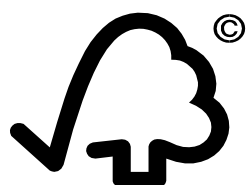


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FM-06 April 2007



**SmartWood**

*Practical conservation through certified forestry*

Forest Management  
**2008 Annual audit**  
Report for:

**Sino Forest  
Corporation**

in

**Gaoyao, Guangdong Province  
Peoples' Republic of China**

Certificate code:	SW-FM/COC-001146
Auditors:	Christian Sloth and Xiao Jianmin
Audit Dates:	Jan. 21 - 24, 2008
Report Finalized:	06 December 2008
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## **1. INTRODUCTION**

The purpose of this report is to document annual audit conformance of Sino Forest Corporation or Jayao Forestry Development Company (JFDC), hereafter referred to as Forest Management Enterprise (FME). The report presents the findings of SmartWood auditors who have evaluated company systems and performance against FSC forest management standards and policies. Section 2 of this report provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

SmartWood audit reports include information which will become public information. Sections 1-3 will be posted on SmartWood's website according to FSC requirements. All appendices will remain confidential.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance / SmartWood and our services, these parties are strongly encouraged to contact SmartWood regional or Headquarters offices directly (see contact information on report cover). Formal complaints or concerns should be sent in writing.

## 2. AUDIT FINDINGS AND RESULTS

### 2.1. Audit conclusion

<b>Based on Company's conformance with FSC and SmartWood requirements, the audit team makes the following recommendation:</b>	
<input checked="" type="checkbox"/>	<b>Certification requirements <u>met</u>, certificate maintenance recommended</b> Upon acceptance of CAR(s) issued below
<input type="checkbox"/>	<b>Certification requirements <u>not met</u>:</b> Conformance with Major CAR(s) required
Additional comments:	
Issues identified as controversial or hard to evaluate.	

### 2.2. Changes in the forest management of the FME

None

### 2.3. Stakeholder issues

None

### 2.4. Conformance with applicable corrective action requests

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status using the following categories. Failure to meet CARs will result in nonconformances being upgraded from minor to major status with conformance required within 3 months with risk of suspension or termination of the SmartWood certificate if Major CARs are not met. The following classification is used to indicate the status of the CAR:

CAR Status Categories	Explanation
<b>Closed</b>	Certified operation has successfully met the CAR and addressed the underlying nonconformance.
<b>Open</b>	Certified operation has <u>not met</u> the CAR; underlying nonconformance is still present. CAR becomes a Major CAR with a 3 month deadline for conformance

<b>CAR 02/06</b>	<b>Reference to Standard:</b> Criterion 6.2, 6.3, 9.1, 10.5
<b>Nonconformance</b>	JFDC plantations may contain unique areas of remnant

<b>Major</b> <input checked="" type="checkbox"/>	<b>Minor</b>	ecosystems/habitats. These unique ecosystems are not surveyed, documented and designated for protection or restoration. Although JFDC has surveyed, documented and mapped these areas they have not developed restoration and protection measures to assure their long-term viability.
<b>Corrective Action Request:</b> JFDC shall survey, document, map and develop and implement restoration and protection measures for unique or remnant ecosystems or habitats.		
<b>Timeline for conformance:</b>		Within three months of JFDC receiving the final report
<b>Evidence to close CAR:</b>		<p>In 2007, JFDC has invited some experts from South China Agricultural University to conduct a field investigation of vegetation species, insects and birds that inhabit the plantation. Some RTE species and their habitats were identified in FMU. And some special management methods were carried out in those habitats in order to protect those habitats.</p> <p>JFDC's documents show that some unique areas have been surveyed and documented. The FMO has drafted management plans in order to protect and restore these unique areas.</p> <p>The FME has established three new documents and accompanying maps, including: "Special Habitat Restoration Plan 2007"; "Special Habitat Report 2007"; "Special Habitat Appendices"; and maps updated according to the new documents and identified areas.</p> <p>From June 2007 to September 2007, with the help from experts, five staff from the FMO carried out special habitat surveys. At first, they used maps with the scale 1:10,000 to analyze the potential special habitats. Thereafter, they made a field survey to verify those potential special habitats. Finally, eight plots were selected as special habitats to be protected; the total area is 79.5 ha.</p> <p>The standard used to select special habitat areas include:</p> <ul style="list-style-type: none"> <li>a) human impact to the plot is small;</li> <li>b) areas with natural springs;</li> <li>c) plot with special features; and</li> <li>d) areas that are habitat for animals, birds, insects or plants.</li> </ul> <p>The main protection measures identified are:</p> <ul style="list-style-type: none"> <li>a) to reduce the human impact, remedial activities should be carried out if there are perceived negative impacts;</li> <li>b) to protect the integrity of water and vegetation;</li> <li>c) to establish special habitat area file for documentation and survey;</li> </ul>

	<p>d) to establish protection mechanism and update “The Regulation to Prevent Biodiversity Destruction”;</p> <p>e) to improve the environmental protection knowledge by training;</p> <p>f) to promote environmental protection knowledge to local community.</p>
<b>CAR Status:</b>	CLOSED
<b>Follow-up Actions (if app.):</b>	No

<b>CAR</b> 01/07	<b>Reference to Standard:</b> CoC 9			
<b>Nonconformance</b>	It does not appear that JFDC obtained approval from SmartWood for the public statements about their FSC certification on the Sino-Forest website.			
<table border="1"> <tr> <td><b>Major</b></td> <td><b>Minor</b></td> </tr> <tr> <td></td> <td><input checked="" type="checkbox"/></td> </tr> </table>		<b>Major</b>	<b>Minor</b>	
<b>Major</b>	<b>Minor</b>			
	<input checked="" type="checkbox"/>			
<b>Corrective Action Request:</b> Sino-Forest/JFDC shall obtain approval from SmartWood for the promotional description of their FSC certification that appears on their website.				
<b>Timeline for conformance:</b>	By the next annual audit			
<b>Evidence to close CAR:</b>	Company has submitted their FSC certification statement to SW for review and approval in 2007.			
<b>CAR Status:</b>	CLOSED			
<b>Follow-up Actions (if app.):</b>	No			

## 2.5. New corrective actions issued as a result of this audit

<b>CAR</b> 01/08	<b>Reference to Standard:</b> 4.2, 6.5, 6.6, 7.3			
<b>Non-conformance</b>	Forest management activities are mainly being done through subcontractors. The subcontract agreement includes requirements for safety training to workers. However the subcontractor could not provide any records about accident, first aid and training, and no such records exist in JFDC.			
<table border="1"> <tr> <td><b>Major</b></td> <td><b>Minor</b></td> </tr> <tr> <td></td> <td><input checked="" type="checkbox"/></td> </tr> </table>		<b>Major</b>	<b>Minor</b>	
<b>Major</b>	<b>Minor</b>			
	<input checked="" type="checkbox"/>			
<b>Corrective Action Request:</b> JFDC shall keep the records of accidents, training to subcontractors and workers, and the subcontractors shall provide training to the workers and keep records of accidents and training.				
<b>Timeline for conformance:</b>	Prior to next annual audit or reassessment			
<b>Evidence to close CAR:</b>	Pending			
<b>CAR Status:</b>	OPEN			
<b>Follow-up Actions (if app.):</b>				

<b>CAR</b> 02/08	<b>Reference to Standard:</b> COC 6			
<b>Non-conformance</b>	In FME’s documented procedure, there is no requirement to compile report on sales to SmartWood containing monthly sales in terms of volume of each certified products to each customer.			
<table border="1"> <tr> <td><b>Major</b></td> <td><b>Minor</b></td> </tr> <tr> <td></td> <td><input checked="" type="checkbox"/></td> </tr> </table>		<b>Major</b>	<b>Minor</b>	
<b>Major</b>	<b>Minor</b>			
	<input checked="" type="checkbox"/>			
<b>Corrective Action Request:</b>				

FME should improve their documented procedure and add the requirement to compile report for SmartWood containing monthly sales in terms of volume of each certified product for each customer.	
<b>Timeline for conformance:</b>	Prior to next annual audit or reassessment
<b>Evidence to close CAR:</b>	Pending
<b>CAR Status:</b>	OPEN
<b>Follow-up Actions (if app.):</b>	

## 2.6. Audit observations

**Observations** are very minor problems or the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the client. An observation may be a warning signal on a particular issue that, if not addressed, could turn into a CAR in the future (or a pre-condition or condition during a 5 year re-assessment).

<b>OBS 01/08</b>	<b>Reference Standard &amp; Requirement:</b> CoC 1, CoC 2, CoC 3, CoC 4 and CoC 5
In JFDC's documented procedure, the requirements of in CoC 1, CoC 2, CoC 3, CoC 4 and CoC 5 are included. Until annual audit 2008, JFDC still has not sold any FSC certified product. FME will produce and sell FSC certified products in near future.	
<b>Observation:</b> In next audit or reassessment, FME should provide some documents to show that FME implement against its' documented procedures.	

### 3. AUDIT PROCESS

#### 3.1. Auditors and qualifications:

**Christian Sloth** is the regional Operations Coordinator of the SmartWood office in Bali, Indonesia. He has a Masters Degree in forest science and land use in developing countries as well as a Masters Degree in agro-forestry and tropical forestry. Before joining SmartWood in 2006 Christian worked for two years in Vietnam for the United Nations Food and Agriculture Organisation as a forestry specialist. He has also worked as a technical advisor for the Cambodian Development Resource Institute, undertaking research on forest valuation and management. Since joining SmartWood in 2006 he has participated in more than 30 FM and CoC audits and assessments.

**Xiao Jianmin, Ph.D., FM/COC Auditor, Forest Specialist, Rainforest Alliance/ SmartWood:** Dr. Xiao has 14 years experience in silviculture and forest resource management and 3 years experience in Forest Stewardship Council (FSC) forest management and chain of custody certification. Xiao has a PhD in silviculture. He has participated in forest management and chain of custody certification training courses sponsored by SamrtWood, WWF China, SGS-CSTC, China State Forestry Administration and the Chinese Academy of Forestry. As an auditor, Xiao has experience to carry out FM pre-assessment to Muling Forestry Bureau in Northeast China.

#### 3.2. Audit schedule

Date	Location /main sites	Main activities
January 21, 2007	Guangzhou airport, Jiaoyao	Auditors' travel
	JFDC office	<ul style="list-style-type: none"> <li>•Auditors interviewed responsible staff</li> <li>•Auditors and JFDC Staff discussed the time schedule</li> <li>•Staff introduced what FMO had done in the previous year according to the latest annual audit report</li> </ul>
January 22	Chenghu Village, Huilong Township	<ul style="list-style-type: none"> <li>•Plantation review</li> <li>•Discuss logging method</li> <li>•Water monitoring site visit</li> <li>•Discuss with a fisher in low reach.</li> </ul>
	Kuanjiao village, Huilong Township	<ul style="list-style-type: none"> <li>•Cut area review on compartment NO. 6</li> <li>•Group interview</li> </ul>
January 23	Fengduo village, Baizhu Township	•New planting site review on compartment 47 and 48
	Baisha village, Baizhu Township	•Review of harvesting sites on compartment 3, 4, 5, 6, 7, 8
	Tielou village, Baizhu Township	•Group interview
January 24	Zhaoqing	•Auditors discussed the audit results

		<ul style="list-style-type: none"> <li>•Auditors feedback the audit results to JFDC staff</li> <li>•Auditors' travel</li> </ul>
Total number of person days used for the audit: <b>8</b> = number of auditors participating <b>2</b> times total number of days spent for the audit <b>4</b>		

### 3.3. Sampling methodology:

The main objective of the annual audit is to verify that Corrective Action Requests (CARs) that are as a result of the assessment or subsequent audit of JFDC are being met and that their forest management practices continue to be in conformance with the FSC Principles and Criteria (P&C). JFDC has been FSC certified since 2004 and this is their fourth annual audit.

JFDC has two certified forest management units (FMU) in their Gaoyao operation: Huilong and Baizhu. Within these two FMUs the auditors selected sites that represented the spectrum of plantation management activities and social and environmental issues needed for a thorough evaluation of compliance with the FSC P&C as well as compliance with the corrective action requests of the certification. Audit sites were generally pre-selected, however, several sites were randomly chosen for review while traveling through the FMU's.

After the auditors received an oral introduction from the JFDC staff about meeting the requirements of the 2007 CARs, the auditors developed a schedule of what sites they wanted to review and who would be interviewed. And the auditors got hard and electronic copies of the following documents from JFDC:

- JFDC's Forest Plantation Management Plan (revised in Decemeber 2007)
- 2007 Annual Progress Report on FSC-Certified Plantation Management of Jiayao Forestry Development Company, Limited
- Harvesting site management for FSC/FM certified plantation
- Special Habitat Report 2007
- Special Habitat Restoration Plan 2007
- Special Habitat Appendices
- Water bodies and valleys within the plantations of JFDC
- Replanting Operation Subcontract 2007

### 3.4. Stakeholder consultation process

Stakeholder type (i.e. NGO, government, local inhabitant etc.)	Stakeholders notified (#)	Stakeholders consulted or providing input (#)
Local inhabitant	13	13
JFDC staff	7	7
Local government staff	3	3
Harvesting workers	2	5
Subcontractor	1	1

### 3.5. Changes to Certification Standards

Forest stewardship standard used in audit:	SW China Interim Standards 2006 Dec 28
Revisions to the standard since the last audit:	<input checked="" type="checkbox"/> No changes to standard. <input type="checkbox"/> Standard was changed (detail changes below)
Changes in standard:	No Changes
Implications for FME:	Conformance to new requirements verified