CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, [Expressed in thousands of United States dollars]	2006 $	2005 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	111,456	81,687
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	177,730	140,204
Depreciation and amortisation	3,975	3,099
Stock-based compensation	3,105	2,672
Amortisation of deferred financing costs	1,819	1,338
Write-off of capital assets	877	–
Interest income from Mandra	(300)	(767)
Other	(150)	(153)
	298,512	228,080
Net change in non-cash working capital balances [note 13]	(9,224)	(31,625)
Cash flows from operating activities	289,288	196,455
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	(415,087)	(265,158)
Increase in other assets	(10,000)	(14,501)
Additions to capital assets	(9,649)	(16,584)
Decrease (increase) in non-pledged short-term deposits	11,912	(5,155)
Cash flows used in investing activities	(422,824)	(301,398)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	150,000	–
Increase in bank indebtedness	29,175	12,532
Issuance of shares, net of issue costs [note 9]	513	–
Decrease (increase) in pledged short-term deposits	385	(1,024)
Increase in deferred financing costs	(3,001)	–
Cash flows from financing activities	177,072	11,508
Effect of exchange rate changes on cash and cash equivalents	933	687
Net increase (decrease) in cash and cash equivalents	44,469	(92,748)
Cash and cash equivalents, beginning of year	108,418	201,166
Cash and cash equivalents, end of year	152,887	108,418
Supplemental cash flow information		
Cash payment for interest charged to income	35,642	28,994

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Sino-Forest Corporation (the "Company") have been prepared in United States dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. The consolidated financial statements of the Company include the accounts of entities for which the Company is the primary beneficiary.

All significant intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses for the periods reported. Areas where the nature of estimates makes it reasonably possible that the actual results could materially differ from amounts estimated include asset impairment of timber holdings and capital assets and provision for income taxes.

Revenue recognition

Revenue from standing timber is recognised when the contract for sale is entered into which establishes a fixed or determinable sales price with the customer whereby ultimate collection of the revenue is reasonably assured.

Revenue from the sale of wood chips is recognised when the products are processed by the authorized intermediaries on our behalf. We regularly evaluate the facts and circumstances in relation to the criteria within appropriate accounting guidelines and use our best judgment to determine whether to report on a gross or net basis for wood chips processed by authorized intermediaries. Currently, the facts and circumstances surrounding the wood chips business support the reporting of the sales on a gross basis as the Company acts as a principal to the transaction. The sales and cost of sales relating to this business reported on a gross basis was $83,894,000 and $69,973,000 respectively [2005 – $142,301,000 and $119,208,000].

Commission income relating to wood chips sales represents transactions when the Company acts as an agent to the transaction and is recorded on a net basis. Commission income is recognised when the services are rendered.

Revenue from the sale of logs and other products is recognised when the logs and other products are shipped to the customer.

Foreign currency translation

The Company's reporting currency is U.S. dollars. The assets and liabilities of subsidiaries denominated in their functional currencies other than U.S. dollars are translated into U.S. dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the cumulative translation adjustment account in shareholders' equity.

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

Derivative financial instruments

The Company through its subsidiaries operates substantially in the PRC with majority of transactions denominated in Renminbi, which gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in exchange rates of Renminbi against other currencies. The Company uses derivative financial instruments such as foreign currency swaps to hedge its risk associated with fluctuations. Gains and losses arising from these contracts offset the foreign exchange losses or gains from the underlying hedged amount. The Company does not enter into derivative financial instruments for trading or speculative purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

Inventories

Inventories are stated at lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Timber holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance which are capitalised over a period of five to twelve years based on the growth cycle of the type of tree. Timber holdings are depleted when the trees are harvested on the basis of the area of timber cut. Timber holdings from standing timber sales are depleted based on the area of timber sold when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into with the customer.

Investments

Investments where the Company does not have significant influence or control are accounted for on the cost basis. Investments are written down only when there is evidence that a decline in value that is other than temporary has occurred.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Capital assets

Capital assets are recorded at cost including interest capitalised on assets under construction. Repairs and maintenance expenditures are charged to income; major betterments and replacements are capitalised. Depreciation and amortisation are provided on a straight-line basis over the following estimated useful lives of capital assets:

Land-use rights	Over the term of the land-use rights
Buildings	20 years
Machinery and equipment	15 years
Office furniture and equipment	5 to 10 years
Vehicles	5 to 10 years

Impairment of long-lived assets

Timber holdings, capital assets and other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses on long-lived assets are measured as the amount by which the carrying amount of an asset group exceeds its fair value, as determined by the undiscounted future cash flows of the asset group.

Stock-based compensation plan

The Company has a stock option plan as described in note 9. Stock options are accounted for using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognised as a charge to selling, general and administration expense on a straight-line basis over the vesting period with a corresponding credit to contributed surplus.

Earnings per share ("EPS")

Basic EPS is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

Deferred financing costs

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

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are presented net when we have a legally enforceable right to set off the recognised amounts and intend to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and short-term deposits with original maturities of less than three months at the date of acquisition.

2. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

As at December 31, 2006, short-term deposits are made for varying periods of between one month to twelve months [2005 – one month to twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 1.4% to 5.1% per annum [2005 – 1.2% to 4.3%].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $90,569,000 [2005 – $54,137,000]. These credit facilities bear interest at 3.9% to 12.3% per annum as at December 31, 2006 [2005 – 4.1% to 7.3%] and are repayable on demand or due in less than one year.

As at December 31, the following credit facilities were utilised:

	2006	2005
	$	$
Trust receipt loans	49,482	27,253
Bank loans	21,476	14,059
	70,958	41,312

Certain of the Company's banking facilities are collateralised by:

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2006 of $6,940,000 [2005 – $3,713,000]; and

[b] certain short-term deposits at December 31, 2006 of $6,071,000 [2005 – $6,166,000].

3. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when accounts are determined to be uncollectible. Accounts receivable are substantially from companies located in the PRC and denominated in Renminbi and U.S. dollars. Accounts receivable as at December 31, 2006 included $56,765,000 due from three customers [2005 – $45,731,000 due from three customers]. Included in accounts receivable is an amount due from an authorized intermediary of $3,158,000 [2005 – $25,881,000] which represents amounts receivable from the sale of wood chips by the authorized intermediary less amount payable to it for the purchase of timber on behalf of the Company and processing costs to convert the timber into wood chips by it on the Company's behalf totaling $2,635,000 [2005 – $21,607,000]. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of wood chips and standing timber are realised through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

4. DUE FROM PRC CJV PARTNERS

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

5. INVENTORIES

Inventories consist of the following:

	2006 $	2005 $
Raw materials	1,169	1,207
Work in progress	6,685	795
Finished goods	2,240	2,730
Timber logs	2,360	–
Nursery	2,724	2,890
	15,178	7,622

6. CAPITAL ASSETS

Capital assets consist of the following:

	2006		2005	
	Cost $	Accumulated depreciation and amortisation $	Cost $	Accumulated depreciation and amortisation $
Machinery and equipment	81,161	10,458	75,059	8,604
Buildings	11,235	1,574	8,760	1,079
Land-use rights	5,148	679	4,980	539
Office furniture and equipment	1,577	899	1,362	764
Vehicles	3,425	997	2,574	672
	102,546	14,607	92,735	11,658
Less: accumulated depreciation and amortisation	(14,607)		(11,658)	
Net book value	87,939		81,077	

Buildings, machinery and equipment of $31,427,000 [2005 – $42,034,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalised to capital assets in the current and prior period.

7. OTHER ASSETS

Other assets consist of the following:

	2006 $	2005 $
Investment in Mandra Holdings [a]	2	2
Subordinated loan and interest receivable [a]	16,067	15,767
Deferred financing costs, net	8,713	7,531
Deposit for purchase of logs [b]	8,000	–
Other	142	142
	32,924	23,442

[a] On May 11, 2005, the Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project").

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

Mandra is a variable interest entity under AcG-15. Since the Company is not the primary beneficiary it does not include the assets, liabilities and results of activities of Mandra in its consolidated financial statements.

The Subordinated Loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of the $195 million of debt securities due in May 2013. The Subordinated Loan is secured on 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $1,067,000 [2005 – $767,000]. The Company's maximum exposure of loss from Mandra is limited to the Company's investment in and subordinated loan to Mandra Holdings and related interest receivable.

[b] The amount represents a refundable deposit of $10.0 million out of which $2.0 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million cubic metres of wood fibre to the Company. The deposit will be refunded within five years after the first anniversary of signing the contract in July 2006.

8. LONG-TERM DEBTS

Long-term debts consist of the following:

	2006 $	2005 $
Senior Notes [a]	300,000	300,000
Syndicated Loans [b]	150,000	–
	450,000	300,000

[a] On August 17, 2004, the Company issued $300,000,000 non-convertible guaranteed senior notes. The notes bear interest at a rate of 9.125% per annum and payable semi-annually. The notes mature on August 17, 2011. The notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture of the notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least pari passu in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- pledge of the shares of the Subsidiary Guarantors.

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. The Company received $750,000 from the counterparty to enter into this contract. This amount is amortised into income over the term of the contract on a straight-line basis.

The fair value of the non-convertible guaranteed senior notes and the currency swap contract as at December 31, 2006 were approximately $324,000,000 [2005 – $322,000,000] and $9,786,000 [2005 – $9,230,000] respectively.

Total interest expense on the notes for the year was $27,375,000 [2005 – $27,375,000].

[b] On February 24, 2006, the Company entered into a $150 million five-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.30% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortisation and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and rank at least pari passu with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, except for obligations mandatory preferred by law applying to companies generally. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility has been fully drawn down during the year. Out of the $150,000,000, $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the year was $6,714,000 [2005 – Nil].

The carrying amount of the syndicated loans approximates their fair value.

[c] Under the terms of the above debt agreements, the Company must meet certain financial and non-financial covenants including limitation on dividend and other payment restrictions affecting the Company and the restricted subsidiaries (as defined in the debt agreements).

9. SHARE CAPITAL

Share capital consists of the following:

	2006 $	2005 $
Authorised		
Unlimited common shares, without par value		
Unlimited preference shares, issuable in series, without par value		
Issued		
137,999,548 common shares [2005 – 137,789,548 common shares]	143,511	142,815
	143,511	142,815

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2006 is Cdn.$228,637,336 [2005 – Cdn.$227,820,790].

During the years ended December 31, 2005 and 2006, the movements in share capital were as follows:

[a] During the year ended December 31, 2006, 210,000 stock options were exercised for proceeds of $513,000.

[b] In conjunction with the completion of the equity offering in May 2004, the Company purchased from management certain rights to acquire shares in Sino-Wood Partners, Limited ("Sino-Wood") pursuant to securities purchase agreements for a pre-determined purchase price not to exceed Cdn.$12,000,000. The amount was settled by the

issuance of 2,400,000 common shares valued at Cdn.$2.65 per share based upon the offering price. One half of the shares vested 90 days following the completion of the offering and the remaining one half vested on the first anniversary of the completion of the offering. The Company has recorded the compensation expense of approximately $7,800,000 over the vesting period. The compensation expense recorded in 2005 and 2004 were $1,432,000 and $6,368,000 respectively. As a result, in August 2004 and May 2005, 1,200,000 common shares each were issued to management in settlement for the rights described above for $3,900,000 each [note 10].

Authorised

Each holder of common shares is entitled to one vote per common share at meetings of the Company's shareholders. Each holder of common shares is entitled to receive dividends if, as and when declared by the Company's board of directors. The holders of the common shares are entitled to receive the remaining property of the Company upon dissolution.

The preference shares may from time to time be issued in one or more series, each series of which will have the rights and other features determined by the board of directors of the Company. The preference shares of each series will rank equally with the preference shares of every other series with respect to priority in payment of dividends and return of capital in the event of the liquidation, dissolution or winding-up of the Company and have a preference over the common shares.

Stock options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2006, options to purchase 5,816,258 common shares have been granted and outstanding options to purchase 3,173,742 common shares remain available to be granted under the Stock Option Plan.

In the second quarter of 2005, options to acquire 450,000 common shares granted on May 11, 2004 were cancelled.

During the year ended December 31, 2006, options to acquire 1,589,258 common shares [2005 – 1,942,000] were granted to employees and directors at exercise prices ranging from Cdn.$4.36 to Cdn.$5.50 in accordance with the Company's Stock Option Plan. The options granted will vest over three years and expire in five years. The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	August 25, 2006	August 15, 2006
Number of options	239,258	1,350,000
Exercise Price (in Cdn.$)	$4.36	$5.50
Dividend Yield	0.0%	0.0%
Volatility	51.0%	50.4%
Risk-free interest rate	4.07%	4.19%
Expected option lives (in years)	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	1.92	1.69

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

	September 14, 2005	April 5, 2005	January 21, 2005
Number of options	292,000	1,350,000	300,000
Exercise price (in Cdn.$)	$2.70	$3.67	$3.90
Dividend Yield	0.0%	0.0%	0.0%
Volatility	53.9%	53.3%	54.3%
Risk-free interest rate	3.4%	3.6%	3.4%
Expected option lives (in years)	3.5	3.5	3.5
Weighted average fair value of each option (in U.S. dollars)	$0.98	$1.26	$1.35

The compensation expense recorded for the year 2006 with respect to the above options granted amounted to $3,105,000 [2005 – $1,240,000].

The following table summarises the changes in stock options outstanding during the years ended December 31, 2006 and 2005:

	2006 Number of options	2006 Weighted average exercise price Cdn.$	2005 Number of options	2005 Weighted average exercise price Cdn.$
Balance, beginning of year	4,437,000	3.06	2,945,000	2.68
Granted	1,589,258	5.33	1,942,000	3.56
Cancelled			(450,000)	2.72
Exercised	(210,000)	2.72	–	–
Balance, end of year	5,816,258	3.69	4,437,000	3.06
Exercisable at year-end	3,277,147	3.50	915,000	2.59

The following table summarises the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2006:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Options non-exercisable	Weighted average exercise price
Cdn.$1.00 – Cdn.$2.00	125,000	1.20 years	Cdn.$1.79	125,000	–	Cdn.$1.79
Cdn.$2.00 – Cdn.$3.00	2,452,000	2.52 years	Cdn.$2.72	1,537,333	914,667	Cdn.$2.72
Cdn.$3.00 – Cdn.$4.00	1,650,000	3.22 years	Cdn.$3.71	1,000,000	650,000	Cdn.$3.71
Cdn.$4.00 – Cdn.$5.00	239,258	4.65 years	Cdn.$4.36	14,814	224,444	Cdn.$4.36
Cdn.$5.00 – Cdn.$6.00	1,350,000	4.62 years	Cdn.$5.50	600,000	750,000	Cdn.$5.50

10. CONTRIBUTED SURPLUS

The contributed surplus represents stock-based compensation and options granted over the vesting period which was charged to the income statement.

	2006 $	2005 $
Balance, beginning of year	1,804	3,032
Stock-based compensation	3,105	2,672
Transfer to share capital [note 9]	(183)	(3,900)
Balance, end of year	4,726	1,804

11. PROVISION FOR INCOME TAXES

The provision for income taxes differs from that obtained by applying the statutory tax rate as a result of the following:

	2006	2005
	$	$
Income before income taxes	124,930	88,943
Expected statutory tax rate of Canada	36.12%	36.12%
Expected income tax expense	45,125	32,126
Increase (decrease) in income taxes resulting from:		
Unrecognised income tax losses arising from losses of the Company and its subsidiaries	22,830	16,043
Income tax at different rates in foreign jurisdictions	(39,140)	(22,045)
Profits not subject to taxation as the authorized intermediaries are responsible to pay applicable taxes therefrom on behalf of the Company [b]	(28,426)	(25,884)
	389	240
Additional tax reserves on Authorized Sales Activities [b]		
Provision for the year [b]	18,796	10,437
Reversal of prior years' provision [b]	(5,711)	(3,421)
	13,474	7,256

[a] Income tax rates of major tax jurisdictions in which the Company's subsidiaries operate

The PRC WFOEs and CJVs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"). Pursuant to the Income Tax Laws, WFOEs, Sino-foreign equity and co-operative joint venture enterprises are subject to corporate income tax at an effective rate of 33% [30% state income taxes plus 3% local income taxes] on income as reported in their statutory financial statements. The PRC WFOEs and CJVs are eligible for an exemption from state and local income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. Subject to the approval of the relevant authorities, foreign invested enterprises categorised as forestry projects may be allowed a 15% to 30% reduction of the amount of income tax payable for a further period of ten years after tax holidays.

Hong Kong profits tax has been provided at the rate of 17.5% [2005 – 17.5%] on the estimated assessable profits arising in Hong Kong during the year.

[b] Provision for tax related liabilities

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

Included in accounts payable and accrued liabilities as at December 31, 2006 is the balance of the provision for these tax related liabilities amounting to $39,106,000 [2005 – $25,379,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

[c] Losses carry forward

As at December 31, 2006, the Company has income tax losses of approximately $54,594,000 which can be applied against future years' taxable income in Canada. Approximately $1,456,000 of these tax losses will expire in 2007, $1,267,000 in 2008, $984,000 in 2009, $852,000 in 2010, $874,000 in 2011, $12,218,000 in 2015, $18,581,000 in 2016 and $18,362,000 in 2017. In addition, as at December 31, 2006, the Company's PRC WFOEs and CJVs have incurred tax losses which can only be carried forward to a maximum of 5 years of approximately $28,499,000 [2005 – $18,451,000].

The benefit of these losses, has not been reflected in the financial statements as management does not consider it to be more likely than not that the related future income tax asset will be realised. There are no other material temporary differences.

12. EARNINGS PER SHARE

The following table sets forth the number of shares used in computation of basic and diluted earnings per share:

	2006	2005
Weighted average shares for basic earnings per share	137,910,000	137,359,000
Stock options	1,751,000	230,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	139,661,000	137,589,000

13. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances comprises the following:

	2006 $	2005 $
Cash provided by (used for):		
Accounts receivable	(4,162)	(38,920)
Due from PRC CJV partners	1,200	143
Inventories	(7,301)	(4,819)
Prepaid expenses and other	(9,494)	(61)
Accounts payable and accrued liabilities [a]	10,156	11,862
Income taxes payable	377	170
	(9,224)	(31,625)

[a] As at December 31, 2006, the Company had an aggregate amount of $5,530,000 [2005 – $25,286,000] payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

[b] During the year ended December 31, 2005, 1,200,000 common shares were issued to management as consideration for the purchase of certain rights to acquire shares in Sino-Wood [note 9b]. The corresponding contributed surplus of $3,900,000 was transferred to share capital.

14. FINANCIAL INSTRUMENTS

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates and price of wood chips, wood-based products and standing timber, in the normal course of business.

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to fix interest payments at $27.4 million per annum over the next five years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In 2006 and 2005, 73.1% and 82.7% of the sales were received in Renminbi respectively and 26.9% and 17.3% of the sales were received in U.S. dollars and Hong Kong dollars respectively. The Company translates its results of foreign operations in U.S. dollars. It is expected in the future substantially all of the sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has a substantial amount of indebtedness denominated in U.S. dollars. The Company cannot predict the effect that currency exchange rate fluctuations may have on its operating results or cash flows.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Renminbi to U.S. dollar exchange rate has been relatively stable since 1994 until a revaluation against the U.S. dollar since July 2005. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of December 31, 2006, the Company had Renminbi denominated bank accounts of RMB250.3 million (equivalent to $32.0 million) [2005 – RMB298.6 million, equivalent to $37.0 million], U.S. dollar denominated bank accounts of $127.6 million [2005 – $88.6 million], Canadian dollar denominated bank accounts of Cdn.$10.6 million (equivalent to $9.1 million) [2005 – Cdn.$12.2 million, equivalent to $10.5 million], Hong Kong dollar denominated bank accounts of HK$0.6 million (equivalent to $0.1 million) [2005 – HK$2.2 million, equivalent to $0.3 million] and Euro denominated bank accounts of €2.0 million (equivalent to $2.7 million) [2005 – €2.0 million, equivalent to $2.4 million]. The Company also had U.S. dollar and Renminbi denominated accounts receivable of $40.2 million [2005 – $31.3 million] and RMB665.6 million (equivalent to $85.1 million) [2005 – RMB717.7 million, equivalent to $88.7 million] respectively.

The Company mainly incurred U.S. dollar denominated debts for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

Credit Risk and Concentration of Sales and Economic Dependence

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company has credit evaluation on customers as necessary and has monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company.

During the year ended December 31, 2006, the purchase of timber supplies and sales of processed wood chips in the PRC has been conducted through one domestic wood dealer who act as authorized intermediary to facilitate the purchase of timber supplies and sales of processed wood chips. The Company's relationship with the authorized intermediary is governed by a master agreement as supplemented by certain operational procedures relating to the wood chips sales transaction. Since the fourth quarter of 2005, the Company only engaged one wood dealer as the Company's authorized intermediary.

Entering into derivative financial instruments can give rise to additional credit risks. Credit risks arise from the possibility that counterparty will default on its contractual obligations and it's limited to those contracts where the Company would incur a loss in replacing the instrument.

Interest Rate Risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its bank indebtedness. The debts consist of fixed and variable rate debt obligations with original maturities ranging from less than one to seven years. The Company undertakes debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the debt obligations carried at fixed rate. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber, wood chips and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the sales of standing timber, wood chips and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber, wood chips and wood-based products have a significant effect on the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales of standing timber, wood chips and wood-based products.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discounted rates which reflect varying degrees of risk.

15. SEGMENTED INFORMATION

Segmented information is presented by way of the Company's primary segment reporting basis, by industry segment. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Company's revenue is derived from customers based in the PRC, and 88% of the Company's assets are located in the PRC.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segment. The segments were re-organised to reflect the Company's role as a key wood fibre supplier and provider of value-added wood products through its manufacturing operations. Summary details of the industry segments are as follows:

[a] the wood fibre segment engages in the sale of wood chips, logs, standing timber, imported wood products and the provision of agency services in the sale of wood chips; and

[b] the manufacturing segment engages in the manufacturing of particleboard, melamine faced chipboard, sawn timber, flooring products and nursery products and services.

Corporate assets, corporate income and costs are included in the Company's corporate segment to differentiate its risks and returns from other business segments.

By Industry Segment

	2006				2005			
	Wood Fibre	Manufacturing	Corporate	Total	Wood Fibre	Manufacturing	Corporate	Total
	$	$	$	$	$	$	$	$
Revenue								
Sale of standing timber	352,574	–	–	352,574	240,829	–	–	240,829
Sale of imported wood products	178,379	–	–	178,379	84,136	–	–	84,136
Sale of wood chips and logs	89,994	–	–	89,994	155,870	–	–	155,870
Sale of manufacturing operation's products and other	–	24,032	–	24,032	–	12,466	–	12,466
	620,947	24,032	–	644,979	480,835	12,466	–	493,301
Income (loss) from operations before interest, other income, exchange gains and amortisation of deferred financing costs	180,496	(9,148)	(18,733)	152,615	132,823	(5,549)	(14,667)	112,607
Identifiable assets	927,880	151,957	127,418	1,207,255	690,787	122,408	82,076	895,271
Interest income	918	154	5,414	6,486	1,244	201	2,734	4,179
Interest expense	2,788	457	34,095	37,340	1,181	423	27,390	28,994
Depreciation and amortisation	230	3,623	122	3,975	171	2,823	105	3,099
Provision for income taxes	13,392	82	–	13,474	7,185	71	–	7,256
Depletion of timber holdings included in cost of sales	177,730	–	–	177,730	140,204	–	–	140,204
Additions to timber holdings and capital assets	395,518	9,421	41	404,980	283,569	15,844	238	299,651

Revenue from the Company's largest customer for the year amounted to approximately 13% [2005 – 18%] of total revenue. During the year, there were three [2005 – three] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 35% [2005 – 42%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 16% [2005 – 20%] of total purchases. During the year, two [2005 – four] vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 26% [2005 – 64%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the year, revenue in the PRC and other countries amounted to approximately $643,934,000 [2005 – $491,940,000] and $1,045,000 [2005 – $1,361,000], respectively.

As at December 31, 2006, approximately $32,010,000 [2005 – $36,954,000] of the Company's cash and cash equivalents were denominated in Renminbi.

As at December 31, 2006, all of the Company's timber holdings and approximately $87,346,000 [2005 – $80,520,000] of the Company's capital assets were located in the PRC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

[Tabular figures expressed in thousands of United States dollars, unless otherwise indicated.]

16. CAPITAL CONTRIBUTIONS AND COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

In November 2005, the Commission of Foreign Trade and Economic Co-operation has approved the registered capital of the Company's WFOE, Guangdong Jia Yao Wood Products Development Co. Ltd. to increase from $24,000,000 to $49,000,000. The increase in capital contribution will be in the form of machinery and 15% of the capital contribution to be contributed within three months and the remaining 85% within eighteen months. As of December 31, 2006, the capital contribution has not been contributed. In February 2007, $5,705,000 of machinery was contributed.

[b] Capital commitments

As at December 31, 2006, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $12,305,000 [2005 – $7,820,000].

[c] Operating leases

Commitments under operating leases for land and buildings are as follows:

	$
2007	1,720
2008	1,348
2009	1,244
2010	1,193
2011	1,187
2012 and thereafter	34,698
	41,390

17. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities is subject to a number of different estimates and judgment made by management. A change in these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by both domestic and foreign tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is probable that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they mightdo so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to three years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognised and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

Management evaluate the provision for tax related liabilities on an annual basis or as necessary and believe adequate but not excessive provision for tax related liabilities has been recognised in the financial statements.

18. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $4,136,000 [December 31, 2005 – $2,737,000].

[b] In addition, as at December 31, 2006, the Company had an aggregate amount of $3,150,000 [December 31, 2005 – $2,129,000] owed to these related companies.

19. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

INDEPENDENT DIRECTORS

JAMES (JAMIE) M.E. HYDE

CA, Toronto 1 (chair), 2

Director since 2004; Executive Vice President & Chief Financial Officer, Resolve Business Outsourcing Income Fund; previously Vice President Finance and Chief Financial Officer, GSW Inc., Partner, Ernst & Young LLP and Senior Vice President, Ernst & Young Corporate Finance Inc.

EDMUND MAK

MBA, Vancouver 1, 2

Director since 1994; engaged in real estate marketing for Re/Max Select Properties; previously worked thirty years with public, multi-national and private corporations in North America and Hong Kong, in the real estate, computer and high technology equipment, transportation, construction, oil & gas, textile and China trade industries.

W. JUDSON MARTIN

Toronto 1, 2 (chair), 3 (chair)

Director since 2006 and appointed as Lead Director in March 2007; previously Senior Executive Vice President & Chief Financial Officer, Alliance Atlantis Communications Inc., Senior EVP, CFO & Chief Operating Officer, MDC Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance, Trizec Corporation Ltd.

SIMON MURRAY

Hong Kong 3

Director since 1999; Chairman, GEMS (General Enterprise Management Services Limited); previously worked thirty-five years in Asia as founder Simon Murray & Associates, Executive Chairman, Asia Pacific, Deutsche Bank Group, co-founder, Distacom, and Group Managing Director, Hutchison Whampoa.

Note: 1. Audit Committee 2. Corporate Governance Committee 3. Compensation and Nominating Committee

DIRECTORS AND OFFICERS

ALLEN T.Y. CHAN

Chairman and Chief Executive Officer, Hong Kong

Director since 1994; after co-founding Sino-Forest in 1992; previously worked twelve years as a management consultant and project manager in China; previously worked for Hong Kong government in new town development and management programs.

KAI KIT (K. K.) POON

President, Hong Kong

Director since 1994; after co-founding Sino-Forest in 1992; previously worked fifteen years with Guangdong Forestry Bureau as engineer engaged in forest product trading and manufacturing.

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

Senior Vice President, Administration & 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.

ALBERT IP

Senior Vice President, Development & Operations North-east & South-west China

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

WEI MAO ZHAO

Senior Vice President, Development & Operations, South & East 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 for several international firms.

ALVIN LIM

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

Joined Sino-Forest in 2002; previously worked ten 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 fifteen years for Ernst & Young LLP, providing professional services in audit, taxation, risk management, strategic and business planning.

JAY LEFTON

LLB, Corporate Secretary, Toronto

Partner, Aird & Berlis 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.

TEN-YEAR FINANCIAL HIGHLIGHTS

(in millions, except earnings per share and common shares outstanding)	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Consolidated Income Statements and Cash Flows										
Revenue	**645.0**	493.3	330.9	265.7	200.7	137.3	126.7	141.6	92.7	41.8
Gross profit	**194.5**	136.9	101.5	64.9	42.7	30.2	38.6	39.8	30.0	24.4
Gross profit margin	**30.2%**	27.7%	30.7%	24.4%	21.3%	22.0%	30.5%	28.1%	32.4%	58.4%
Net income	**111.5**	81.7	52.8	30.2	20.6	18.6	28.6	28.2	21.4	15.3
Diluted earnings per share	**0.80**	0.59	0.43	0.32	0.27	0.21	0.31	0.31	0.26	0.19
Cash flow from operating activities	**289.3**	196.5	119.4	69.6	12.6	12.9	26.6	27.1	15.3	14.6
Capital Expenditures	**416.8**	299.7	178.6	96.6	44.2	45.3	54.4	37.7	30.7	31.7
Consolidated Balance Sheets										
Total assets	**1207.3**	895.3	756.0	418.9	336.9	281.6	220.2	178.3	100.5	72.8
Cash and cash equivalents	**152.9**	108.4	201.2	6.9	1.2	1.7	18.2	39.6	0.9	5.7
Working capital	**182.0**	150.1	236.9	(2.3)	26.1	5.5	13.3	38.8	5.2	13.6
Timber holdings	**752.8**	513.4	359.6	232.5	172.4	156.1	118.5	91.7	67.3	38.4
Long-term liabilities	**450.0**	300.0	300.0	56.0	82.3	47.2	28.7	30.2	3.3	6.7
Shareholders' equity	**605.7**	468.0	372.3	245.0	180.1	172.8	152.3	126.2	85.2	60.0
Shares										
Shares outstanding at year-end	**138.0**	137.8	136.6	96.2	80.3	80.3	80.3	80.8	80.7	73.6
– Common shares	**138.0**	137.8	136.6	–	–	–	–	–	–	–
– Class A Subordinate-Voting Shares*	–	–	–	96.2	74.3	74.3	74.3	74.8	74.7	67.6
– Class B Multiple-Voting Shares*	–	–	–	–	6.0	6.0	6.0	6.0	6.0	6.0

* Pursuant to articles of amendment filed by the Company on June 22, 2004, the Class A Subordinate-Voting Shares were reclassified as common shares and the Class B Multiple-Voting Shares were eliminated.

2006 QUARTERLY HIGHLIGHTS

		1st Q	2nd Q	3rd Q	4th Q	Total
Revenue	US$'000	98,864	107,274	188,535	250,306	644,979
Gross profit	US$'000	22,406	28,436	58,720	84,936	194,498
Gross profit margin		22.7%	26.5%	31.1%	33.9%	30.2%
EBITDA	US$'000	42,202	47,562	95,853	148,703	334,320
Net income	US$'000	9,464	14,360	45,104	42,528	111,456
Diluted earnings per share	US$	0.07	0.10	0.32	0.30	0.80
Cash flow from operating activities	US$'000	65,275	32,057	65,093	126,863	289,288
Standing Timber						
Hectares purchased		42,802	16,903	29,086	40,485	129,276
– Average purchased price/hectare	US$	1,699	2,455	3,899	3,843	2,964
Hectares sold		22,617	19,830	23,344	45,576	111,367
– Average selling price/ hectare	US$	1,923	2,335	4,066	3,683	3,166
Total Revenue	US$'000	43,492	46,307	94,906	167,869	352,574
Gross profit margin		41.2%	46.4%	51.8%	47.4%	47.7%
Wood Chips & Logs						
Bone dry metric tons sold		96,230	191,030	324,690	151,490	763,440
– Average price/BDMT	US$	107.7	109.3	109.6	112.5	109.9
Revenue – Wood chips	US$'000	10,360	20,889	35,600	17,045	83,894
Revenue – Wood logs	US$'000	–	79	352	64	495
Revenue – Commissions	US$'000	1,276	2,212	2,117	–	5,605
Total Revenue	US$'000	11,636	23,180	38,069	17,109	89,994
Gross profit margin		16.7%	17.0%	16.2%	16.3%	16.5%
Imported Wood Products						
Total Revenue	US$'000	39,723	32,064	51,064	55,528	178,379
Gross profit margin		2.8%	2.7%	3.0%	2.8%	2.9%
Manufacturing & Other Operations						
Total Revenue	US$'000	4,013	5,723	4,496	9,800	24,032
Gross profit margin		9.4%	5.3%	2.0%	9.4%	7.1%
Common Shares						
High	Cdn.$	7.00	6.59	6.01	7.97	7.97
Low	Cdn.$	4.65	4.76	3.60	4.22	3.60
Close	Cdn.$	6.55	5.75	4.27	7.83	7.83
Trading volume		35,102,343	29,022,026	21,030,620	40,106,202	125,261,191

CORPORATE AND SHAREHOLDER INFORMATION

AUDITORS

BDO McCabe Lo Limited
25th 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 SHAREDHOLDERS MEETING

4:00 p.m.
Monday, May 28, 2007
The Fairmont Royal York Hotel
The Imperial Room
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

LEGAL COUNSEL

Aird & Berlis LLP
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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 worldwide demand for the Company's products, changes in worldwide production and production capacity in the forest products industry, competitive pricing pressures for the Company's products, and changes in wood and timber costs.