

## OTHER OFFICERS AND EXECUTIVES

**DAVID J. HORSLEY**

*CA, CBV, Senior Vice President and Chief Financial Officer, Toronto*



Joined Sino-Forest in 2005; was Independent Director since 2004; member of Audit, Compensation, and Corporate Governance Committees and Senior Vice President and CFO, Cygnal Technologies Corporation; previously Senior Vice President and Corporate Secretary, Canadian General Capital Limited.

**HUA CHEN**

*MBA, Senior Vice President, China Operations and Finance, China*



Joined Sino-Forest in 2002; previously board chair of Suzhou New Development Area Economic Development Group, and managed large corporations and gained access to capital markets in China.

**WEI MAO ZHAO**

*Masters in Technology, Senior Vice President, China Plantation Operations, China*



Joined Sino-Forest in 2002; previously General Manager, Everbright Group Corp. with extensive experience in wood product manufacturing and knowledge of international wood material markets.

**ALFRED C. T. HUNG**

*CFA, FRM, MSc Finance, Vice President, Corporate Planning, Banking and Sales, Hong Kong*



Joined Sino-Forest in 1999; previously gained nine years experience in investment research and management working for several international firms.

**ALBERT IP**

*Vice President, Project, Hong Kong*



Joined Sino-Forest in 1997; previously worked 20 years in marketing, production management, project management and corporate business development and operation; in the garment, electronics and woodworking industries.

**JAMES LAU**

*MBA, Vice President, Operations, Sino Panel (Asia) Inc., China*



Joined Sino-Forest in 2003; previously worked 14 years in business development, sales & marketing, operations, logistics and general management for multinational companies in a variety of sectors.

**JAY LEFTON**

*LLB, Corporate Secretary, Toronto*



Partner, Aird & Beris LLP practicing in corporate and securities law since 1986, including financings, mergers & acquisitions, take-over bids, strategic alliances and shareholder agreements; previously member of the Ontario Securities Commission Securities Advisory Committee.

**ALVIN LIM**

*CPA, Vice President, Finance and Group Financial Controller, Hong Kong*



Joined Sino-Forest in 2002; previously worked 10 years in finance and accounting for international audit and investment firms.

**THOMAS M. MARADIN**

*CA, Vice President, Risk Management, Toronto*



Joined Sino-Forest in 2005; previously worked five years for several multi-national corporations in financial reporting and internal control, regulatory compliance and system upgrading; previously worked 15 years for Ernst & Young LLP providing professional services in audit, taxation, risk management, strategic and business planning.

## TEN-YEAR FINANCIAL HIGHLIGHTS

US\$ millions except margin and per share amounts	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	493.3	330.9	265.7	200.7	137.3	126.7	141.6	92.7	41.8	32.4
Gross profit	136.9	101.5	64.9	42.7	30.2	38.6	39.8	30.0	24.4	18.5
Gross profit margin	27.7%	30.7%	24.4%	21.3%	22.0%	30.5%	28.1%	32.4%	58.4%	56.9%
Net income	81.7	52.8	30.2	20.6	18.6	28.6	28.2	21.4	15.3	8.2
Diluted earnings										
per share:	0.59	0.43	0.32	0.27	0.21	0.31	0.31	0.26	0.19	0.14
Cash flow from operating activities	196.5	119.4	69.6	12.6	12.9	26.6	27.1	15.3	14.6	12.4
Capital Expenditures	299.7	178.6	96.6	44.2	45.3	54.4	37.7	30.7	31.7	14.2
Total assets	895.3	756.0	418.9	336.9	281.6	220.2	178.3	100.5	72.8	69.6
Cash and cash equivalents	108.4	201.2	6.9	1.2	1.7	18.2	39.6	0.9	5.7	6.7
Working capital	150.1	236.9	(2.3)	26.1	5.5	13.3	38.8	5.2	13.6	21.3
Timber holdings	513.4	359.6	232.5	172.4	156.1	118.5	91.7	67.3	38.4	15.7
Long-term liabilities	300.0	300.0	56.0	82.3	47.2	28.7	30.2	3.3	6.7	3.0
Shareholders' equity	468.0	372.3	245.0	180.1	172.8	152.3	126.2	85.2	60.0	42.9
Shares (millions)										
Shares outstanding										
at year-end	137.8	136.6	96.2	80.3	80.3	80.3	80.8	80.7	73.4	43.2
Common shares	137.8	136.6	-	-	-	-	-	-	-	-
Class A										
Subordinate Voting Shares	-	-	96.2	74.3	74.3	74.3	74.8	74.7	67.6	37.2
Class B										
Multiple Voting Shares	-	-	-	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Note: On June 27, 2006, the Class A Subordinate Voting Shares were reclassified as Common Shares, and the Class B Multiple Voting Shares were eliminated.

## 2005 QUARTERLY HIGHLIGHTS

US\$ millions except margin, per share, hectare and BDMT amounts	1st Q	2nd Q	3rd Q	4th Q	Total
	\$	\$	\$	\$	\$
<b>Revenue</b>	75.6	102.9	144.4	170.4	493.3
<b>Gross profit</b>	20.6	25.8	45.7	44.8	136.9
<b>Gross profit margin</b>	27.2%	25.1%	31.7%	26.3%	27.7%
<b>EBITDA</b>	36.3	51.6	71.9	96.1	255.9
<b>Net Income</b>	7.7	13.2	33.2	27.6	81.7
<b>Diluted earnings per share</b>	0.06	0.10	0.24	0.20	0.59
<b>Cash flow from operating activities</b>	38.4	50.5	48.8	58.8	196.5
<b>Standing Timber</b>					
Hectares sold	17,024	22,546	26,899	41,544	108,013
- Average selling price per hectare	2,080	2,043	2,362	2,307	2,230
Revenue	35.4	46.1	63.5	95.8	240.8
Gross profit margin	44.1%	35.6%	52.0%	37.1%	41.8%
Hectares purchased	54,800	37,200	33,400	49,814	175,214
- Average purchase price per hectare	1,434	1,417	1,611	1,656	1,527
<b>Wood Chips &amp; Logs</b>					
Bone Dry Metric Tonnes (BDMT) sold	162,790	345,900	511,640	328,510	1,348,840
- Average price per BDMT	104	106	105	106	105
Revenue - Wood chips	16.9	36.6	53.9	34.9	142.3
Revenue - Wood logs	0.0	1.5	0.0	2.4	3.9
Revenue - Commissions	1.6	3.1	3.2	1.8	9.7
Total Revenue	18.5	41.2	57.1	39.1	155.9
- Gross profit margin (ex. commissions)	15.4%	15.7%	16.4%	15.8%	15.9%
<b>Wood-Based Products</b>					
Revenue - Imported logs	20.2	13.6	22.0	28.3	84.1
Revenue - other wood based products	1.5	2.0	1.8	7.2	12.5
Total Revenue	21.7	15.6	23.8	35.5	96.6
- Gross profit margin	3.7%	1.9%	2.6%	4.6%	3.4%
<b>Common Shares Prices (Cdn. \$)</b>					
High	4.34	3.74	3.37	5.40	5.60
Low	3.38	2.46	2.54	3.15	2.46
Close	3.57	2.76	3.37	4.94	4.94
Trading volume (millions)	34.4	16.5	16.3	46.3	113.4

## CORPORATE AND SHAREHOLDER INFORMATION

**AUDITORS**

**BDO McCabe Lo Limited**  
29th Floor, Wing On Centre  
111 Connaught Road  
Central, Hong Kong  
China

**EXCHANGE LISTING**

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol TRE.

**ANNUAL SHAREHOLDERS MEETING**

4:00 p.m.  
Monday, June 5, 2006  
The Fairmont Royal York Hotel  
The Imperial Room  
100 Front Street West  
Toronto, Ontario  
Canada M5J 1E3

**LEGAL COUNSEL**

**Aird & Berlis LLP**  
BCE Place  
1800-181 Bay Street, Box 754  
Toronto, Ontario  
Canada M5J 2T9

**INVESTOR RELATIONS**

**David J. Horsley, C.A., C.B.V.**  
*Senior Vice-President and  
Chief Financial Officer*  
Tel: 905.281.8889  
Fax: 905.281.3338  
Email: davehorsley@sinoforest.com

**REGISTRAR AND TRANSFER AGENT**

**CIBC Mellon Trust Company**  
320 Bay Street, P.O. Box 1  
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Toll-free North America: 1.800.387.0825

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

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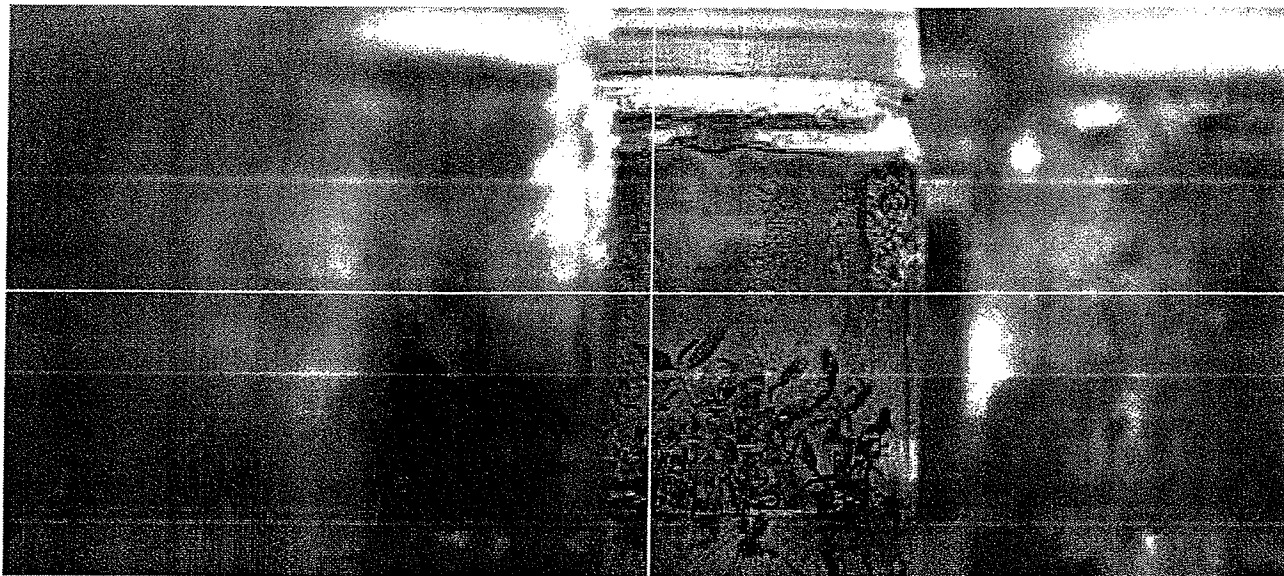


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## SINO-FOREST CORPORATION

**Corporate Head Office**

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E-mail: [info@sinoforest.com](mailto:info@sinoforest.com)

**Executive Head Office**

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3815-29 Sun Hung Kai Centre  
30 Harbour Road  
Wanchai, Hong Kong, China  
Tel: 852.2877.0078  
Fax: 852.2877.0062



[WWW.SINOFORREST.COM](http://WWW.SINOFORREST.COM)

# TAB G

This is Exhibit "G" referred to in the  
Affidavit of Diana Correia,  
sworn before me this 20<sup>th</sup>  
day of August, 2012

A handwritten signature in cursive script, reading "Peter R. Greene". The signature is written in black ink and is positioned above a horizontal line.

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Person Authorized to take Affidavits



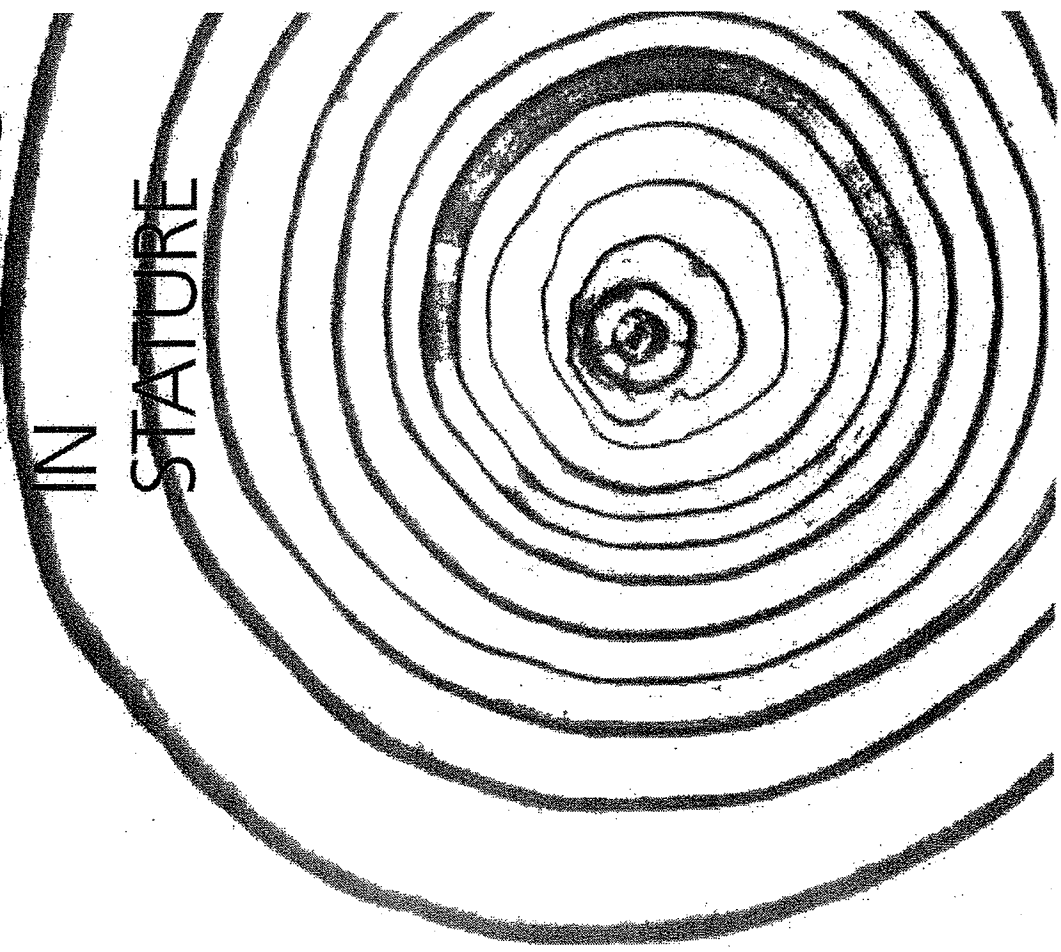


SINO-FOREST  
新漢林業

ANNUAL REPORT 2006

SINO-FOREST CORPORATION  
**GROWING  
IN  
STATURE**

**SINO-FOREST CORPORATION** is a leading foreign-owned commercial forestry plantation operator in China. The Canadian corporation began operations in 1994 as the first foreign and privately managed company involved in forest products in the People's Republic of China ("PRC"). Its principal businesses include the ownership and management of forestry plantation trees and sales of standing timber, wood chips and logs, and complementary manufacturing of downstream engineered-wood products. Its executive offices are in Hong Kong and Toronto, and its common shares trade on the Toronto Stock Exchange under the symbol TRE.

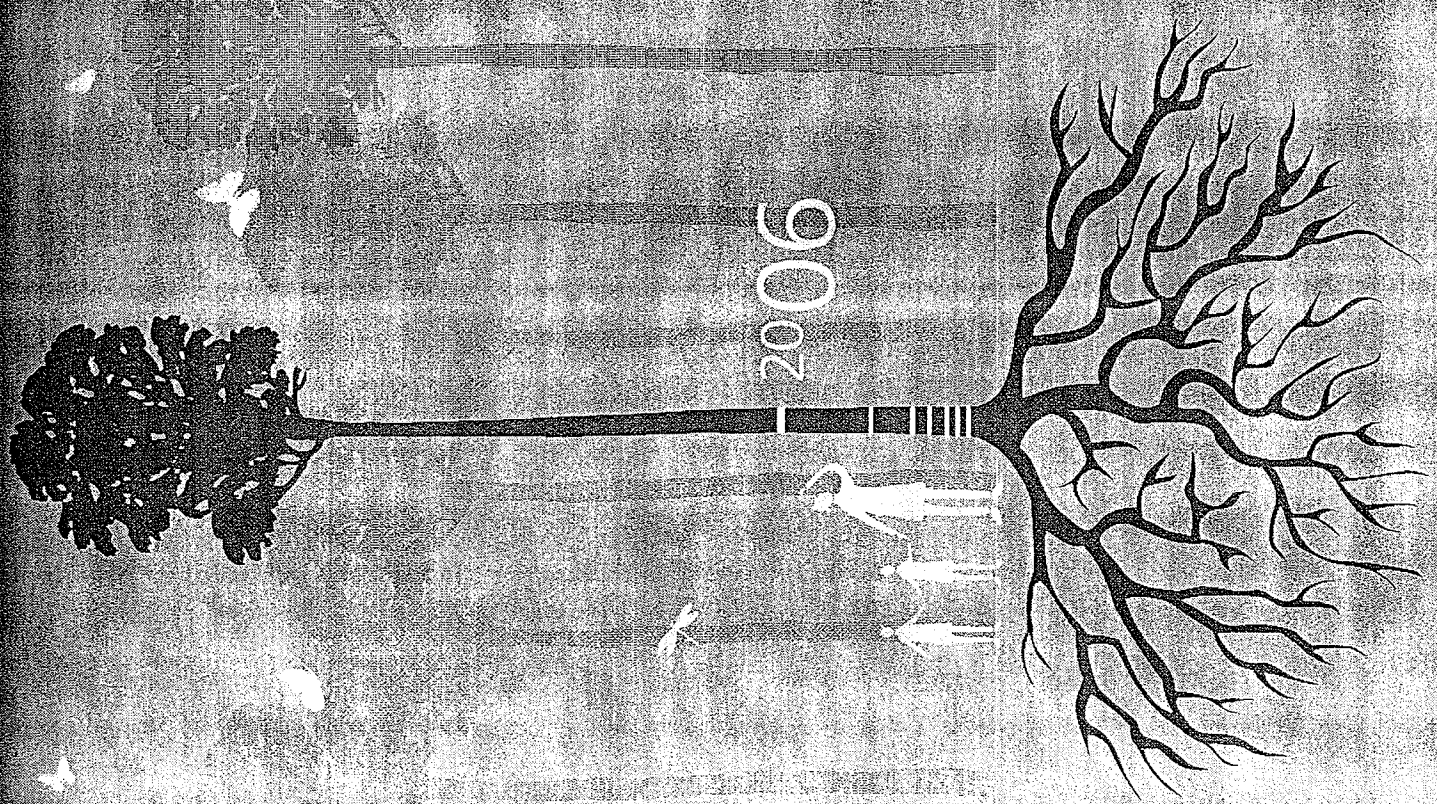


Note: All amounts are expressed in U.S. dollars, unless otherwise indicated.

# Why Invest in Sino-Forest?

China's forest resources are being depleted at an alarming rate. The government has implemented a series of measures to protect and restore the country's forests, including the establishment of national parks and the implementation of a strict logging ban in key areas. Sino-Forest is a leading provider of high-quality, sustainably sourced timber products, and is well-positioned to benefit from the government's efforts to restore the country's forests.

Sino-Forest's commitment to sustainability and environmental protection is a key differentiator for the company. The company has implemented a comprehensive system of environmental and social governance, and is committed to meeting the highest standards of sustainability. This commitment has earned Sino-Forest a reputation as a responsible and ethical company, and is a key factor in the company's success.



2006

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## SINO-FOREST 2006 PERFORMANCE



- Delivered record earnings for the twelfth consecutive year with net income exceeding the \$100 million mark, driven by solid sales in standing timber
- Total asset base exceeded \$1 billion with timber holdings accounting for over \$750 million at cost, compared to Pöyry's valuation of \$919 million based on a single rotation
- Topline key performance indicators achieved double-digit compound average growth over the past five years

## SUMMARY OF FINANCIAL DATA

U.S. dollars (in millions, unless otherwise indicated)	2006	2005	Change (%)	5-year CAGR* (%)
Revenue	645.0	493.3	30.7	36.3
Gross profit	194.5	136.9	42.1	45.1
Gross profit margin	30.2%	27.7%	2.5 pts	—
EBITDA	334.3	255.9	30.6	71.4
Net income	111.5	81.7	36.4	43.1
Diluted earnings per share	0.80	0.59	34.4	30.7
Cash flow from operating activities	289.3	196.5	47.3	86.4
Cash and cash equivalents, end of year	152.9	108.4	41.0	145.9
Capital expenditures	416.8	299.7	39.1	55.9
Total assets	1,207.3	895.3	34.8	33.8
Return on equity	18.4%	17.5%	0.9 pts	—
Shareholders' equity	605.7	468.0	29.4	28.5
Share price at year end (Canadian dollars)	73.3	4.94	58.5	47.3
Market capitalization at year end (millions of Canadian dollars)	1,080.0	681.0	58.6	62.4
Hectares of trees acquired	129,276	175,214	(26.2)	—
Hectares of trees sold	111,367	108,013	3.1	—
Hectares of trees under management at year end	352,000	324,000	8.6	—

\* Compound average annual growth rate from 2001 to 2006

## YEARLY FOREST ASSETS VALUATION BY INDEPENDENT CONSULTANTS

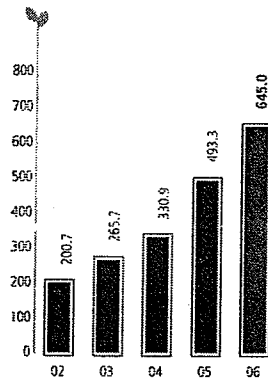
	2006	2005	2004
Trees inventory under management (in hectares)	352,000	324,000	242,000
Value of existing forest assets** (millions)	919	729	566
Value with perpetual rotation*** (millions)	1,428	968	774
Total volume (m <sup>3</sup> in millions)	27.4	23.8	16.4
Average yield (m <sup>3</sup> per hectare)	87	78	73

\*\* Based on single rotation, a one-off harvesting of standing timber

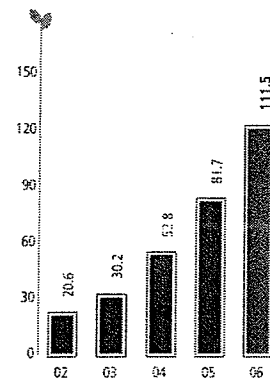
\*\*\* Based on perpetual re-planting and cultivation of plantation land after harvesting through many rotations over a fifty-year period, including 400,000 hectares in Hunan Province

Source: Pöyry

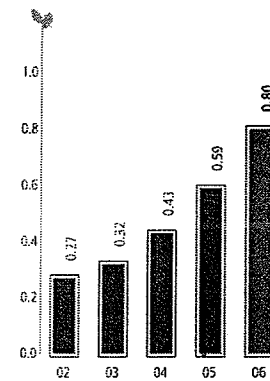
REVENUE (millions)



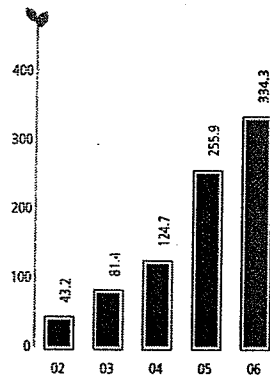
NET INCOME (millions)



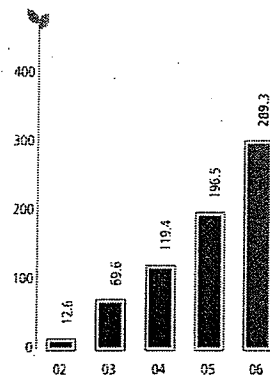
DILUTED EPS



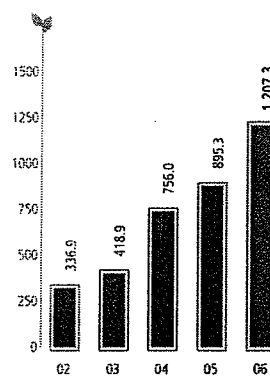
EBITDA (millions)



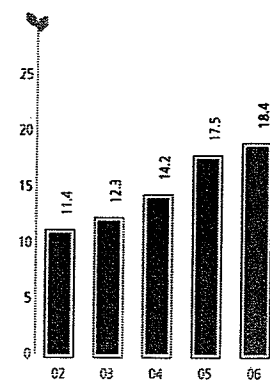
CFFO (millions)



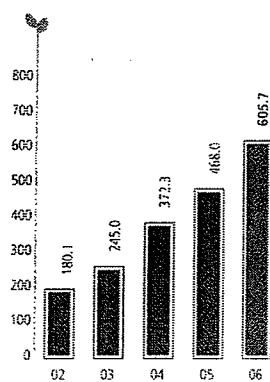
TOTAL ASSETS (millions)



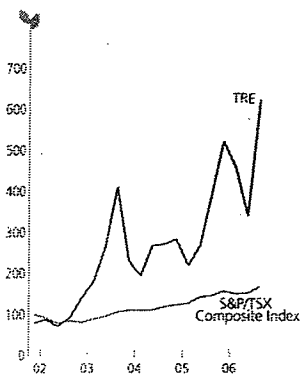
RETURN ON EQUITY (%)



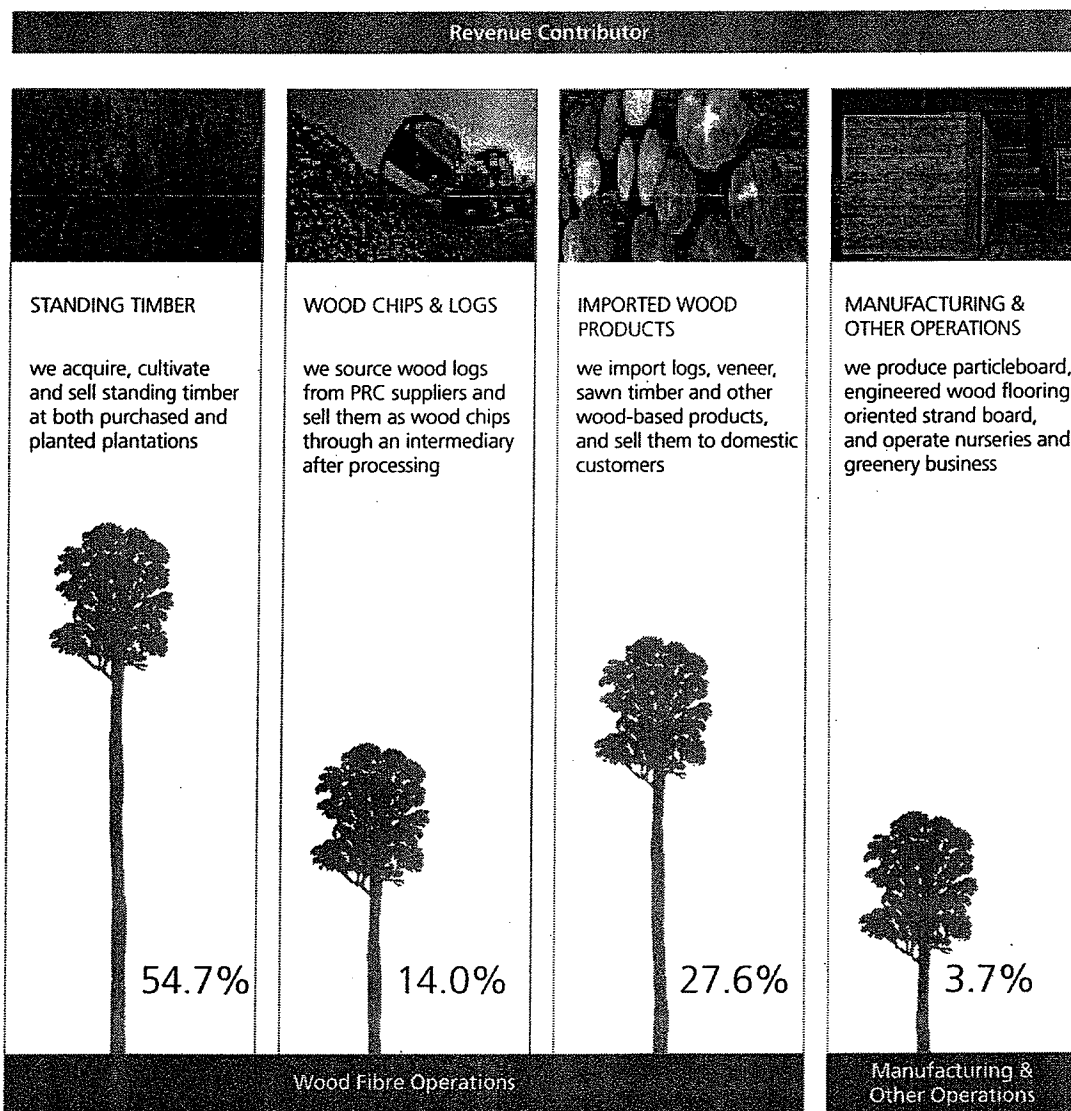
SHAREHOLDERS' EQUITY (millions)



TRE VERSUS S&P/TSX COMPOSITE INDEX

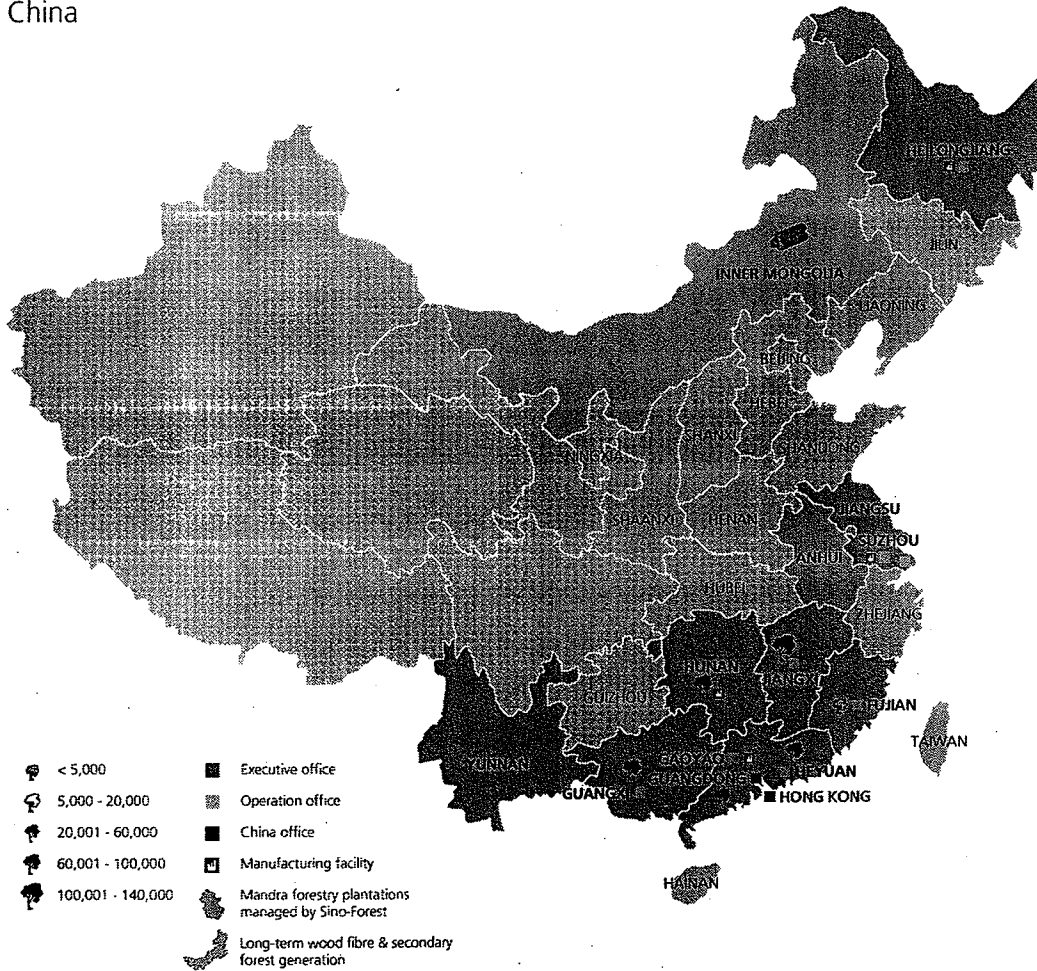


## OPERATIONS AT A GLANCE

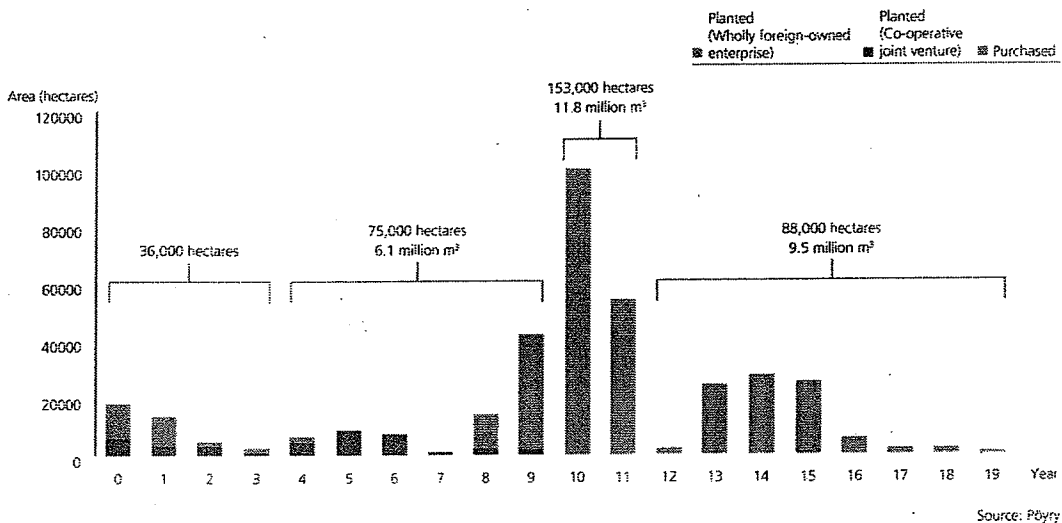


U.S. dollars (millions)	2006	2005	Annual change %
<b>Wood Fibre Operations</b>			
Standing timber	352.6	240.8	46.4
Imported wood products	178.4	84.1	112.0
Wood chips & logs	90.0	155.9	(42.3)
<b>Manufacturing &amp; Other Operations</b>	24.0	12.5	92.8
<b>Total Revenue</b>	<b>645.0</b>	<b>493.3</b>	<b>30.7</b>

China



DISTRIBUTION BY PLANTATION TYPE & AGE



Notes: 1. Based on 352,000 hectares of trees under management as of Dec 31, 2006  
 2. 36,000 hectares trees age less than four years have minimal fibre output  
 3. Includes eucalyptus, pine, poplar and other species

# Building Awareness

...the most important...  
...the foundation...  
...with...  
...at the forefront of...  
...for...  
...the...





## CHAIRMAN'S MESSAGE

Sino-Forest celebrated several significant milestones in 2006. In our twelfth successful year in operation, we achieved revenue of \$640 million and our market capitalization exceeded \$1 billion.

Even more impressive are some of our compound annual growth rates over those first twelve years: revenue 33%, net income 35% and diluted earnings per share 21%.

Sino-Forest has achieved a formidable market position in a relatively short time. **We are growing in size, strength and stature.**

Allen Chan, Chairman and CEO



### TAKING A LONG-TERM APPROACH

We were an early foreign-owned entrant into China's forestry sector. Since then, our long-term perspective, sustainable business strategy and innovative business practices have firmly placed Sino-Forest as one of the leading commercial wood fibre suppliers in the country.

While we can be proud of our strong track record, we are a forward-looking company with ambitious yet realistic goals. We will continue to operate at the forefront of our industry and make investments that increase the value of our business.

We remain committed to developing a sustainable wood fibre supply while diversifying our sources of income as we grow. We believe in satisfying the needs of today without compromising the environmental resources needed by future generations. Our goal is to own a critical mass of fast-growing, high-yield plantation trees that will allow us to develop a perpetual harvesting model. We intend to remain leaders in the sustainable development of commercial plantations and eventually have a critical mass of trees in our inventory from which we can harvest annually.

At year-end 2006, we had accumulated over 352,000 hectares of forestry plantation area under management, up 9% from 2005. During the year, we invested approximately \$383 million to acquire 129,276 hectares of trees, and we sold 111,367 hectares of standing timber, generated \$353 million in revenue, which represented 55% of total revenue.

### GROWING RAPIDLY WITH CHINA

There is massive growth potential for our operations in China and many opportunities lie ahead.

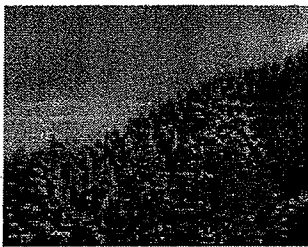
The country has experienced an average economic growth rate of 10% over the past five years. With its fast-growing regional economies, extensive infrastructure development, mounting direct foreign investment, increasing urbanization, growing middle class and rising home ownership, the PRC is the fastest-growing timber marketplace in the world and the third-largest consumer of timber products. However, China faces a substantial and growing wood fibre deficit.

As China's economy continues to heat up in coastal areas and economic development gradually moves inland, we are adjusting our expansion plans accordingly. Last year, we saw higher coastal land prices raise the cost of acquiring trees there. With a sizeable plantation operation already established on the coast, we turned our attention inland to find attractively priced fibre.



• Sino-Forest's forest protection crew conduct routine patrol

## CHAIRMAN'S MESSAGE



• Densely populated Chinese fir in Hunan

In line with our strategy, we signed a number of significant long-term fibre supply agreements. This enables us to acquire a total of 600,000 hectares of pine and fir plantation trees in Hunan and Yunnan Province, and to secure 1.5 million cubic metres ("m<sup>3</sup>") of wood fibre in the Inner Mongolia Autonomous Region through managing a regeneration program of secondary forests.

### MOVING AHEAD STRATEGICALLY

The commercial forestry plantation industry in the PRC is relatively underdeveloped with only a limited number of large-scale plantations currently using modern silviculture management practices. Our successful twelve-year track record demonstrates that we have developed key competitive advantages in that area.

To keep up with increased market demand and retain our leadership position as a preferred wood fibre supplier, we will continue to execute our proven strategy. In addition to increasing our plantation holdings, we expect to develop them to their full potential by deploying our strong research and development capabilities and professional forestry practices, and through our commitment to operating in an environmentally sustainable manner.

We are also committed to utilising advance technology and processing to maximise the value of our wood resources. This will enable us to minimise waste, create more employment and contribute to modernising China's burgeoning forestry industry.

Our strategic initiatives are aligned with China's eleventh Five-year Plan, whereby the central government aims to reduce poverty in rural areas and improve community livelihoods by accelerating regional economic development in inner and northern regions of the country.

We will develop our wood fibre operations in strategic locations, seeking to secure plantation land with long-term leases, both inland and in south-western and northern provinces. This will give us a critical mass of trees, geographically diversify our plantation holdings in areas where wood fibre can be obtained at attractive economic returns, and help develop regional markets that could produce consistent quality forest-related products.

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

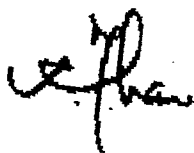
“If you are planning for a year,  
**sow rice;**  
 If you are planning for a decade,  
**plant trees;**  
 If you are planning for a lifetime,  
**educate people.”**

To achieve our vision, we strive to be at the forefront of our industry by creating regional “wood baskets” that ensure a sustainable and quality supply of wood fibre to downstream manufacturing operations. We also plan to introduce new technologies to improve productivity, quality and economic viability of China’s engineered wood products. In addition to increasing the value of harvested fibre, we will also continue to create employment, thus improving livelihoods in rural areas.

Sino-Forest has truly grown in stature. Our financial success and growth have caught the attention of many institutional and individual investors around the world who have seen our inventory of trees and earnings per share increase dramatically.

These institutional investors include Temasek Holdings, which agreed to take up a strategic stake of approximately 25 million common shares at Cdn.\$9.15 per share, representing approximately 16% of the total diluted shares outstanding. When completed (expected in early April), the strategic placement will raise US\$200 million of gross proceeds which will be used for the acquisition of 200,000 hectares standing timber in Yunnan Province and beyond, and for the development of downstream facilities to maximise the value of the wood fibre to be harvested. This is all exciting news for Sino-Forest and its shareholders as we believe we have the strategic plan, management capabilities and financial resources to achieve our next billion-dollar milestone, in total revenue this decade.

In closing, we would like to extend our gratitude to all our employees, business partners and stakeholders who contributed to the corporation’s success in 2006, and we look forward to continuing to build sustainable value with you in 2007.



Allen Chan  
 Chairman and CEO  
 March 31, 2007



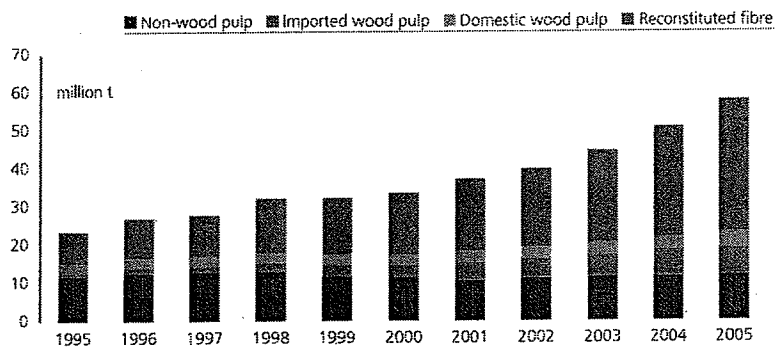
## MARKET FACTORS



With a population of 1.3 billion people, the PRC is an enormous market. The economy has been growing by 10% per year since 2001. Economic reforms, foreign investment, capital spending on infrastructure, urbanisation, and a fast-emerging middle class are all contributing to the stellar growth in demand for wood fibre. China, however, has a large wood fibre deficit and must import wood from abroad.

Key drivers accelerating demand for our products include construction, investment in infrastructure, manufacturing of furniture and other finished wood-based products, interior decoration and the pulp and paper industries.

### CHINA PULP CONSUMPTION: 1995-2005

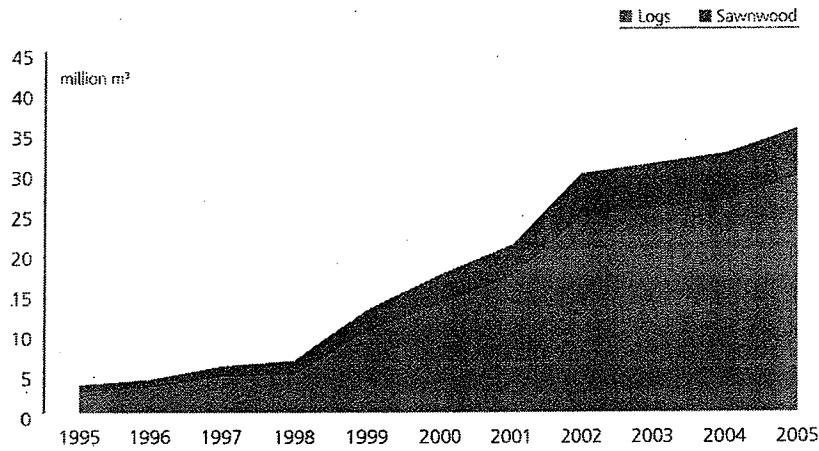


Source: Pöyry and The China Paper Association

With cities experiencing an influx of people from the rural areas, building of commercial and residential space persists unabated. Escalating urbanisation has seen the middle class grow to at least 100 million, creating voracious markets for household furniture, flooring and wood fixtures.

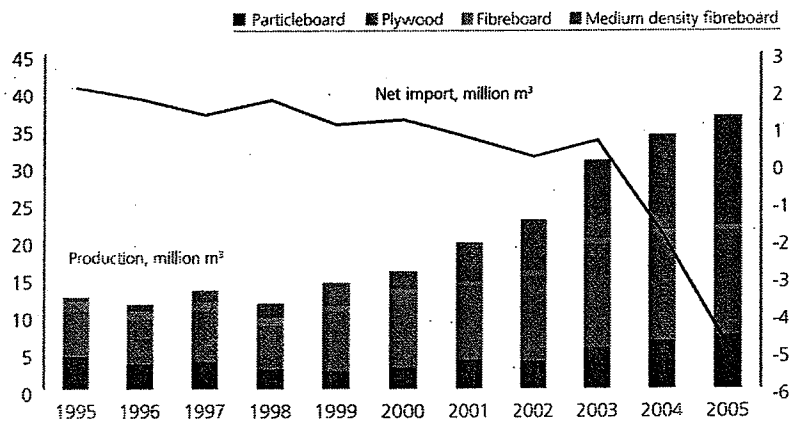
In 1998, China prohibited logging of natural forests, which had caused severe soil erosion and flooding. Elsewhere in Asia, restrictions on logging of natural forests have exacerbated shortages of harvested wood. To compensate for its shortfall, in addition to importing timber from neighboring countries, China has been encouraging commercial forestry plantation programs and has increased natural forest coverage. In 2006, the central government launched its eleventh Five-year Plan, placing forestry development firmly on the agenda. The Plan encourages expansion of sustainable plantations along with a greater focus on regional economic development and enhanced job creation.

**WOOD IMPORTS INTO CHINA: 1995-2005**



Source: Pöyry and World Trade Atlas

**WOOD BASED PANEL PRODUCTION AND NET IMPORTS IN CHINA: 1995-2005**

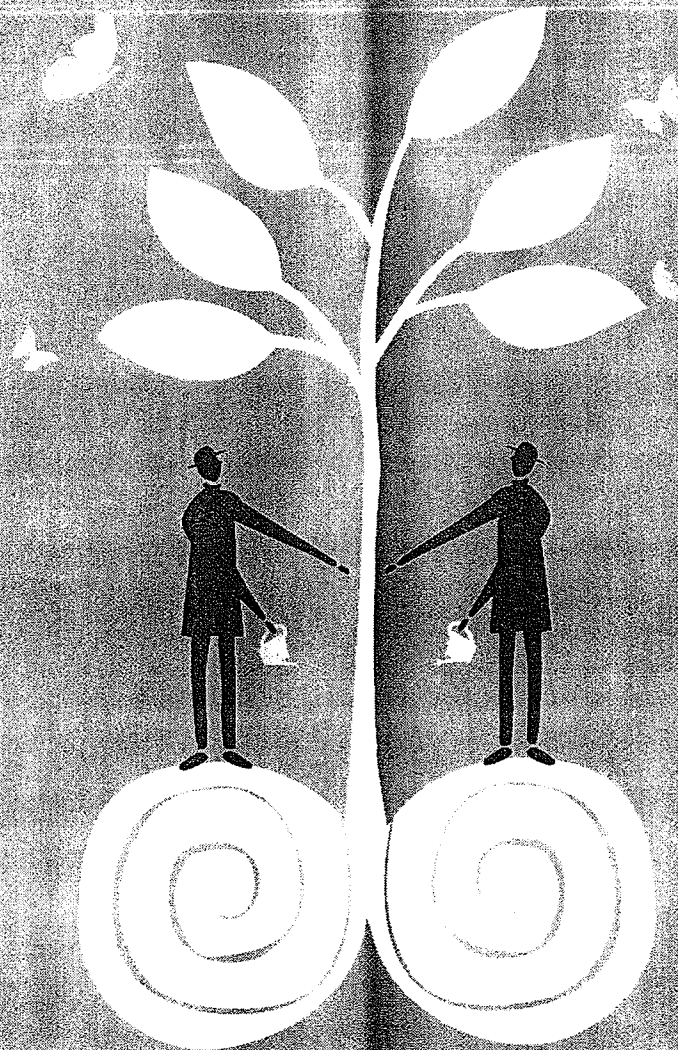


Source: Pöyry and The State Forestry Administration and World Trade Atlas

Given China's continue growth in panel board and pulp productions, Sino-Forest, as a leading foreign-owned, commercial forestry plantation operator in the PRC, is strategically positioned to make a significant contribution to supply the increasing demand and realising value in this exciting market.

## Cultivating Quality

Engagers carefully consider the thinking of governments and local communities when developing its strategy for growth, and then engage and work alongside these partners. Engagers are able to make important contributions to primary, secondary and tertiary levels of eco-business development.



## STRATEGY AND BUSINESS OPERATIONS



(From left to right)  
Zhao Weimao, Chen Hua,  
Dave Horsley, Allen Chan,  
Albert Ip, KK Poon

Our successful twelve-year track record represents a significant competitive advantage in the PRC, where the commercial forestry plantation industry is relatively underdeveloped and where few large-scale plantations use professional forestry management practices.

We have successfully executed our business strategy of acquiring and cultivating fast-growing trees at both purchased and planted plantations.

Further enhancing our competitiveness, we have forged valuable relationships with forestry bureaux, plantation farmers, service providers and wood traders.

We maximise plantation output by applying advanced plantation management and silviculture practices focused on the development of sustainable commercial plantations. We will continue to improve yields at our plantations through investing in research and development.

Moreover, Sino-Forest is strategically engaged in integrated downstream operations and forest-related businesses, including product trading, manufacturing and nurseries. These operations provide meaningful synergies that enable us to reap additional value from China's vast market potential.

### OUR STRATEGIC BUSINESS SEGMENTS

Sino-Forest's operations are comprised of two core business segments. Our Wood Fibre Operations segment is the major revenue contributor (96% in 2006) while our Manufacturing & Other Operations segment (4% in 2006) enables us to create extra value from downstream synergies.

#### Wood Fibre Operations

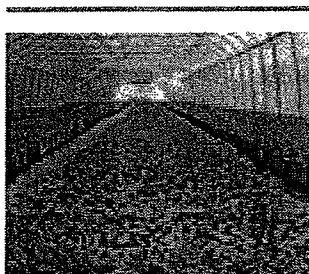
At our annual shareholders meeting held last year, we announced that our strategic goal for the next three to five years is to increase our wood fibre output to 15-20 million m<sup>3</sup> from 8 million m<sup>3</sup> annually, and our long-term goal is to create "wood baskets" in several regional markets, allowing us to have a significant and sustainable supply of wood fibre in our portfolio. This goal is challenging but realistic given our proven track record of accumulating plantation land, combined with our other competitive strengths.

In 2006, our wood fibre output reached 10 million m<sup>3</sup> excluding fibre from the Hunan trees acquisition and from logs to be harvested selectively in Inner Mongolia. Meanwhile, our merchantable standing volume (i.e. immediately harvestable fibre) per Pöry's valuation report increased 15% to 27.4 million m<sup>3</sup> from 23.8 million m<sup>3</sup> in 2005. This is attributable to the addition of plantation trees under management and improvement of average yield from 78 per m<sup>3</sup> per hectare to 87 per m<sup>3</sup> per hectare.

We will remain at the forefront of the industry, moving into inner and northern PRC provinces to lock in strategic locations and seize opportunities for diversification and growth.



## STRATEGY AND BUSINESS OPERATIONS



- Top: Nursery in Gaoyao preparing for next re-planting season
- Bottom: Needle pine leaves from the Chinese fir family (*Cunninghamia acedolata*)

### Standing Timber

At year-end 2006, Sino-Forest had 352,000 hectares of plantations under management, comprised of both mature and premature trees — mainly fast-growing eucalyptus, poplar, pine and fir — in either “planted” or “purchased” plantations. Our plantations are located primarily in southern and eastern China in the wealthier provinces of Guangdong, Guangxi, Jiangxi, Fujian and Hunan.

One of Sino-Forest’s business objectives is to be creative in sourcing and accessing timber resources, and to expand our plantations geographically. In the second quarter of 2006, we entered the Inner Mongolia Autonomous Region through an agreement to secure long-term supply of birch and larch wood fibre over the next twelve years by assisting in a regeneration programme of secondary forests.

In addition, Sino-Forest signed two sizeable standing timber acquisition agreements, one in Hunan and the other in Yunnan, that will run over a period of fourteen years and ten years respectively. Our overall goal is to deploy our silviculture best practices to optimize the usage and value of wood fibre through a vertically integrated operation. We will start by selling logs harvested from standing timber, obtaining competitive prices for various log sizes and residual timber. However, we see greater potential with subsequent phases of perpetual growth. Operating under the purchased plantation model, we will acquire trees and the rights to sell them, along with the first rights to lease the land for re-planting for periods of thirty to fifty years. These acquisitions will be made through privately-owned or collectively-owned entities with the endorsement of the local forestry bureaus where non-state-owned standing timber will be acquired.

Another initiative in progress is the conversion of our planted plantation co-operative joint ventures (“CJVs”) to wholly foreign-owned enterprises (“WFOEs”). Our aim is to obtain greater control over plantation management through plantation land leasing rather than harvest profit sharing. To bring our margins at planted plantations on par or above those at purchased plantations, we will re-plant where land-lease terms are optimal.

### Wood Chips and Logs

In 2006, this business segment produced approximately 763,000 bone dry metric tonnes (“BDMT”) equivalent to 1.7 million m<sup>3</sup> of wood fibre output, and sales amounted to \$90 million, down from \$156 million last year. Logs are sourced locally through our PRC partners and are then processed by our business partner — an authorized intermediary with a licence to sell logs after processing.

We expect this segment will continue to decline during 2007 as the wood chipping capacity may not be available to us due to strong competition. However, Sino-Forest will retain the annual wood fibre volume quota sourced from PRC partners, and our plan is to shift those logs to our manufacturing facilities to maximise profitability of our downstream operations.

### Imported Wood-based Products

We expect that China’s substantial wood deficit will continue to increase due to rising domestic demand. To meet demand for large-diameter logs and wood-based products such as veneer, and to supplement sawn timber from our plantations portfolio, we import wood-based products from global suppliers in various countries, including New Zealand, Papua New Guinea and Russia. Recently, the Russian government announced plans to increase export tax on logs



in three phases from the current level of 6.5% to 80% by 2009, effective from July 2007 onwards. Accordingly we plan to expand our global sourcing network to satisfy customers' growing demand for quality products at competitive prices.

### Manufacturing & Other Operations

Our manufacturing and other wood-based operations complement our wood fibre operations through synergies that maximise usage and add value to our wood fibre.

#### Particleboard Manufacturing – Gaoyao, Guangdong Province

Our particleboard operations are located on a seventeen-hectare site within the Economic Development Zone in Gaoyao City, Guangdong Province. The manufacturing plant produces high-quality particleboard and a melamine-faced chipboard, targeting distributors and large end-users located in Guangdong.

We expect to complete upgrading our manufacturing facility in the second half of 2007. On completion, our particleboard capacity will increase from 100,000 m<sup>3</sup> to 275,000 m<sup>3</sup> and melamine capacity will grow from 2 million m<sup>2</sup> to 6.4 million m<sup>2</sup>.

#### Engineered Wood Flooring – Suzhou, Jiangsu Province

We established our flooring business in 2004 with the objective of proving the feasibility of using small-diameter logs to manufacture quality products traditionally made from large-diameter logs. Using eucalyptus trees combined with other tree species, we produce over fifteen flooring patterns.

Our engineered flooring is available at over 200 Sino-Maple branded retail stores and large do-it-yourself shops nationwide. Sino-Maple is among the top five engineered-wood flooring brands in China.

We completed the first phase of construction of our manufacturing facilities in the third quarter 2006, and Sino-Forest is now well positioned to capture the potentially huge domestic demand for flooring products. The second phase is scheduled to be built in 2007, subject to production utilisation and profitability of the first phase. On completion of the second phase, the combined capacity will be approximately 8 million m<sup>2</sup>.

#### Oriented Strand Board, Muling City, Heilongjiang Province

Oriented strand board ("OSB") is still a relatively new product in the PRC, although it is widely used in other countries as structural panel for houses, flooring and packaging material.

Located in Muling City, Heilongjiang, close to the Russian border, our new OSB plant has an annual capacity of approximately 12,000 m<sup>3</sup>. The location enables the facility to obtain an abundant and cost-effective supply of wood fibre, both domestically and internationally from Russia.

#### Nurseries and greenery, Suzhou, Jiangsu Province

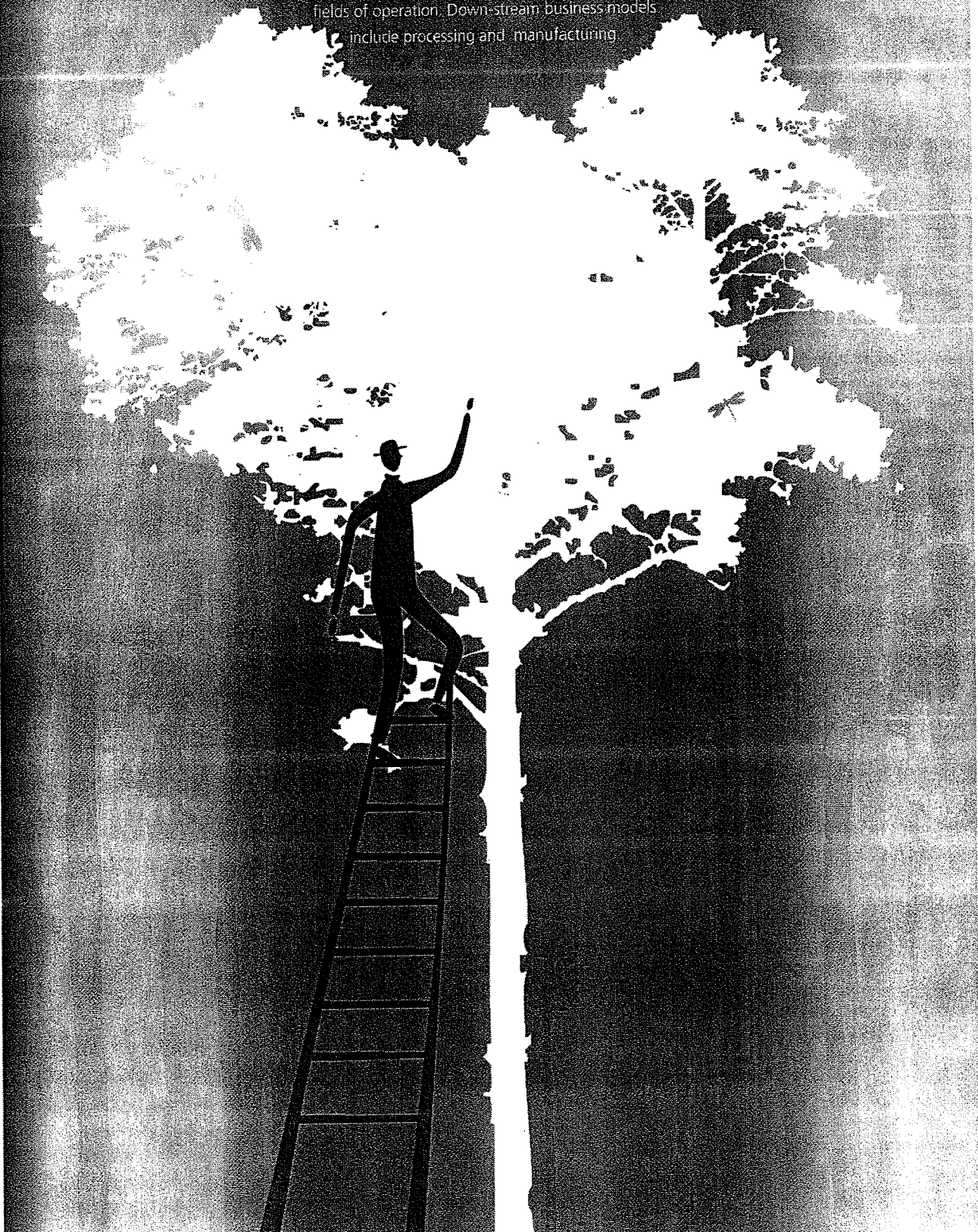
Our nurseries and landscaping business are creating a better living environment for Chinese citizens by providing greenery and improving air quality. Identifying the need for tree nursery products and urban landscape management, Sino-Forest is pursuing opportunities in this forest-product business segment. Utilising our plantation resources and expertise, we established Sinowin Plantings (Suzhou) Co. Ltd., which sources, supplies and manages landscaping products for property developers and other organisations.



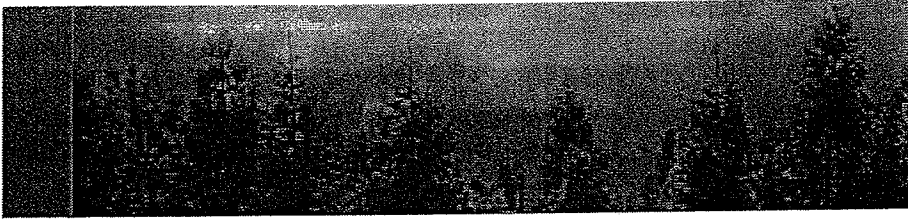
- Top: Finger-joint board operation in Hunan Province acquired in Q1 2007
- Bottom: Logs of Chinese fir harvested, average diameter 18 cm

# Branching Out

Sino-Forest's business dynamic enables it to participate in related lucrative fields of operation. Down-stream business models include processing and manufacturing.



## CORPORATE GOVERNANCE



Sino-Forest's Board of Directors continues to implement a best-practice approach to corporate governance as recommended by Canadian securities regulators and by the Toronto Stock Exchange ("TSX"). Over the past few years, we have established mandates for our Directors, Chairman & CEO, and the three Committees chaired by the Board's independent Directors. Sino-Forest adopts commonly accepted governance policies and abides by public disclosure requirements.

As a company strongly rooted in China and listed on the TSX, Sino-Forest offers investors a China play that incorporates the transparency and sophistication of international corporate and accounting standards.

Most of our Directors are highly experienced and are independent as defined in Canadian securities legislation.

Sino-Forest continues to improve its corporate governance, public disclosure and communications with its current and potential investors in an efficient and open manner. Furthermore, we participated in a number of industry and institution-hosted conferences and conducted tours of our operations for the equity and credit analysts.

Meanwhile, our Board continues to review and fine-tune corporate governance policies and tools, including our Code of Business Conduct, Public Disclosure Policy, Insider Trading Policy, Whistle Blower Policy, and Board Effectiveness Survey.

The Board has three Committees and each has a defined mandate set out in its Charter, chaired and composed entirely of independent Directors:

**The Audit Committee** monitors the corporation's system of internal financial controls, evaluates and reports on the integrity of financial statements and oversees the accounting and financial reporting processes and audits of financial statements of the corporation.

*Jamie Hyde, CA (chair), Edmund Mak, W. Judson Martin*

**Corporate Governance Committee** develops and monitors the corporation's approach to matters of governance. This Committee is also responsible for the review and recommendation to the Board of reports on compliance with the governance guidelines and requirements of the TSX.

*W. Judson Martin (Chair), Edmund Mak, Jamie Hyde, CA*

**Compensation and Nominating Committee** develops and monitors the corporation's approach to the compensation of its Officers and to the nomination of Directors to the Board.

*W. Judson Martin (Chair), Jamie Hyde, Simon Murray*

The Corporation's report on Corporate Governance is set out in Sino-Forest's Management Information Circular for its most recent annual shareholders meeting which can be found on [www.sedar.com](http://www.sedar.com).