for aiding and abetting common law fraud.

COUNT FIVE
AGAINST THE INDIVIDUAL DEFENDANTS FOR VIOLATION OF SECTION 20(a)
OF THE EXCHANGE ACT

303. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against the Individual Defendants for violation of Section 20(a) of the Exchange Act.

304. The Individual Defendants acted as controlling persons of Sino-Forest within the meaning of Section 20(a) of the Exchange Act, as alleged herein. By reason of their positions as officers or directors of Sino-Forest, and their ownership of Sino-Forest stock, the Individual Defendants had the power and authority to cause Sino-Forest to engage in the wrongful conduct complained of herein.

305. At the time they obtained their shares, Plaintiffs and members of the Class did so without knowledge of the facts concerning the materially false and misleading statements alleged herein.

306. By reason of the foregoing, the Individual Defendants are jointly and severally liable pursuant to Section 20(a) of the Exchange Act.

COUNT SIX
AGAINST SINO-FOREST FOR UNJUST ENRICHMENT

307. Plaintiffs repeat and reallege each of the allegations set forth above. This claim is asserted against Sino-Forest for unjust enrichment.

308. In connection with the fraudulent scheme set out in this Complaint, Defendant Sino-Forest received payment for the sale of the 2017 Notes. Defendant Sino-Forest would not have been able to sell the 2017 Notes or would only have been able to sell these notes at a lower price had the true facts about Sino-Forest's business and financial condition been known. Consequently, Sino-Forest unjustly received money from the Offering of its securities and it would be unjust to allow Sino-Forest to keep this improperly earned money and should be required to repay it.

COUNT SEVEN
AGAINST THE UNDERWRITER DEFENDANTS FOR VIOLATION OF SECTION
12(a)(2) OF THE SECURITIES ACT

309. Plaintiff IMF repeats and realleges each and every allegation contained in this Complaint as if fully set forth herein only to the extent, however, that such allegations do not allege fraud, scienter, or the intent of the Underwriter Defendants to defraud Plaintiffs or members of the Class with respect to this claim.

310. This Claim is brought against the Underwriter Defendants and is based on the Offering of 2017 Notes.

311. This Claim is brought pursuant to Section 12(a)(2) of the Securities Act and is predicated upon Underwriter Defendants' liability for material misstatements and omissions in the Offering Documents.

312. This Count is not based on and does not sound in fraud. Any allegations of fraud or fraudulent conduct and/or motive are specifically excluded from this Count. For purposes of asserting this claim under the Securities Act, Plaintiffs do not allege that Underwriter Defendants acted with scienter or fraudulent intent. Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct, as this Count is based solely on claims of strict liability under the Securities Act.

313. As provided for in Section 12(a)(2) of the Securities Act, the Underwriter Defendants named in this claim are responsible for the materially false and misleading statements in the Offering Documents and failed to make a reasonable and diligent investigation of the statements contained in the Offering Documents to ensure that such statements were true and correct and that there was no omission of material facts required to be stated in order to make the statements contained therein not misleading.

314. Plaintiffs and Class Members suffered significant losses and are entitled to rescission or rescissionary damages under Section 12. Plaintiff and Class Members who continue to hold the 2017 notes hereby tender their shares to the Underwriter Defendants.

315. At the time they obtained their shares, Plaintiffs and members of the Class did so without knowledge of the facts concerning the misstatements or omissions alleged herein.

316. By reason of the foregoing, each of the Defendants named in this claim are jointly and severally liable for violation of Section 12(a)(2) of the Securities Act.

COUNT EIGHT
AGAINST SINO FOREST AND THE INDIVIDUAL DEFENDANTS FOR VIOLATION
OF SECTION 15(a) OF THE SECURITIES ACT

317. Plaintiff IMF repeats and realleges each and every allegation contained in this Complaint as if fully set forth herein.

318. This Count is asserted against Sino-Forest and the Individual Defendants and is based upon Section 15 of the Securities Act.

319. Sino-Forest and the Individual Defendants acted as controlling persons of the Underwriter Defendants with respect to the Offering and within the meaning of Section 15 of the Securities Act, as alleged herein. By reason of their positions as directors and members of the board, Sino-Forest and those Individual Defendants had the power and authority to cause the Underwriter Defendants to engage in the wrongful conduct complained of herein.

320. The Individual Defendants at all relevant times participated directly and indirectly in the conduct of Sino-Forest's business affairs. As directors and board members of a publicly owned company, the Individuals Defendants had a duty to disseminate accurate and truthful information with respect to Sino-Forest's financial condition and results of operations. Because of their positions of control and authority as directors and board members of Sino-Forest, the Individual Defendants were able to, and did, control the contents of the Offering Documents, which contained materially false and misleading statements and omissions of material facts. The Individual Defendants' control and positions made them privy to and provided them with knowledge of the material facts concealed from Plaintiffs and members of the Class.

321. Plaintiff and members of the Class suffered significant losses as a result of these Defendants' materially false and misleading statements and omissions of material fact in the Offering Documents.

322. By reason of the foregoing, Sino-Forest and each of the Individual Defendant is jointly and severally liable pursuant to Section 15 of the Securities Act.

XIV. PRAYER FOR RELIEF AND JURY DEMAND

WHEREFORE, Plaintiffs and the Class hereby demands a trial by jury, and seek a judgment:

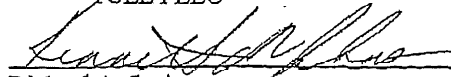
- A. Awarding Plaintiffs and the Class all compensatory damages they suffered, including lost profits and consequential and incidental damages, as a result of the wrongful conduct of the Defendants, in an amount to be determined at trial;
- B. Awarding Plaintiffs and the Class damages arising from Defendants' unjust enrichment;
- C. Awarding Plaintiffs and the Class punitive damages in an amount to be determined at trial;
- D. Awarding Plaintiffs and the Class pre-judgment and post-judgment interest;
- E. Awarding Plaintiffs and the Class their costs, expert fees, expenses and attorneys' fees incurred in connection with this action to the maximum extent permitted by law;
- F. Awarding Plaintiffs and the Class such other and further relief as the Court finds just and proper.

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Dated: September 28, 2012

Respectfully submitted,

COHEN MILSTEIN SELLERS &
TOLL PLLC



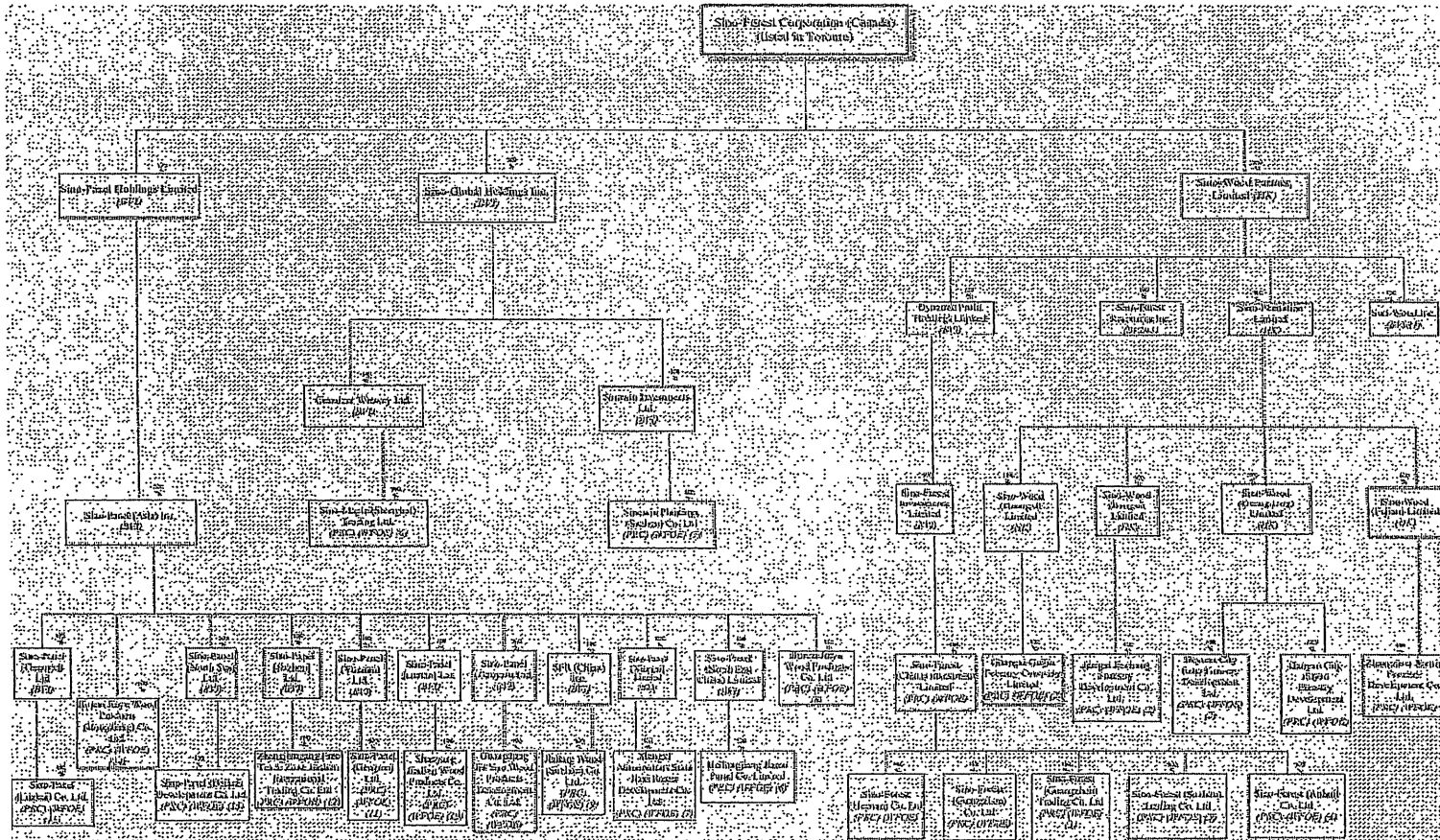
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*Attorneys for Plaintiff and the Proposed
Class*

Exhibit A (Sino-Forest Organizational Chart)



CERTIFICATION OF PLAINTIFF
 PURSUANT TO FEDERAL SECURITIES LAWS

I, DAVID W. LEAPARD, ("Plaintiff") declare, as to the claims asserted under the federal securities laws, that:

1. I have reviewed a class action complaint asserting securities claims against Sino-Forest Corp. ("Sino-Forest" or the "Company") (OTC: SNOFF), and wish to join as a plaintiff retaining Cohen Milstein Sellers & Toll PLLC as my counsel.
2. Plaintiff did not purchase the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action.
3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.
4. My transactions in against Sino-Forest Corp. ("Sino-Forest" or the "Company") (OTC: SNOFF) during the Class Period of March 31, 2009 through August 26, 2011 were as follows:

<u>DATE</u>	<u>TRANSACTION (buy/sell)</u>	<u>NO. OF SHARES</u>	<u>PRICE PER SHARE</u>
<u>8-5-2011</u>	<u>BUY</u>	<u>200</u>	<u>5.87</u>
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

5. During the three years prior to the date of this Certificate, Plaintiff has not sought to serve or served as a representative party for a class in any action under the federal securities laws except as follows:

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing true and correct.

Executed this 24th Day of SEPT., 2011.

David W. Leopard

CERTIFICATION OF PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

I, IMAD M FATHALLAH, on behalf of IMF FINANCE SA, ("Plaintiff") declares, as to the claims asserted under the federal securities laws, that:

1. I have reviewed a class action complaint asserting securities claims against Sino Forest Corp. ("Sino-Forest" or the "Company") OTC: SNOFF, and wish to join as a plaintiff retaining Cohen Milstein Sellers & Toll PLLC as my counsel.

2. Plaintiff did not purchase the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. My transactions in Sino Forest Corp. securities during the Class Period of March 19, 2007 through August 26, 2011.

<u>DATE</u>	<u>TRANSACTION (buy/sell)</u>	<u>NO. OF SHARES</u>	<u>PRICE PER SHARE</u>
<u>15 Oct 2010</u>	<u>Purchase</u>	<u>500,000 6.25% Notes</u>	<u>6101.45 = \$ 504,251</u>
		<u>due Oct 2017</u>	
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

5. During the three years prior to the date of this Certificate, Plaintiff has not sought to serve or served as a representative party for a class in any action under the federal securities laws except as follows:

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing true and correct.

Executed this 24th Day of September, 2012.



IMAD M FATHALLAH,
on behalf of IMF FINANCE SA

Tab B

JAN/13/2012/FRI 09:55 AM Southeastern Paper

PAX No. 864 574 8141

P. 001

This is Exhibit "B" referred to in the affidavit of RICHARD A. SPEERS 5th sworn before me, this day of MAY 20.15.



COHEN MILSTEIN

Theresa A. Graham

A COMMISSIONER FOR TAKING AFFIDAVITS

Steven J. Toll (202) 408-4646 stoll@cohenmilstein.com

January 12, 2012

Theresa A. Graham Notary Public, State of New York No. 01GR5054854 Qualified in Bronx Kings Commission Expires Jan. 29, 2017

Mr. David Leopold 26 Dublin Farms Road Gray Court, S.C. 29615

Re: Shio-Forest Corp.

Dear David:

Following up on our prior conversations, and your oral agreement to be a name plaintiff in the above case, this letter will confirm our agreement on the terms and conditions upon which Cohen Milstein Sellers & Toll PLLC ("Cohen Milstein") will represent you ("Client") individually and as a representative of a class of purchasers of Shio-Forest common stock on the OTC Market. The purpose of the representation is to seek to recover damages caused to purchasers of the securities as a result of defendants' false and misleading statements during the Class Period.

1. Cohen Milstein will represent the Client in this case. Cohen Milstein presently anticipates that Steven J. Toll currently at \$795 per hour, Richard Spolis currently at \$725 per hour, and Matthew B. Kaplan currently at \$435 per hour will work on the matter. The attorneys who will work on the matter may change as it progresses. In addition, the firm may use paralegals or legal assistants, who currently bill at a rate of \$225 to \$235 per hour.

2. It is anticipated that these hourly rates may be adjusted periodically. For example, Cohen Milstein usually adjusts its hourly rates in January of each year and expects to continue to do so in the future. Our hourly rates are the rates used by these lawyers in all the cases they handle. The Client will not be billed on any basis at these rates for our representation of the Client in this litigation or otherwise. These are simply the hourly rates that we use to calculate our lodestar, which lodestar will be submitted to the Court at the conclusion of the case.

Cohen Milstein Sellers & Toll PLLC 1100 New York Avenue, N.W., Suite 590, Wood Tower Washington, D.C. 20007 t 202 408 4000 f 202 408 4000 www.cohenmilstein.com Washington D.C. New York Philadelphia Chicago

Mr. David Leopard
January 12, 2012
Page 2 of 3



should a recovery be obtained. This matter is being handled by our firm on a contingent fee basis, and thus we receive no compensation unless we are successful in obtaining a recovery for the Class, at which time we would file a motion with the Court requesting an award of attorneys' fees from the recovery.

3. Attorneys' fees for Counsel's efforts in this case will be paid solely from any award that may be granted us by the Court. The Client has no obligation to pay us any legal fees directly.

4. The fee award from the Court will include payment(s) for other firms with whom we may work on the matter, or who may file similar litigations or who may act as local counsel for the lawsuit or lawsuits referred to in this letter, and the amounts that might be awarded among the various firms presently cannot be determined; similarly, the division of work among those firms presently cannot be determined.

5. Counsel will advance and be responsible for the necessary costs and all out-of-pocket disbursements for any litigation that might be filed. Client will not be billed for any expenses incurred by Counsel. Counsel will seek reimbursement for such expenses from the gross recovery, if any. If there is no recovery, Client will not be responsible for the payment of such expenses.

6. Out-of-pocket expenses include, but are not limited to the following: photocopies, photocopying and collating by outside services, long distance telephone, electronic research, travel expenses, deposition transcripts, court filing fees, witness fees and expenses and fees and expenses for experts. Included in these expenses may be administrative expenses for internally incurred costs, such as copying and long distance telephone.

7. Client agrees to cooperate in the preparation and trial of this litigation, to appear on reasonable notice for depositions and court appearances, to provide documents and answer interrogatories as necessary, and to comply with all reasonable requests made of Client in connection with the preparation and presentation of this case. Client will retain and preserve any documents in Client's possession, including electronically stored information, which may be relevant to this litigation and will make such documents and electronically stored information available to counsel as needed.

8. With regard to any matters relating to settlement, Client will be guided by Counsel's views and advice.

Mr. David Leopard
January 12, 2012
Page 3 of 3



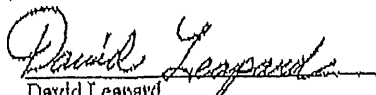
If the above confirms our agreement, please sign this letter and return it to me.

Sincerely,

COHEN MILSTEIN SELLERS & TOLL PLLC

By: 
Steven J. Toll

AGREED TO AND ACCEPTED:


David Leopard

DATED: January 12, 2012



COHEN MILSTEIN

Steven J. Toll
 (202) 408-4646
 stoll@cohenmilstein.com

October 3, 2011

IMF FINANCE SA
 c/o Imad M. Fathallah
 2nd Floor Wickhams Cay Road Town
 Road Town
 British Virgin Islands

Re: *Sino-Forest Corp.*

Dear Imad:

This confirms our agreement on the terms and conditions upon which Cohen Milstein Sellers & Toll PLLC ("Cohen Milstein") will represent you ("Client") individually and as a representative of a class of purchasers of Sino-Forest securities. The purpose of the representation is to seek to recover damages caused to purchasers of the securities as a result of defendants' false and misleading statements or other misconduct during the Class Period.

1. Cohen Milstein will represent the Client in this case. Cohen Milstein presently anticipates that Steven J. Toll currently at \$785 per hour; Julie Goldsmith Reiser currently at \$530 per hour; and Matthew B. Kaplan currently at \$455 per hour will work on the matter. The attorneys who will work on the matter may change as it progresses. In addition, the firm may use paralegals or legal assistants, who currently bill at a rate of \$225 to \$235 per hour.

2. It is anticipated that these hourly rates may be adjusted periodically. For example, Cohen Milstein usually adjusts its hourly rates in January of each year and expects to continue to do so in the future. Our hourly rates are the rates used by these lawyers in all the cases they handle. The Client will not be billed on any basis at these rates for our representation of the Client in this litigation or otherwise. These are simply the hourly rates that we use to calculate our lodestar, which lodestar will be submitted to the Court at the conclusion of the case should a recovery be obtained. This matter is being handled by our firm on a contingent fee basis, and thus we receive no compensation unless we are successful in obtaining a recovery for the Class, at which time we would file a motion with the Court requesting an award of attorneys' fees from the recovery.

3. Attorneys' fees for Counsel's efforts in this case will be paid solely from any award that may be granted us by the Court. The Client has no obligation to pay us any legal fees directly. Cohen Milstein will discuss with the class representatives any fee application in advance of said fee application being filed with the Court and will seek to obtain the class representatives' approval before it is filed.

Cohen Milstein Sellers & Toll PLLC . 1100 New York Avenue, N.W. Suite 600, West Tower Washington, D.C. 20005
 t: 202 408 4600 f: 202 408 4699 www.cohenmilstein.com
 Washington DC, New York Philadelphia Chicago

IMF FINANCE SA
 Page 2 of 2
 October 3, 2011



4. The fee award from the Court will include payment(s) for other firms with whom we may work on the matter, or who may file similar litigations or who may act as local counsel for the lawsuit or lawsuits referred to in this letter, and the amounts that might be awarded among the various firms presently cannot be determined; similarly, the division of work among these firms presently cannot be determined.

5. Counsel will advance and be responsible for the necessary costs and all out-of-pocket disbursements for any litigation that might be filed. Client will not be billed for any expenses incurred by Counsel. Counsel will seek reimbursement for such expenses from the gross recovery, if any. If there is no recovery, Client will not be responsible for the payment of such expenses.

6. Out-of-pocket expenses include, but are not limited to the following: photocopies, photocopying and collating by outside services, long distance telephone, electronic research, travel expenses, deposition transcripts, court filing fees, witness fees and expenses and fees and expenses for experts. Included in these expenses may be administrative expenses for internally incurred costs, such as copying and long distance telephone.

7. Client agrees to cooperate in the preparation and trial of this litigation; to appear on reasonable notice for depositions and court appearances, to provide documents and answer interrogatories as necessary, and to comply with all reasonable requests made of Client in connection with the preparation and presentation of this case. Client will retain and preserve any documents in Client's possession, including electronically stored information, which may be relevant to this litigation and will make such documents and electronically stored information available to counsel as needed.

8. With regard to any matters relating to settlement, Client will be guided by Counsel's views and advice.

If the above confirms our agreement, please sign this letter and return it to me.

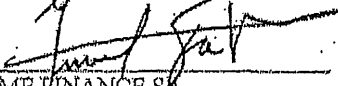
Sincerely,

COHEN MILSTEIN SELLERS & TOLL PLLC

By: 

Steven J. Toll

AGREED TO AND ACCEPTED:


 IMF FINANCE SA

By its authorized representative,

INAS FATHALLAH
 Resident

Dated: October 4th, 2011



COHEN MILSTEIN

Richard Speirs
 (212) 220-2912
 rspeirs@cohenmilstein.com

May 10, 2012

VIA E-MAIL AND U.S. MAIL

Mr. Myong Hyon Yoo
 R. Afonso Bras 177, Apt. 211
 Sao Paulo, SP
 Brazil 04511-010

Re: *Sino-Forest Securities Litigation*

Dear Mr. Yoo:

In accordance with our earlier discussions, Cohen Milstein Sellers & Toll PLLC ("CMST") together with other counsel with whom we may associate or who may be appointed by the Court, hereby agree to pursue legal action on behalf of Myong Hyon Yoo in connection with securities fraud claims against the officers and directors of Sino-Forest Corp. or (or "Sino-Forest" or the "Company"), the Company's auditors and possibly others, alleging violations of the securities laws and common law in connection with the purchase and sale of Sino-Forest securities by investors.

In this regard, we will attempt to file the Client's claim as part of a complaint seeking class action status. Throughout this process, we will represent the Client, as a proposed representative of a class of similarly situated purchasers of Sino-Forest securities for the purpose of securing recovery for violations of the securities laws and pursuant to common law for the applicable period.

With regard to our undertaking of this engagement, we specifically and hereby agree as follows:

1. All attorneys' fees and out-of-pocket disbursements for our firms' efforts and services in the Litigation will not be payable by the Client but, rather, shall be paid solely from any award that may be granted to us by the Court. The fee award we request from the Court (exclusive of any reimbursement of expenses, as discussed in paragraph 2) shall not exceed one-third of any recovery. Any payment of fees from the recovery in this matter must be approved by the Court in an amount determined by the Court to be fair and reasonable.

Cohen Milstein Sellers & Toll PLLC · 88 Pine Street · 14th Floor · New York, NY 10005
 t: 212.838.7797 · f: 212.838.7746 · www.cohenmilstein.com
 · Washington D.C. · New York · Philadelphia · Chicago

Mr. Myong Hyon Yoo
May 10, 2012
Page 2



2. We and/or associated attorneys will advance all necessary expenses, costs, and out-of-pocket disbursements for the Litigation, and no part thereof will be charged to or solicited from the Client, and further, reimbursement for same shall be made only from payments from the Defendant(s) as the Court may hereafter approve and order. Expenses shall, for purposes of this agreement, be deducted after the contingent fee is calculated.

3. The Client's obligation in this matter will be to preserve and prevent destruction of all relevant hard copy and electronic documents in its possession, custody, or control, and to provide reasonable assistance to us and/or the Court in locating, copying and authenticating by deposition, affidavit or otherwise, the Client's relevant documents, including qualifying purchase invoices and/or proofs of payment and reimbursement amounts for the relevant products, which may be necessary to prove entitlement to damages. In addition, the Client may be asked to respond to written interrogatories and to give testimony at deposition and/or trial.

4. This agreement may only be modified in a writing executed by the Client and CMST.

5. The Client understands and agrees that CMST will litigate your legal claim consistent with our duty to fairly and adequately represent the interests of the proposed or certified class.

6. The Client further understands and agrees that as a client and class representative the Client is not entitled to share in any attorney fees with CMST, or any other firm representing the Client in this matter.

7. If there are any disagreements regarding the terms of this agreement, or the distribution of funds pursuant to this agreement, those issues shall be governed by the law of the District of Columbia and shall be resolved by mediation or, that failing, arbitration in the District of Columbia.

If this engagement letter meets with your approval, please sign a copy hereof at the space provided below (or have it signed by another representative of the Client) and fax or e-mail it back to us, in addition to returning an original hard copy by regular mail.

Very truly yours,

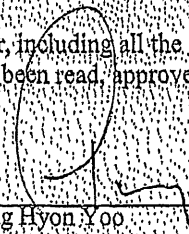
Cohen Milstein Sellers & Toll PLLC

Richard Speirs

Mr. Myong Hyon Yoo
May 10, 2012
Page 3



The above engagement letter, including all the contents thereof, is hereby accepted as written, and the entirety thereof has been read, approved and agreed to this 25 day of June 2012.

By:  _____
Myong Hyon Yoo

TAB 3

Court File No. CV-12-9667-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE) MONDAY, THE 11TH DAY OF
JUSTICE)
) MAY, 2015
)

**IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE AND
ARRANGEMENT OF SINO-FOREST CORPORATION**

Court File No.: CV-11-431153-00CP

**ONTARIO
SUPERIOR COURT OF JUSTICE**

BETWEEN:

**THE TRUSTEES OF THE LABOURERS' PENSION FUND OF CENTRAL AND
EASTERN CANADA, THE TRUSTEES OF THE INTERNATIONAL UNION OF
OPERATING ENGINEERS LOCAL 793 PENSION PLAN FOR OPERATING
ENGINEERS IN ONTARIO, SJUNDE AP-FONDEN, DAVID GRANT
and ROBERT WONG**

Plaintiffs

- and -

**SINO-FOREST CORPORATION, ERNST & YOUNG LLP, BDO LIMITED (formerly
known as BDO MCCABE LO LIMITED), ALLEN T.Y. CHAN, W. JUDSON
MARTIN, KAI KIT POON, DAVID J. HORSLEY, WILLIAM E. ARDELL, JAMES
P. BOWLAND, JAMES M.E. HYDE, EDMUND MAK, SIMON MURRAY, PETER
WANG, GARRY J. WEST, PÖYRY (BEIJING) CONSULTING COMPANY
LIMITED, CREDIT SUISSE SECURITIES (CANADA), INC., TD SECURITIES INC.,
DUNDEE SECURITIES CORPORATION, RBC DOMINION SECURITIES INC.,
SCOTIA CAPITAL INC., CIBC WORLD MARKETS INC., MERRILL LYNCH
CANADA INC., CANACCORD FINANCIAL LTD., MAISON PLACEMENTS
CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC and MERRILL LYNCH,
PIERCE, FENNER & SMITH INCORPORATED (successor by merger to Banc of
America Securities LLC)**

Defendants

Proceeding under the *Class Proceedings Act, 1992*

ORDER

THIS MOTION made by the plaintiffs for an order approving the fees, disbursements and taxes of Cohen Milstein Sellers & Toll PLLC (“U.S. Class Counsel”) in relation to and payable from the settlement (the “Dealer Settlement”) with Credit Suisse Securities (Canada) Inc., TD Securities Inc., Dundee Securities Corporation, RBC Dominion Securities Inc., Scotia Capital Inc., CIBC World Markets Inc., Merrill Lynch Canada Inc., Canaccord Financial Ltd., Maison Placements Canada Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (successor by merger to Banc of America Securities LLC) (the “Underwriters”), was heard this day at the Court House, 330 University Avenue, Toronto, Ontario.

WHEREAS this Court issued an order on May 11, 2015 approving the Dealer Settlement and such order (a) established a settlement trust (the “Settlement Trust”) for the settlement proceeds from which the net settlement proceeds shall be distributed among persons who purchased Sino-Forest securities and among which claimants are included the U.S. Class Action (“U.S. Plaintiffs”); and (b) provided for the payment of counsel’s fees and disbursements in class proceedings, subject to court approval of such fees and disbursements in accordance with the laws of Ontario;

AND ON READING the plaintiffs’ motion record, and all supplemental motion records, all objections filed, and on reading such other material filed, and on hearing the submissions of counsel for the plaintiffs, and those other persons present,

1. **THIS COURT ORDERS** that the time for service and manner of service of the notice of motion and the U.S. Plaintiffs’ motion materials on any person are, respectively, hereby abridged and validated, and any further service thereof is hereby dispensed with so that this motion is properly returnable today in both proceedings set out in the styles of cause hereof.
2. **THIS COURT ORDERS** that the contingency fee agreement entered into between the U.S. Plaintiffs and U.S. Class Counsel is approved, and the amount payable to U.S. Class Counsel from the Settlement Trust in respect of the settlement with the Underwriters is

hereby set at CAD\$194,620 in respect of legal fees, and USD\$89,477.11 for disbursements (inclusive of all applicable taxes).

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE AND ARRANGEMENT OF SINO-FOREST
CORPORATION

Court File No: CV-12-9667-00CL

THE TRUSTEES OF THE LABOURERS' PENSION FUND OF SINO-FOREST CORPORATION, et al.
CENTRAL AND EASTERN CANADA. et al.

Plaintiffs

Defendants

Court File No. CV-11-431153-00CP

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

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

ORDER

Cohen Milstein Sellers & Toll PLLC
88 Pine Street, 14th Floor
New York, NY 10005
United States
Richard A. Speirs
Tel: (21) 838-7797 / Fax: (212) 838-7745

1100 New York Ave. N.W.
Suite 500 W
Washington, D.C. 20006
Steven J. Toll
Tel.: (202) 408-4600 / Fax: (202) 408-4699

U.S. Class Counsel for the Lead Plaintiffs in the U.S.
Class Action

Davies Ward Phillips & Vineberg LLP
155 Wellington Street West
Toronto, ON M5V 3J7

James Doris (LSUC #33236P)
Tel: (418) 367-6919 / Fax: (416) 863-0871

Local counsel for Plaintiffs in the U.S. Class Action

**ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)**

Proceedings Under the *Class Proceedings Act, 1992*

Proceeding commenced at **Toronto**

**MOTION RECORD
(Motion for Approval of Counsel Fees,
returnable May 11, 2015)**

Cohen Milstein Sellers & Toll PLLC

88 Pine Street, 14th Floor

New York, NY 10005

United States

Richard A. Speirs

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1100 New York Ave. NW

Suite 500 West

Washington, D.C. 20010

United States

Tel: (202) 408-4600 / Fax: (202) 408-4699

U.S. Class Counsel for Lead Plaintiffs in the U.S. Class Action

Davies Ward Phillips & Vineberg LLP

155 Wellington Street West

Toronto, ON M5V 3J7

James Doris (LSUC #33236P)

Tel: (415) 367-6919 / Fax: (416) 863-0871

Local counsel for plaintiffs in the U.S. Class Action