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

Authorized

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, 2007, options to purchase 8,296,675 common shares have been granted and options to purchase 1,703,325 common shares remain available to be granted under the Stock Option Plan.

In the second quarter of 2007, options to acquire 100,000 common shares granted on June 4, 2007 were cancelled.

During the year ended December 31, 2007, options to acquire 1,570,417 common shares [2006 – 1,589,258] were granted to employees and directors at exercise prices ranging from Cdn.$13.15 to Cdn.$19.00 in accordance with the Company's Stock Option Plan. The options granted will vest over one to 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:

	November 23, 2007	August 21, 2007	June 4, 2007
Number of options	250,000	2,081	1,318,336
Exercise price (in Cdn. $)	$19.00	$14.01	$13.15
Dividend Yield	0.0%	0.0%	0.0%
Volatility	55.5%	56.4%	56.6%
Risk-free interest rate	4.22%	4.59%	4.11%
Expected option lives (in years)	5.0	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	$9.98	$7.00	$6.54

	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

The compensation expense recorded for the year 2007 with respect to the above options granted amounted to $2,898,000 [2006 – $3,105,000].

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2007 and 2006:

	2007 Number of options	2007 Weighted average exercise price Cdn.$	2006 Number of options	2006 Weighted average exercise price Cdn.$
Balance, beginning of year	5,816,258	3.69	4,437,000	3.06
Granted	1,570,417	14.15	1,589,258	5.33
Cancelled	(100,000)	13.15	-	-
Exercised	(3,338,222)	3.46	(210,000)	2.72
Balance, end of year	3,948,453	7.78	5,816,258	3.69
Exercisable at year-end	1,510,703	3.63	3,277,147	3.50

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2007:

Range of exercise prices	**Options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options Exercis-able**	**Options Non-exercisable**	**Weighted average exercise price**
Cdn.$2.00 – Cdn.$3.00	**700,000**	**1.55 years**	**Cdn.$2.72**	**602,667**	**97,333**	**Cdn.$2.72**
Cdn.$3.00 – Cdn.$4.00	**871,000**	**2.23 years**	**Cdn.$3.70**	**621,000**	**250,000**	**Cdn.$3.70**
Cdn.$4.00 – Cdn.$5.00	**157,036**	**3.65 years**	**Cdn.$4.36**	**37,036**	**120,000**	**Cdn.$4.36**
Cdn.$5.00 – Cdn.$6.00	**750,000**	**3.62 years**	**Cdn.$5.50**	**250,000**	**500,000**	**Cdn.$5.50**
Cdn.$13.00 – Cdn.$14.00	**1,218,336**	**4.42 years**	**Cdn.$13.15**	**-**	**1,218,336**	**Cdn.$13.15**
Cdn.$14.00 – Cdn.$15.00	**2,081**	**4.64 years**	**Cdn.$14.01**	**-**	**2,081**	**Cdn.$14.01**
Cdn.$19.00 – Cdn.$20.00	**250,000**	**4.89 years**	**Cdn.$19.00**	**-**	**250,000**	**Cdn.$19.00**

11. CONTRIBUTED SURPLUS

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

	2007 $	2006 $
Balance, beginning of year	4,726	1,804
Stock-based compensation	2,898	3,105
Transfer to share capital [note 10]	(3,718)	(183)
Balance, end of year	3,906	4,726

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2007 $	2006 $
Balance, beginning of year	32,590	11,396
Other comprehensive income	72,697	21,194
Balance, end of year	105,287	32,590

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

As at December 31, 2007, accumulated other comprehensive income comprises of the following amounts:

	2007 $	2006 $
Unrealized gains on translation of financial statements of self-sustaining foreign operations	106,025	32,590
Unrealized loss on financial assets designated as available-for-sale	(738)	-
Balance, end of year	105,287	32,590

13. 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:

	2007 $	2006 $
Income before income taxes	160,465	105,404
Expected statutory tax rate of Canada	36.12%	36.12%
Expected income tax expense	57,960	38,072
Unrecognized income tax benefit arising from losses of the Company and its subsidiaries	23,789	22,830
Income tax at lower rates in foreign jurisdiction [a]	(63,668)	(47,592)
Income not currently subject to foreign enterprise tax	(47)	(118)
Income Tax Expense	18,034	13,192
Effective Rate	11.2%	12.5%

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

PRC wholly foreign-owned enterprises ("WFOEs") are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Corporate Income Tax Laws effective January 1, 2008 ("New CIT Law"), WFOEs, Sino-foreign equity and co-operative joint venture enterprises ("CJV") are subject to corporate income tax at an effective rate of 25% [2007 – 24% to 33%] on income as reported in their statutory financial statements. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing are eligible for an exemption from state 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. If the tax holiday has not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New CIT Law, the PRC WFOEs and CJVs engaged in plantation are eligible for an exemption from income taxes.

Hong Kong profits tax has been provided at the rate of 17.5% [2006 – 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 of the PRC. 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 ("AI Agreements") made with the AI, the AI are responsible for paying relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether in the future the PRC tax authorities may be successful in establishing the BVI Subsidiaries engaged in business activities in the PRC through authorized intermediaries are directly subject to foreign enterprise income tax. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at December 31, 2007 is the balance of the provision for these tax related liabilities amounting to $80,165,000 [2006 – $66,558,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

[c] Losses carry forward

As at December 31, 2007, the Company has income tax losses of approximately $59,537,000 which can be applied against future years' taxable income in Canada. The losses will expire as follows:

	$
Year of Expiry	
2008	1,156
2009	1,002
2010	1,027
2014	14,359
2015	21,836
2026	16,689
2027	3,468
	59,537

In addition, as at December 31, 2007, 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 $30,097,000 [2006 – $28,499,000].

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 realized. There are no other material temporary differences.

14. EARNINGS PER SHARE

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

	2007 $	2006 $
Weighted average shares for basic earnings per share	166,823,000	137,910,000
Dilutive stock options	1,783,000	1,751,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	168,606,000	139,661,000

15. STATEMENTS OF CASH FLOWS

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

	2007 $	2006 $
Cash provided by (used for):		
Accounts receivable	23,628	(9,502)
Inventories	(25,428)	(7,301)
Prepaid expenses and other	(789)	(9,346)
Accounts payable and accrued liabilities [a]	29,096	9,312
Income taxes payable	493	381
	27,000	(16,456)

[a] As at December 31, 2007, the Company had an aggregate amount of $12,318,000 [2006 – $5,530,000] payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

16. FINANCIAL INSTRUMENTS

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates, price of 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 2 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 2007 and 2006, 81.6% and 68.9% of the sales were received in Renminbi respectively and 18.4% and 31.1% of the sales were received in U.S. dollars and Hong Kong dollars respectively. The Company translates its results of foreign operations into U.S. dollars. It is expected in the future that 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. Substantial exposure to currency risk is on its net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

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 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, 2007, the Company had Renminbi denominated bank accounts of RMB454.6 million (equivalent to $62.0 million) [2006 – RMB250.3 million, equivalent to $32.0 million], U.S. dollar denominated bank accounts of $275.2 million [2006 – $127.6 million], Canadian dollar denominated bank accounts of Cdn$10.1 million (equivalent to $10.2 million) [2006 – Cdn.$10.6 million, equivalent to $9.1 million], Hong Kong dollar denominated bank accounts of HK$13.6 million (equivalent to $1.7 million) [2006 – HK$0.6 million, equivalent to $0.1 million] and Euro denominated bank accounts of €1.2 million (equivalent to $1.7 million) [2006 – €2.0 million, equivalent to $2.7 million]. The Company also had U.S. dollar and Renminbi denominated accounts receivable of $16.3 million [2006 – $40.2 million] and RMB 652.2 million (equivalent to $89.0 million) [2006 – RMB661.5 million, equivalent to $84.6 million] respectively.

The Company mainly incurred U.S. dollar denominated debt 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

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company undertakes credit evaluations 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.

The Company is exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. The Company has deposited the cash equivalents that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote. The Company has accounts receivable from clients primarily in the PRC engaged in various industries including pulp mills, wood panel and furniture manufacturers and construction.

These specific industries may be affected by economic factors that may impact accounts receivable. Management does not believe that any single industry or geographic region represents a significant credit risk [note 4].

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 and syndicated loans. 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.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber 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 and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber 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 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.

17. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. 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 85% 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 segments. The segments were organized to reflect the Company's role as a key wood fibre supplier and provider of value-added wood products through its manufacturing operations. The Company has determined, based on the aggregation criteria in CICA Handbook, Section 1701, "Segment Disclosures", and the criteria set out in EIC-115, "Segmented Disclosures", that the previously reported fibre segment should be disaggregated and reported as Plantation Operations and Other Fibre. Summary details of the industry segments are as follows:

[a] the plantation fibre segment engages in the sale of standing timber;

[b] the other fibre segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operation's products and other.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

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

By Industry Segment

	2007 Plantation Fibre $	Other Fibre $	Manu-facturing $	Corporate $	Total $
Revenue					
Sale of standing timber	521,489	-	-	-	521,489
Sale of imported wood products	-	150,731	-	-	150,731
Sale of wood logs	-	3,233	-	-	3,233
Sale of manufacturing operation's products and other	-	-	38,413	-	38,413
	521,489	153,964	38,413	-	713,866
Income (loss) from continuing operations before interest, other income, exchange gains and write down of capital assets	230,229	2,898	(14,202)	(21,457)	197,468
Net income from discontinued operations	-	9,842	-	-	9,842
Interest income	623	104	1,893	12,564	15,184
Interest expense	620	3,512	634	39,194	43,960
Write down of capital assets	-	-	20,846	-	20,846
Depreciation and amortization	247	23	4,938	156	5,364
Provision for income taxes	17,745	88	140	61	18,034
Identifiable assets	1,309,415	52,293	251,628	224,161	1,837,497
Depletion of timber holdings included in cost of sales	284,808	-	-	-	284,808
Additions to timber holdings and capital assets	647,762	85	11,347	422	659,616

	2006 Plantation Fibre $	Other Fibre $	Manu-facturing $	Corporate $	Total $
Revenue					
Sale of standing timber	352,574	-	-	-	352,574
Sale of imported wood products	-	178,379	-	-	178,379
Sale of wood logs	-	495	-	-	495
Sale of manufacturing operation's products and other	-	-	24,032	-	24,032
	352,574	178,874	24,032	-	555,480
Income (loss) from continuing operations before interest, other income, exchange gains and write down of capital assets	164,857	4,381	(8,278)	(25,815)	135,145
Net income from discontinued operations	-	21,268	-	-	21,268
Interest income	460	147	154	5,725	6,486
Interest expense	78	2,710	457	34,095	37,340
Write down of capital assets	1	-	870	6	877
Depreciation and amortization	184	4	3,623	164	3,975
Provision for income taxes	12,802	308	82	-	13,192
Identifiable assets	856,207	65,258	141,365	144,425	1,207,255
Depletion of timber holdings included in cost of sales	177,730	-	-	-	177,730
Additions to timber holdings and capital assets	395,538	138	9,263	41	404,980

Revenue from the Company's largest customer for the year amounted to approximately 16% [2006 – 13%] of total revenue. During the year, there were four [2006 – six] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 52% [2006 – 68%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 32% [2006 – 13%] of total purchases. During the year, one [2006 – two] vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 32% [2006 – 24%] 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 $708,331,000 [2006 – $555,139,000] and $5,535,000 [2006 – $341,000], respectively.

As at December 31, 2007, approximately $39,883,000 [2006 – $32,010,000] of the Company's cash and cash equivalents were denominated in Renminbi.

As at December 31, 2007, all of the Company's timber holdings and approximately $77,913,000 [2006 – $87,346,000] of the Company's capital assets were located in the PRC.

18. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission revenue ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations. As a result, the Consolidated Statement of Income and Retained Earnings, have been reclassified from statements previously presented.

	2007 $	2006 $
Revenue	7,172	89,499
Cost of Sales	(5,849)	(69,973)
Income from operations	1,323	19,526
Income before income taxes	1,323	19,526
Recovery of income tax	8,519	1,742
Net income from discontinued operations	9,842	21,268

Assets and liabilities on the Consolidated Balance Sheets include the following amounts for discontinued operations:

	2007 $	2006 $
Assets of discontinued operations		
Accounts receivable		523
Prepaids expenses and other		2,163
		2,686
Liabilities of discontinued operations		
Accounts payable and accrued liabilities [note 13(b)]	32,016	38,300
	32,016	38,300

19. CAPITAL CONTRIBUTIONS AND COMMITMENTS

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

[a] Capital contributions

As at December 31, 2007, the Company has capital commitments in respect of capital contributions to our WFOEs of $18,600,000 [2006 – $25,000,000].

[b] Capital commitments

As at December 31, 2007, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $16,523,000 [2006 – $12,305,000].

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

[c] Purchase commitments

As at December 31, 2007, the Company has purchase commitments mainly regarding logs of $21,470,000 [2006 – $17,538,000].

[d] Operating leases

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

	$
2008	22,548
2009	2,281
2010	2,033
2011	1,754
2012	1,790
2013 and thereafter	37,717
	68,123

[e] Wood fibre

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 59,313 hectares of plantation trees for $249,999,000 as at December 31, 2007.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88,071,000 as at December 31, 2007.

Under the master agreement entered in July 2006 to secure at least 1.5 million cubic meters of wood fibre for twelve years in Inner Mongolia, the Company has acquired 17,000 cubic meters of wood fibre as at December 31, 2007.

Under the master agreement entered in December 10, 2007 to acquire 150,000 hectares of plantation trees for 5-year in Guangxi, the Company has not acquired any wood fibre as at December 31, 2007.

20. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and 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, Canada and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by all relevant 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 possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do 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 a period from three to five 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 recognized 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 including prior periods.

Management evaluates the provision for tax related liabilities on quarterly basis or as necessary and believe adequate but not excessive provision for tax related liabilities has been recognized in the financial statements.

21. RELATED PARTY TRANSACTIONS

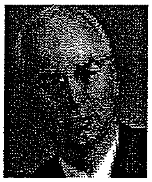
[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $4,587,000 [December 31, 2006 – $4,136,000].

[b] In addition, as at December 31, 2007, the Company had an aggregate amount of $3,950,000 [December 31, 2006 – $3,150,000] owed to these related companies.

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.

INDEPENDENT DIRECTORS



JAMES (JAMIE) M. E. HYDE
CA, Toronto
1 (chair), 2, 3

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.

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.

W. JUDSON MARTIN
Toronto
1, 2 (chair), 3 (chair)

Lead Director since 2007; Director since 2006; 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.

PETER WANG
Hong Kong

Director since 2007; Senior Commercial Consultant of Zijing Copper of Zijing Mining Group, a HKG-listed company; has over 30 years experience in Sino-foreign business affairs, predominantly related to petrochemical and mining industries, as well as wood-based panel industries.

Notes: 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; co-founded 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; co-founded 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; previously an Independent Director of Sino-Forest 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, 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 working 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.

RICHARD KIMEL
HBA, LLB, Corporate Secretary, Toronto

Partner, and a member of Aird & Berlis LLP's Corporate/Commercial and Corporate Finance Groups, practicing law since 1997; specializes in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, domestic and international mergers and acquisitions and ongoing corporate counsel activities.

TEN-YEAR FINANCIAL HIGHLIGHTS

(in millions, except earnings per share)	2007	[Restated] 2006	2005	2004	2003	2002	2001	2000	1999	1998
Consolidated Statement of Income										
Revenue [1]	721.0	645.0	493.3	330.9	265.7	200.7	137.3	126.7	141.6	92.7
Gross profit [1]	244.4	194.5	136.9	101.5	64.9	42.7	30.2	38.6	39.8	30.0
Gross profit margin [1]	33.9%	30.2%	27.7%	30.7%	24.4%	21.3%	22.0%	30.5%	28.1%	32.4%
Net income	152.3	113.5	81.7	52.8	30.2	20.6	18.6	28.6	28.2	21.4
Diluted earnings per share	0.90	0.81	0.59	0.43	0.32	0.27	0.21	0.31	0.31	0.26
Cash flow from operating activities [1]	486.4	290.4	196.5	119.4	69.6	12.6	12.9	26.6	27.1	15.3
Capital Expenditures	659.6	416.8	299.7	178.6	96.6	44.2	45.3	54.4	37.7	30.7
Consolidated Balance Sheets										
Total assets	1,837.5	1,207.3	895.3	756.0	418.9	336.9	281.6	220.2	178.3	100.5
Cash and cash equivalents	328.7	152.9	108.4	201.2	6.9	1.2	1.7	18.2	39.6	0.9
Working capital	330.0	154.6	150.1	236.9	(2.3)	26.1	5.5	13.3	38.8	5.2
Timber holdings	1,174.2	752.8	513.4	359.6	232.5	172.4	156.1	118.5	91.7	67.3
Long-term liabilities	453.2	450.0	300.0	300.0	56.0	82.3	47.2	28.7	30.2	3.3
Shareholders' equity	1,187.3	578.2	468.0	372.3	245.0	180.1	172.8	154.2	126.2	85.2
Shares										
Shares outstanding at year-end	182.6	138.0	137.8	136.6	96.2	80.3	80.3	80.3	80.8	80.7
- Common shares	182.6	138.0	137.8	136.6	-	-	-	-	-	-
- Class A Subordinate-Voting Shares	-	-	-	-	96.2	74.3	74.3	74.3	74.8	74.7
- Class B Multiple-Voting Shares [2]	-	-	-	-	-	6.0	6.0	6.0	6.0	6.0

[1] For comparison purposes, the results for 2007 and 2006 include wood chips and commission operations which has been classified as discontinued operations in the Consolidated Financial Statements.

[2] 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.

2007 QUARTERLY HIGHLIGHTS

		1st Q	2nd Q	3rd Q	4th Q	Total
Revenue	US$'000	112,777	128,764	161,475	310,850	713,866
Gross profit	US$'000	32,091	42,128	70,494	98,328	243,041
Gross profit margin		28.5%	32.7%	43.7%	31.6%	34.0%
EBITDA	US$'000	47,209	62,979	131,230	246,222	487,640
Net income from continuing operations	US$'000	11,295	24,102	65,779	41,255	142,431
Net income	US$'000	12,858	24,994	67,024	47,397	152,273
Diluted earnings from continuing operations per share	US$	0.08	0.14	0.36	0.22	0.84
Diluted earnings per share	US$	0.09	0.15	0.37	0.26	0.90
Cash flow from operating activities of continuing operations	US$'000	48,873	16,244	150,782	266,602	482,501
Standing Timber						
Hectares purchased		14,416	15,928	32,696	41,477	104,517
Average purchased price/ hectare	US$	5,105	4,797	6,184	6,546	5,967
Hectares sold		12,291	16,203	36,048	81,495	146,037
Average selling price/ hectare	US$	4,175	4,352	3,864	3,195	3,571
Revenue	US$'000	51,316	70,508	139,305	260,360	521,489
Gross profit margin		57.9%	58.2%	50.2%	36.9%	45.4%
Wood Logs						
Revenue	US$'000	728	1,154	1,050	301	3,233
Gross profit margin		10.4%	6.8%	5.8%	23.3%	8.8%
Imported Wood Products						
Revenue - Imported logs	US$'000	55,048	47,997	13,418	34,268	150,731
Gross profit margin		3.0%	2.7%	2.5%	3.1%	2.9%
Manufacturing & Other Operations						
Revenue	US$'000	5,685	9,105	7,701	15,922	38,413
Gross profit margin		11.9%	(3.4%)	2.4%	7.6%	4.6%
Common Shares						
High	Cdn$	13.50	17.65	23.24	26.15	26.15
Low	Cdn$	7.39	11.76	13.22	18.06	7.39
Close	Cdn$	13.10	15.30	22.48	21.44	21.44
Trading volume		58,717,956	56,152,941	81,958,626	110,912,894	307,742,417

CORPORATE AND SHAREHOLDER INFORMATION

AUDITORS

Ernst & Young LLP
700 West Georgia Street
P.O. Box 10101
Vancouver, British Columbia
Canada V7Y 1C7

EXCHANGE LISTING

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

ANNUAL SHAREHOLDERS MEETING

Monday, May 26, 2008 at 4:00 p.m.
The Fairmont Royal York Hotel
Upper Canada Room, 18th Floor
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

LEGAL COUNSEL

Aird & Berlis LLP
Brookfield Place, Suite 1800
Box 754, 181 Bay Street,
Toronto, Ontario M5J 2T9
Canada

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

Louisa Wong
Senior Manager - Investor
Communications and
Relations, Hong Kong
Tel: 852.2877.0078
Direct: 852.2514.2109
Fax: 852.2877.0062
Email: louisa-wong@sinoforest.com

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
320 Bay Street, P.O. Box 1
Toronto, Ontario
Canada M5H 4A6
Tel: 416.643.5500
Toll-free North America:
1.800.387.0825

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.

TAB I

This is Exhibit "I" referred to in the

Affidavit of Diana Correia,

sworn before me this 20th

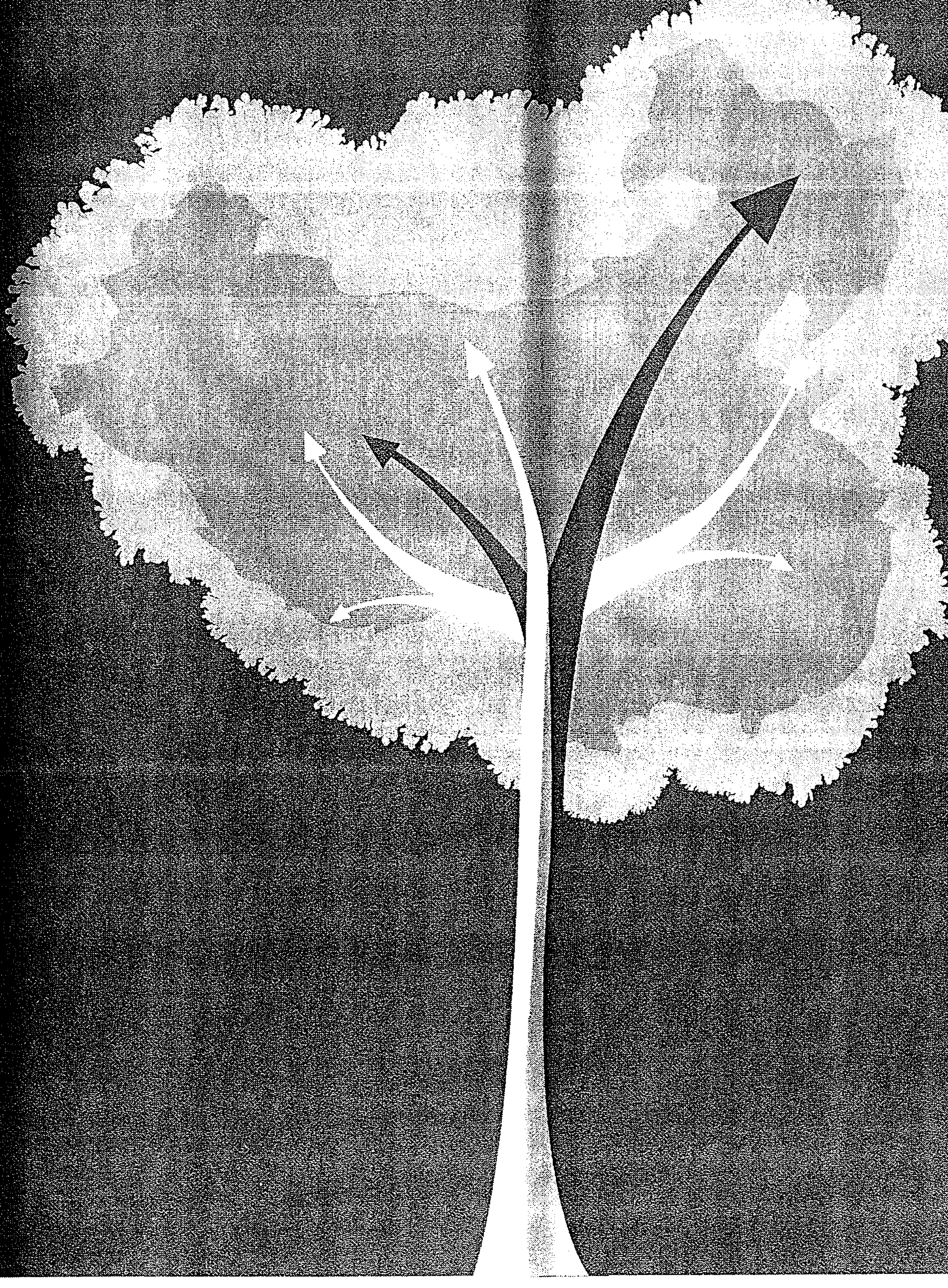
day of August, 2012

Person Authorized to take Affidavits

Sino-Forest Corporation

Growing with China

ANNUAL REPORT 2008



Business Profile

We are a leading commercial forest plantation operator in the People's Republic of China ("PRC"). Our principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and logs, and the complementary manufacturing of downstream engineered-wood products. Our common shares have traded on the Toronto Stock Exchange under the symbol TRE since 1995. Learn more at www.sinoforest.com.

Table of Contents

Note: Unless otherwise indicated, all dollar amounts in this annual report are expressed in U.S. dollars.

We apply R&D to develop genetically superior seedlings that make our trees more resistant to frost and pests.

"Growing with China"

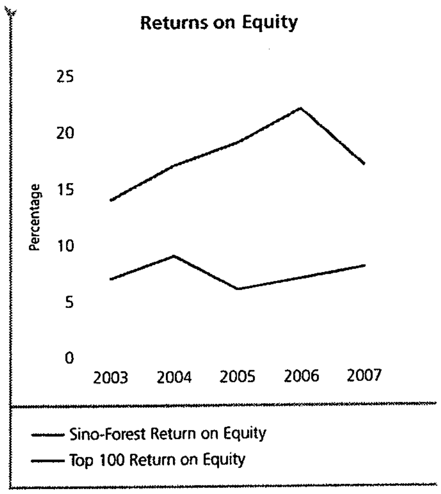
Sino-Forest represents a unique investment opportunity in the forestry sector in China:

- We cultivate trees that continuously grow in size and increase in market value, so our forest assets appreciate every day. As our trees grow in diameter and height, so do their selling price per cubic metre.
- Our fibre is sold in China, which has one of the most robust growth economies in the world.
- China's demand for wood products and wood fibre remains strong, therefore a deficit of domestic wood fibre continues to exist.
- We are augmenting our portfolio of plantation trees, through both scientific enhancement of their natural growth and through expansion across China.
- We align our business plans with the Central Government's Five-Year Plan in regard to forest coverage and productivity, and with government financial incentives to support the forestry sector.

Why Invest in Sino-Forest

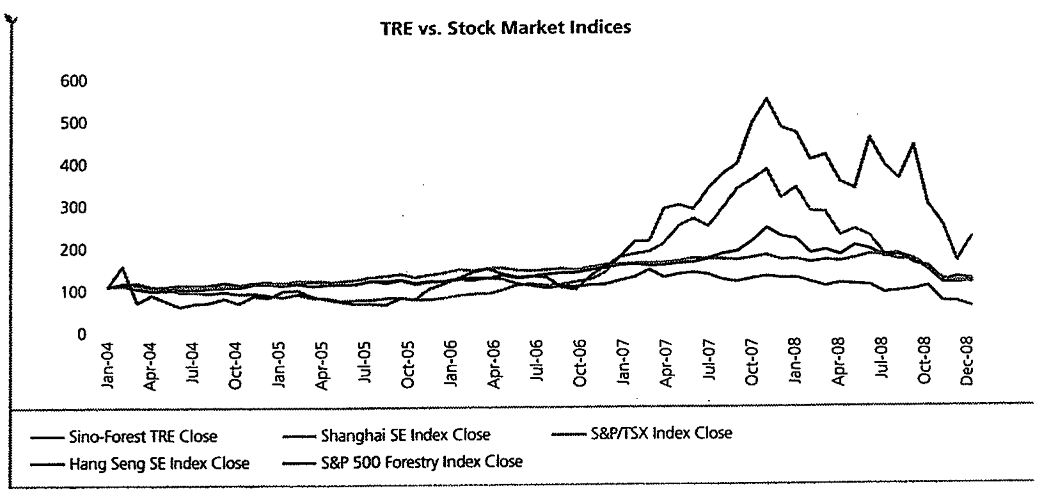
An Attractive Investment in China

Sino-Forest appeals to investors globally because the company has unique and compelling attributes that distinguish it from its forestry peers.



Source: PricewaterhouseCoopers Global Survey of Top 100 companies in Forest, Paper & Packaging sector

- We have established a strong position as a large, leading supplier of commercial wood fibre in fast-growing China. Our plantation trees are strategically located near major manufacturing hubs and large consumer markets.
- With a 14-year track record of exceptional prosperity and growth, our capable and well connected management team has developed forest industry insight and foresight, as well as technical expertise in cultivating trees, in managing large plantations sustainably and selling forest products.
- Our growing streams of income are broadly diversified by type of forest product and by geographic region.
- We have a strong cash position and balance sheet, and a proven capability to raise capital in global markets.



Source: Bloomberg

Diversified Operations in Growing Markets

A Growing Industry Leader

Since 1994, our management team has strategically and systematically expanded Sino-Forest so that it has become a leading commercial plantation operator with integrated manufacturing facilities spanning nine provinces and regions across China.

Our Business Model

Plantation Fibre

- At our purchased-tree plantations, we purchase young trees and cultivate them to maturity for sale as standing timber.
- At our planted-tree plantations, we lease land on a long term basis, apply superior scientific techniques to increase the fibre yield, sell the standing timber, and then replant.
- At our integrated plantations, we purchase mostly mature trees, and either sell the harvested logs or use the fibre at our manufacturing mills, and lease the underlying land for replanting.

Other Fibre

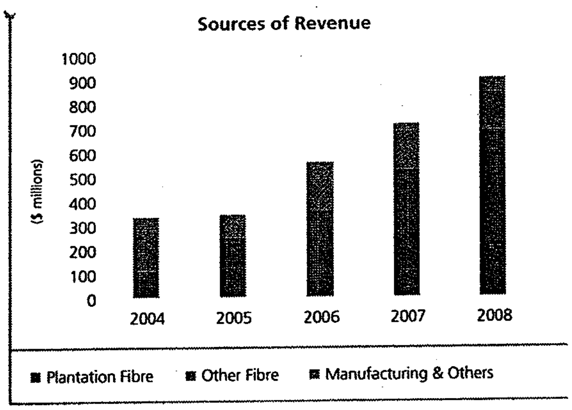
- We act as a trader, sourcing wood logs from other domestic suppliers and selling them in China.
- We source and import large-diameter logs, veneer, sawn timber and other wood-based products globally, and sell them in Chinese markets. We hold an equity interest in a South American tropical forest operator to secure quality, large-diameter logs.

Manufacturing and Other Operations

- We produce block board and oriented strand board.
- We fabricate engineered wood flooring and sell it at over 200 Sino-Maple branded stores nationwide.
- We provide nursery, greenery and other forest product services.

Diversified and Growing Revenues

Although commercial forest plantation management has always been our core business, our sources of revenue have evolved over the past several years. We focus primarily on the cultivation, sale and processing of wood fibre for a variety of customers across China.



End Users

Our consumers utilise our fibre supply for:

- Furniture and interior decoration products.
- Infrastructure construction materials.
- Residential and commercial building materials.
- Production of pulp and paper.

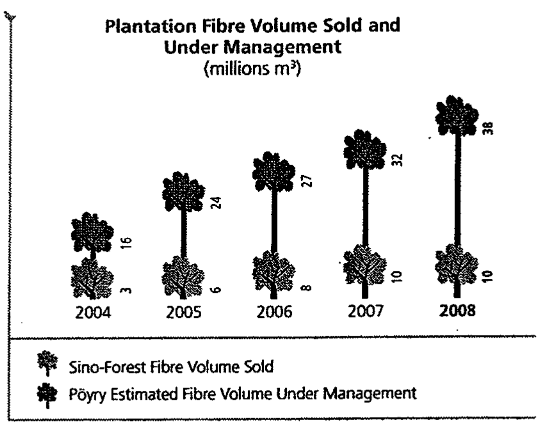
Growth in Key Performance Indicators

2008 Operating Highlights	2008 Financial Highlights
• Began selling harvested logs from integrated plantations in Hunan and Yunnan Provinces • Signed a fourth long-term fibre acquisition agreement, covering 200,000 hectares of plantation trees in Fujian Province • Total hectares of trees under management increased to 347,000 hectares, up 11%	• Revenue surpassed \$900 million milestone • Raised gross proceeds of \$345 million by issuing convertible guaranteed senior notes • Increased net income by 50% and diluted EPS by 37% • Strong liquidity with cash & cash equivalents and short-term deposits of \$487 million

US dollars in millions, except EPS and share price	2008	2007	Change (%)	3-year CAGR* (%)
Revenue	\$901.3	\$713.9	26%	38%
Gross profit	\$364.7	\$243.0	50%	52%
Gross profit margin	40.5%	34.0%	19% pts	
EBITDA	\$592.5	\$487.6	22%	38%
Net income	\$228.6	\$152.3	50%	44%
Diluted earnings per share	\$1.24	\$0.90	37%	31%
Cash flow from operating activities	\$483.1	\$482.5	0%	47%
Capital expenditures	\$702.6	\$659.6	7%	33%
Cash and cash equivalents	\$441.2	\$328.7	34%	60%
Assets	\$2,603.9	\$1,837.5	42%	43%
Share price at year end (CAD\$)	\$9.87	\$21.44	(54%)	26%
Total volume of fibre sold ('M m³)**	10.9	10.5	4%	
Plantation fibre - vol. of wood fibre sold ('M m³)	10.2	9.9	3%	17%
Hectares of trees acquired	127,834	104,517	22%	(10%)
- average purchase price (per ha)	\$5,056	\$5,967	(15%)	49%
Hectares of trees sold	103,945	146,037	(29%)	(1%)
- average selling price (per m³)				
purchased & planted plantation model	\$61	\$53	15%	(17%)
integrated plantation model	\$102	-	-	-
Hectares of trees under management at year end	347,000	312,000	11%	2%

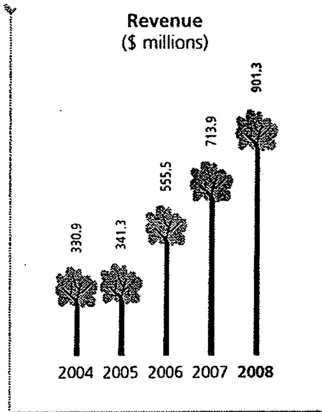
* Compound average annual growth rate from 2005 to 2008

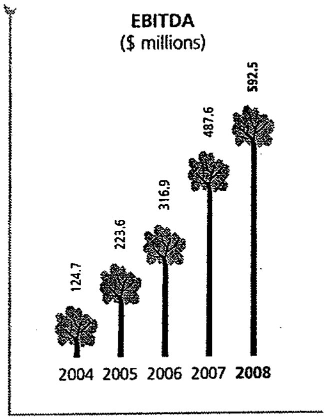
** Total volume sold includes standing timber, harvested logs and imported fibre. Sino-Forest's goal is to reach annual fibre sold of 18 million m³ by 2011

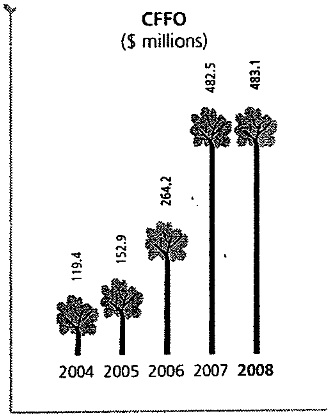


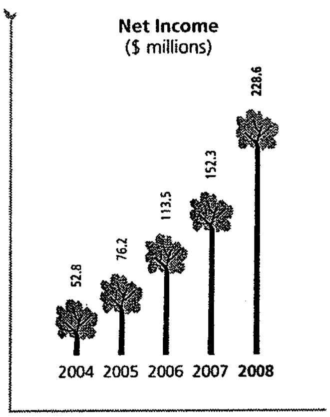
Our seedlings grow quickly in the tropical climates at most of our plantations.

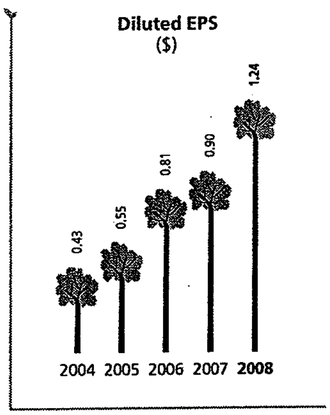
We continue to extend our strong track record of profitable growth.

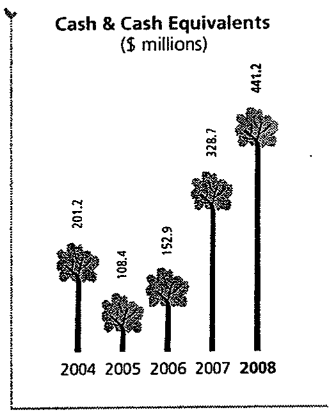












Forest Asset Valuation

Sino-Forest has commissioned Pöyry Forest Industry Ltd. ("Pöyry") to conduct a yearly market valuation of its forestry assets at its plantations. According to the recent annual valuation, the total volume of tree fibre under Sino-Forest management grew at a compound annual growth rate of 16% from 2005 to 2008, while its market value increased at a CAGR of 31% assuming a single rotation basis and 20% assuming a perpetual rotation basis. Pöyry's full report is available at www.sino-forest.com and www.sedar.com.

	2008#	2007#	Change (%)
Hectares of trees under management at year end	[illegible]	312,000	11%
Value of existing forest assets* ($ billions)	1.64	1.24	32%
Value with perpetual rotation** ($ billions)	1.69	1.47	15%
Total volume (millions m³)	[illegible]	32.2	17%
Average yield (m³ per hectare)	112	103	9%

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

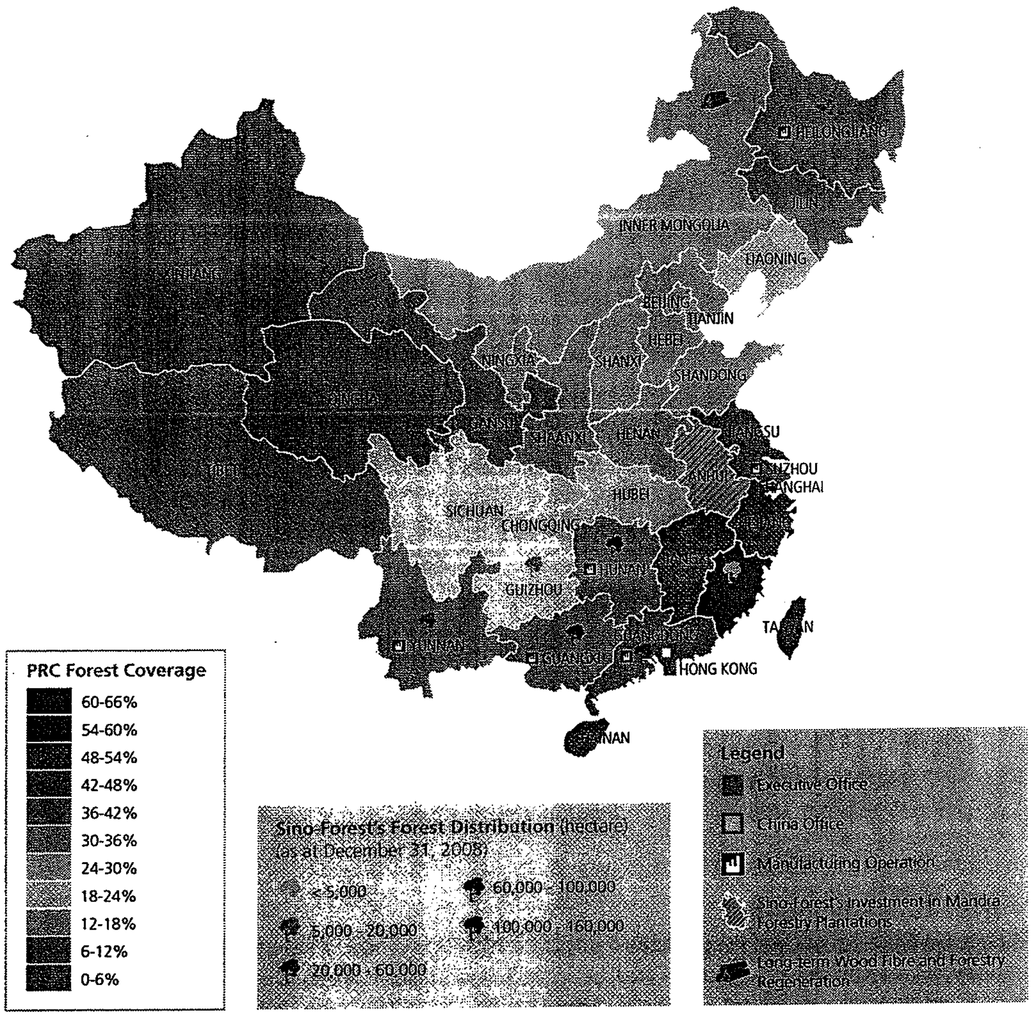
** Based on perpetual rotation (re-planting and cultivation of plantation land after harvesting) over a 60-year period; excluding forest assets assumed to be acquired under long-term master agreements

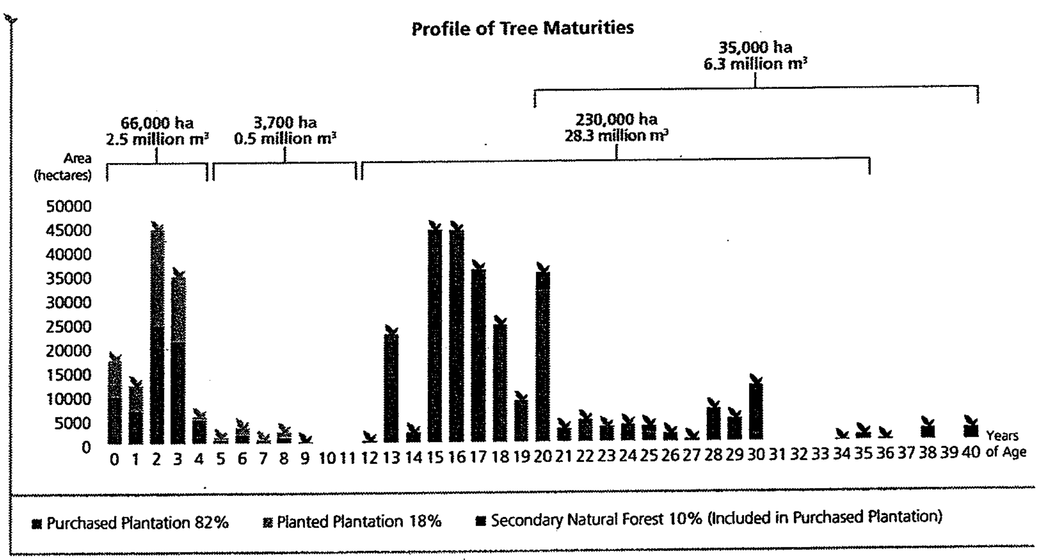
\# Discount rate of 11.5% applied to future cash flows generated from sale of forest assets

Our operating results are growing along with our portfolio of trees and management expertise.

Geographic Scope of Operations

Our operations are located in regions of China where the forest is most dense, and near highly populated areas and commercial hubs.





Source: Pöyry Forest Industry

Growth in Fibre Value

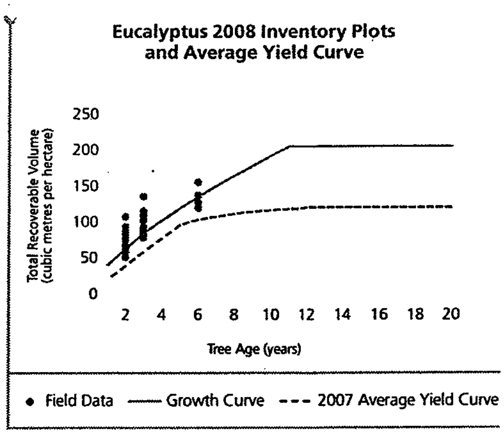
Sino-Forest creates value, not only by effectively buying, selling and processing fibre, but also by enhancing its physical growth using sophisticated research and development and plantation management best practices. Over the last three years, our fibre inventory has grown with a compound average annual rate of 16% due to:

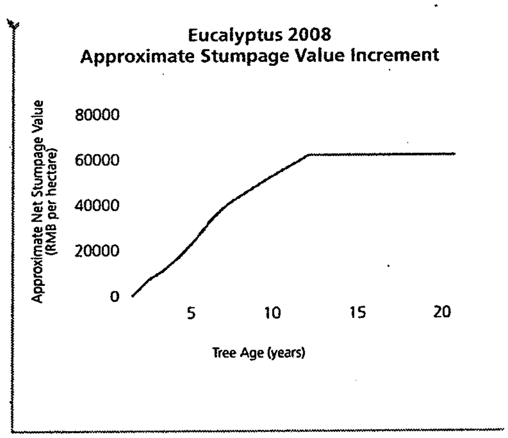
- Continuous growth of our trees in height, diameter and volume.
- Acquisition of trees through strategic long-term agreements.
- The astute acquisition of trees when they are approaching maturity.
- Investment in R&D and best silviculture practices that enhance both the quality of fibre and the harvest yield.

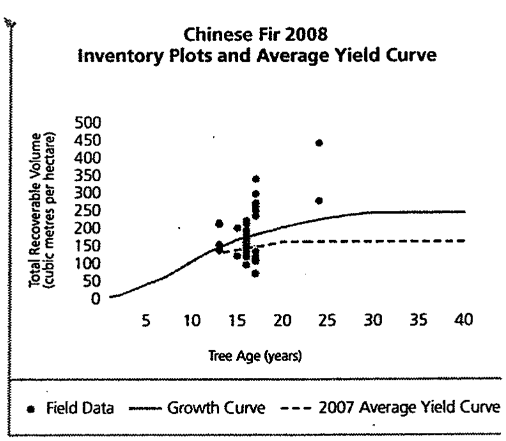
Unlike the assets of other industrial sectors, which depreciate over time, our fibre assets appreciate daily. If fibre market prices decline, we have the flexibility to either acquire more trees or let our trees continue their natural growth until prices recover.

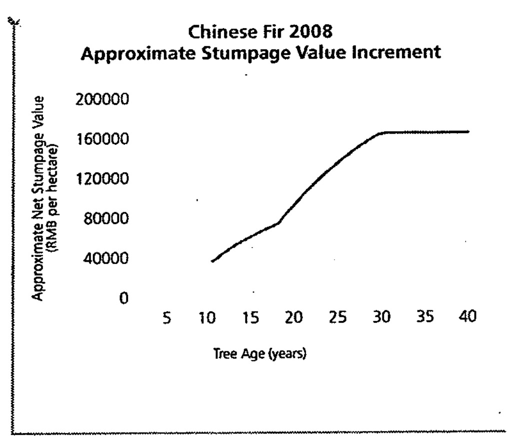
Valuation of a tree is based on its growth potential – trees with larger diameters are more valuable because they contain more volume and can be used as sawlogs and veneer logs, therefore command higher selling prices.

The following tree growth curves were derived from data collected at Sino-Forest plantations, which indicated that trees continue to grow in fibre volume, even after they have reached the age of maturity for harvesting.









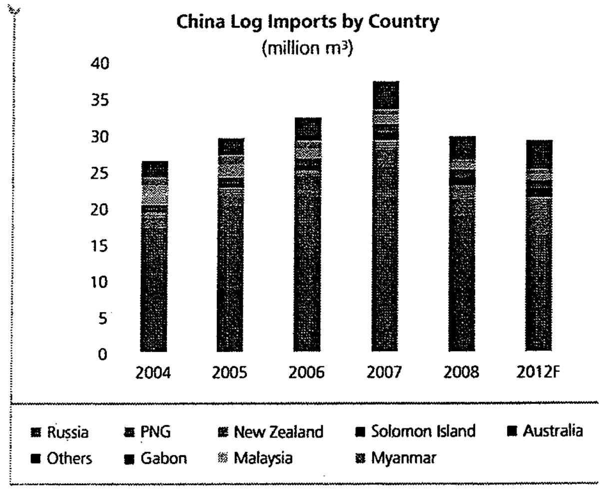
Source: Pöyry Forest Industry

Overview of China's Markets

Sino-Forest is in a strong position to benefit from the numerous economic and environmental factors that are affecting the demand for wood products in China.

Economic Growth and Construction Spending

The global credit crisis in 2008 sparked an economic recession in many countries around the world. After expanding approximately 9% last year, China's economy – the world's third largest – is expected to grow at a slower but still relatively high pace compared to other countries. Economic slowdown largely affects coastal regions as they rely on export markets. This has prompted Central and Provincial Governments to implement significant fiscal initiatives to maintain employment levels and economic growth in both urban and rural areas.



Source: Pöyry Forest Industry

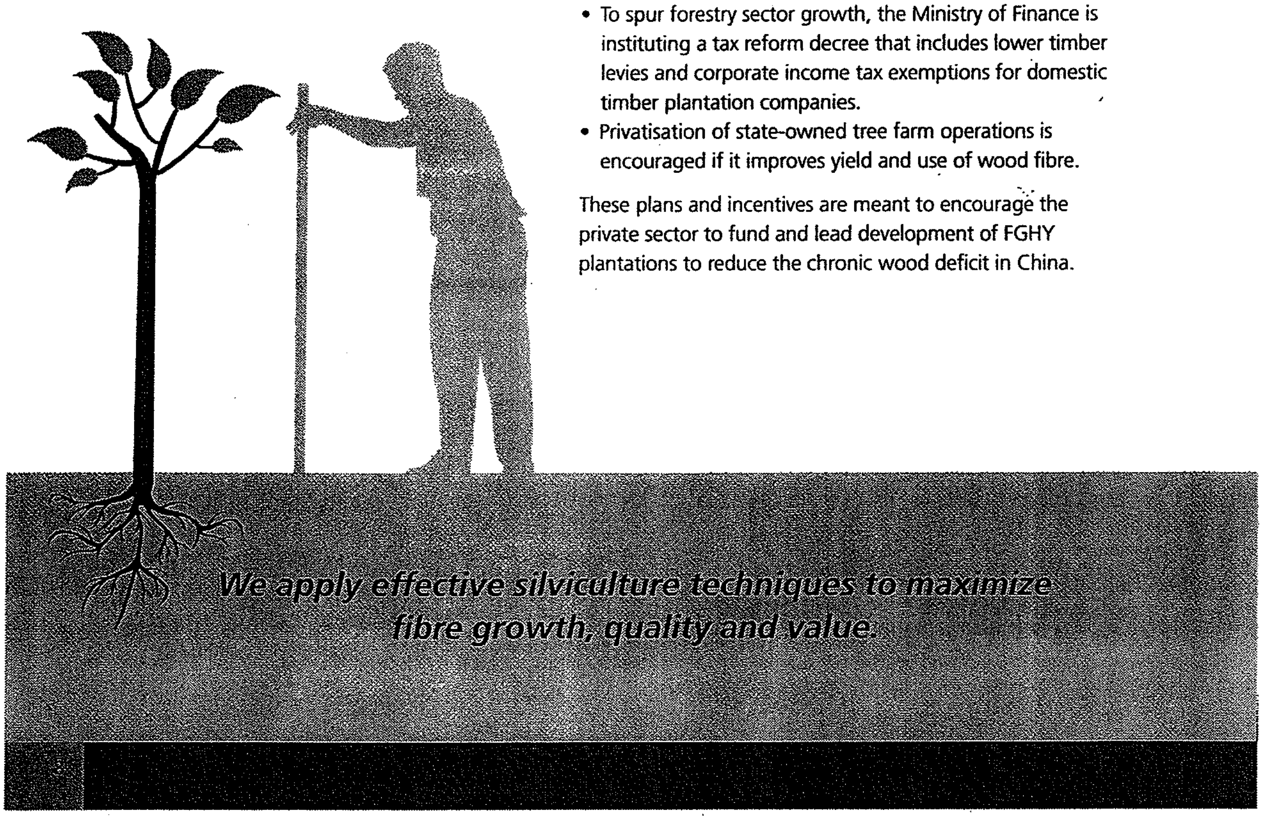
The stimulus initiatives include funding of infrastructure development and building new roads, railways and housing, especially in inner provinces to help narrow the gap between urban and rural regions. Following the devastating earthquake in Sichuan and flooding across China over the past years, there is a massive need for reconstruction. At the same time, the urban middle class consisting of several hundred million people is increasing its purchasing power. As home ownership increases, so does spending on and production of wood furniture, cabinets, flooring, doors, window trimming, decorative fixtures and building materials.

Government Support for Forest Industry

China's Central Government and its State Forestry Administration have plans to increase the country's forest coverage and productivity, and enhance employment in rural areas:

- The goal is to double the area of fast-growing, high-yield (FGHY) plantations to 13.3 million hectares by 2015.
- To spur forestry sector growth, the Ministry of Finance is instituting a tax reform decree that includes lower timber levies and corporate income tax exemptions for domestic timber plantation companies.
- Privatisation of state-owned tree farm operations is encouraged if it improves yield and use of wood fibre.

These plans and incentives are meant to encourage the private sector to fund and lead development of FGHY plantations to reduce the chronic wood deficit in China.

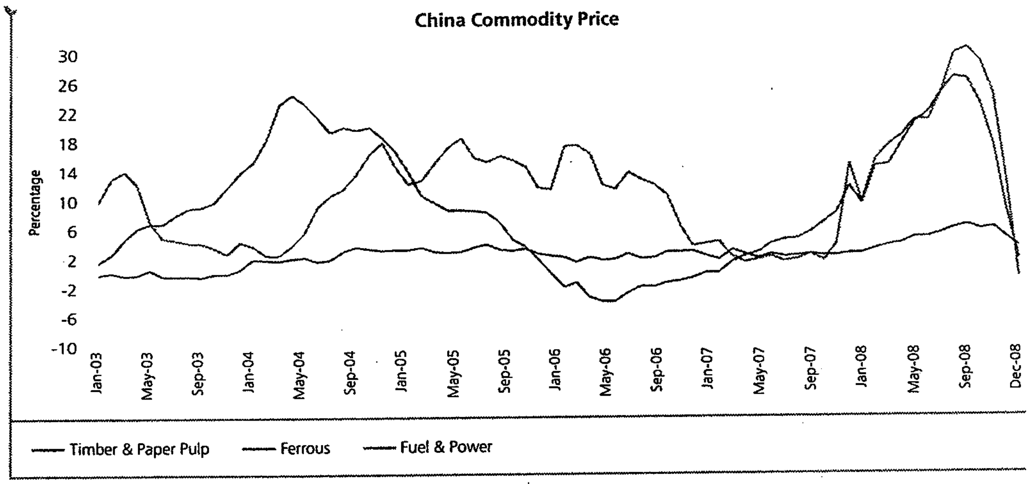


Declining Log Imports

Demand for domestic wood fibre has remained strong as the importation of wood logs into China dropped by 20% in 2008 for primarily two reasons. First, the country's largest foreign supplier, Russia, is substantially increasing its export tariffs on logs to encourage its own domestic timber processing industry. Second, logging of natural forests in other south-east Asian countries has been significantly curbed or banned, therefore exports of round wood logs have been significantly reduced.

Domestic Log Pricing

Commodity prices experienced double-digit growth in China during the first half of 2008, then decreased dramatically as a result of the financial and economic downturn in the latter part of the year. Domestic timber prices, however, fluctuated in a range of 3 to 7% in 2008 as demand for wood fibre was comparatively less affected by the financial turmoil.



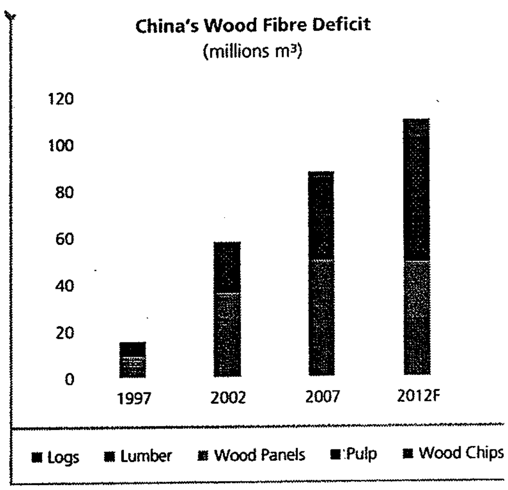
Source: Bloomberg

Ongoing Wood Fibre Deficit

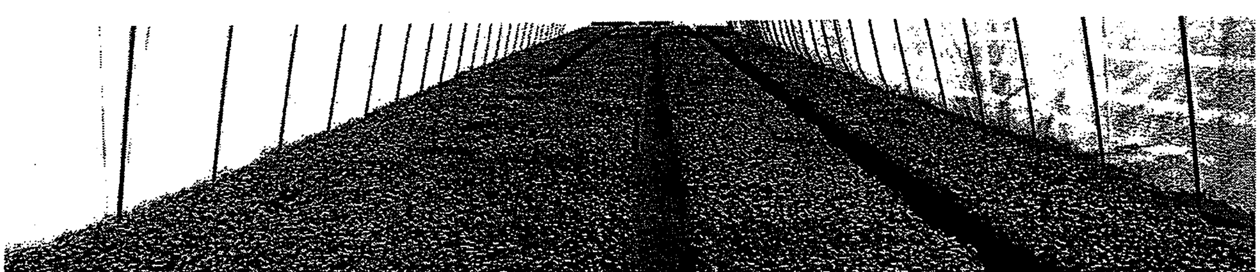
China has imposed restrictions on the logging of natural forests in certain regions since 1998. Roundwood imports have not been sufficient to close the gap between demand and domestic supply, so the country's huge wood deficit has gradually increased.

Wood Manufacturing Transition

With a slowdown in exports of wood products, the wood processing sector is consolidating. The government wishes to replace inefficient and obsolete mills with more modern, technology driven operations. In addition, with an increasing scarcity and cost of large-diameter logs in China, domestic wood product manufacturers have gradually modified their facilities to use more domestic, smaller-diameter logs.



Source: RISI, Inc.



CEO's Letter to Sino-Forest Stakeholders

Progress Over the Past Year

2008 was marked by an unprecedented credit crisis and volatility in global capital markets – fortunately these had little impact on Sino-Forest's operating and financial performance. We had a productive and rewarding year, thanks to an insightful strategy laid out in 2006 to expand into inner regions of China and to initiate the integrated plantations model.

After securing three long-term timber acquisition agreements in 2007, we have significantly augmented our wood fibre inventory, and increased the number of manufacturing mills located close to our plantations. This has broadened and strengthened our base of operations.

Last year, we commenced execution of our integrated operations by harvesting and selling 1.6 million m^3 of logs under fibre acquisition agreements in Hunan and Yunnan Provinces, and achieved attractive returns on investment. We are proud of that initial success with vertically integrating upstream and downstream operations and enhancing the value of our fibre along the supply chain. These operations will serve as a strong platform for sustainable growth in the future. Sino-Forest now has plantations in coastal provinces (close to manufacturing hubs and major ports) and several inland provinces (with dense forests and lower-cost trees and labour).

Factors Driving Up Fibre Demand and Prices

As the previous section of this report illustrates, our markets are both formidable and emergent. Despite the recent slowdown, the country's economy continues to grow at a relatively high pace compared to most other countries.

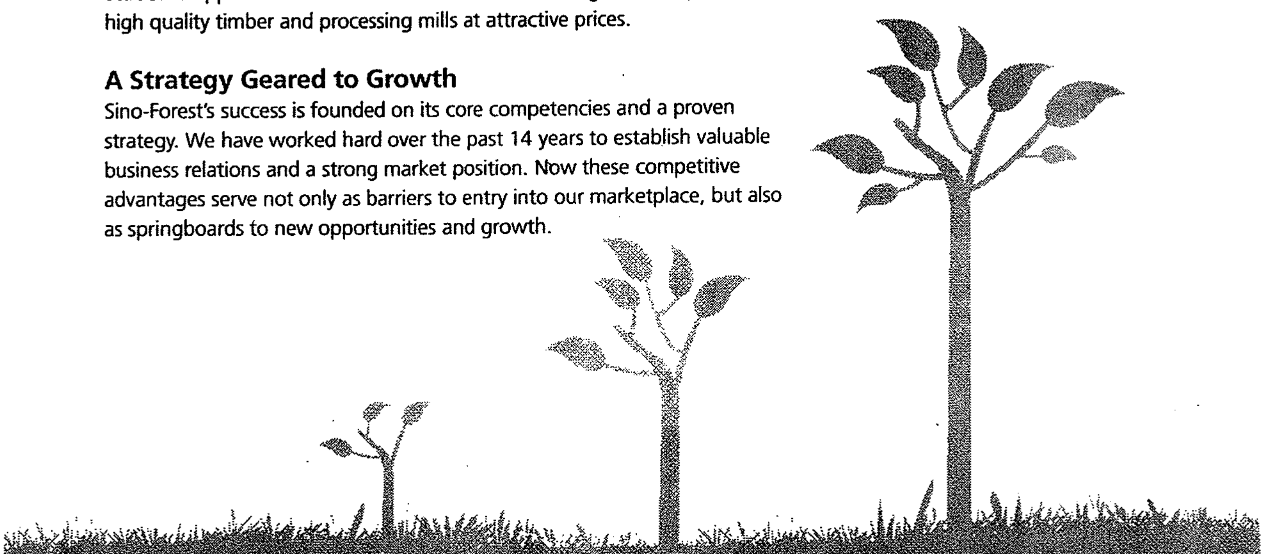
Governments in China are implementing stimulus packages and other supportive measures to help sustain employment and economic growth. We anticipate that much of this spending will stimulate construction of infrastructure and low-income housing. Accordingly, we expect domestic demand for our logs and wood panels will remain strong.

Another factor that aggravates China's wood deficit is the declining volume of imported logs due to a curb on the logging of natural forests and an increase in export tariff. However, measures are being taken to manage the gap. Wood processors are switching from imported large-diameter logs to domestic small-diameter logs, which are primarily what we harvest at our plantations. The Central Government is also providing significant financial incentives to support the development of more fast-growing, high-yield plantations – our core business.

2009 will be a challenging year in China, but we remain hopeful that the economy will gradually pick up in the second half of 2009. Meanwhile, the panel and furniture manufacturing sectors are being affected by the slowdown in exports. Many small and mid-size mills are consolidating or closing down in various regions, especially along the coastal areas. This consolidation and the tightening of credit availability, however, present attractive opportunities for Sino-Forest. With our strong financial position, we will continue to seek and acquire high quality timber and processing mills at attractive prices.

A Strategy Geared to Growth

Sino-Forest's success is founded on its core competencies and a proven strategy. We have worked hard over the past 14 years to establish valuable business relations and a strong market position. Now these competitive advantages serve not only as barriers to entry into our marketplace, but also as springboards to new opportunities and growth.



Our planted eucalyptus trees generally grow to maturity within only 5 to 6 years.

Our strategy remains as always to enhance the physical growth and market value of our standing timber and to maximize the usage of our fibre. We re-invest proceeds from the sale of standing timber and logs to acquire more trees and lease land for replanting. To satisfy an ever increasing customer base, we are improving and expanding our portfolio of fast-growing plantations and integrated manufacturing facilities.

As an industry leader and corporate citizen, we are aligning our strategy with government plans to increase forest coverage and productivity and enhance rural employment. The Central Government aims to double the area of FGHY plantations, and enrich the lives of rural communities in the process. We have the experience, superior technology and techniques and financial liquidity to help accomplish this goal. In 2009, we plan to initiate larger-scale replanting in Hunan and Guangxi, and gradually expand our replanting programme to other regions.

Fibre Agreements Assure Long-Term Supply

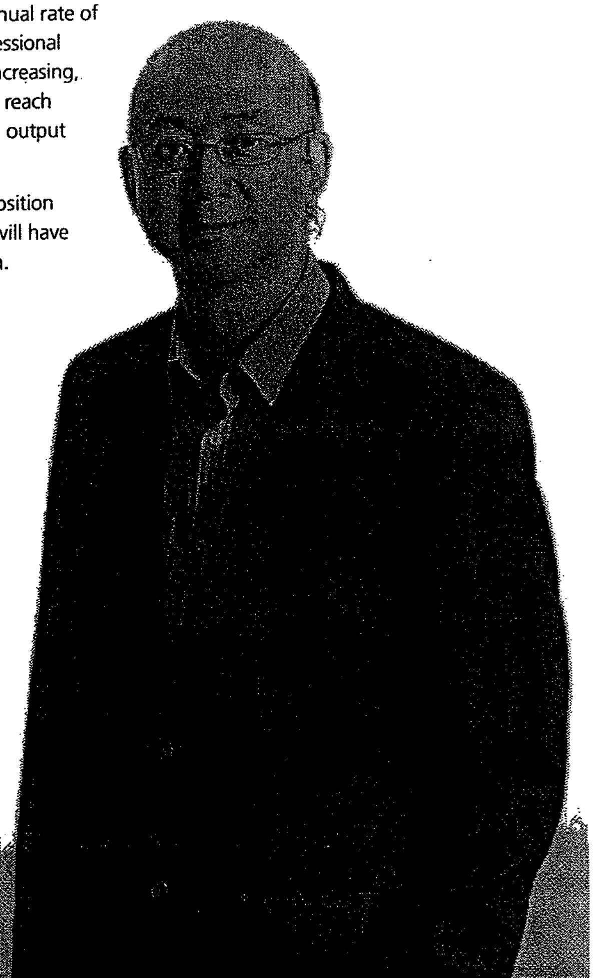
Last year, we secured a fourth fibre agreement, this time is in Fujian Province covering 200,000 hectares over a ten-year period, further strengthening our core business in integrated operations. To help finance the acquisition of trees, we issued convertible guaranteed senior notes, which raised gross proceeds of $345 million. We now have access to a long-term supply of timber covering 950,000 hectares of forest plantations. All the agreements provide flexibility with the timing of execution, and access to a variety of mature trees as well as the rights to lease for decades the underlying land for replanting.

Our plan is to execute these agreements in a rational and sustainable manner: acquire trees at competitive prices, harvest mature trees, lease the land on a long-term basis, regenerate secondary forest with original species or replant plantation forest with improved seedlings, apply our advanced techniques to boost the next harvest yield, minimize residual waste, and maximize the value of our fibre with complementary wood product manufacturing and astute sales.

Building Value as We Grow

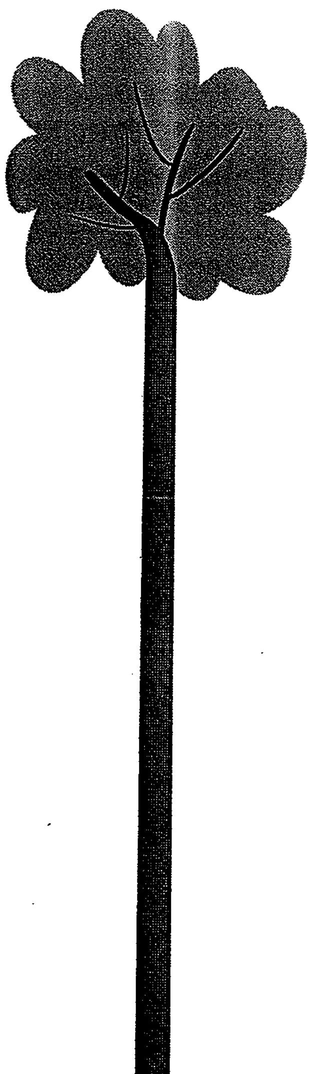
We estimate that our plantation trees grow at an overall annual rate of about 10 to 12%. All it takes is sunshine, rain and our professional management. With the size of our portfolio of plantations increasing, and our long-term fibre agreements, we are well on track to reach our medium-term goal of producing 18 million m³ of annual output by 2011.

Sino-Forest remains well capitalized, with a solid financial position and continuous cash flow from the sale of wood fibre, we will have sufficient financial resources to fund our operational growth.



Allen Chan
Chairman and CEO

CEO's Letter to Sino-Forest Stakeholders (Cont'd)

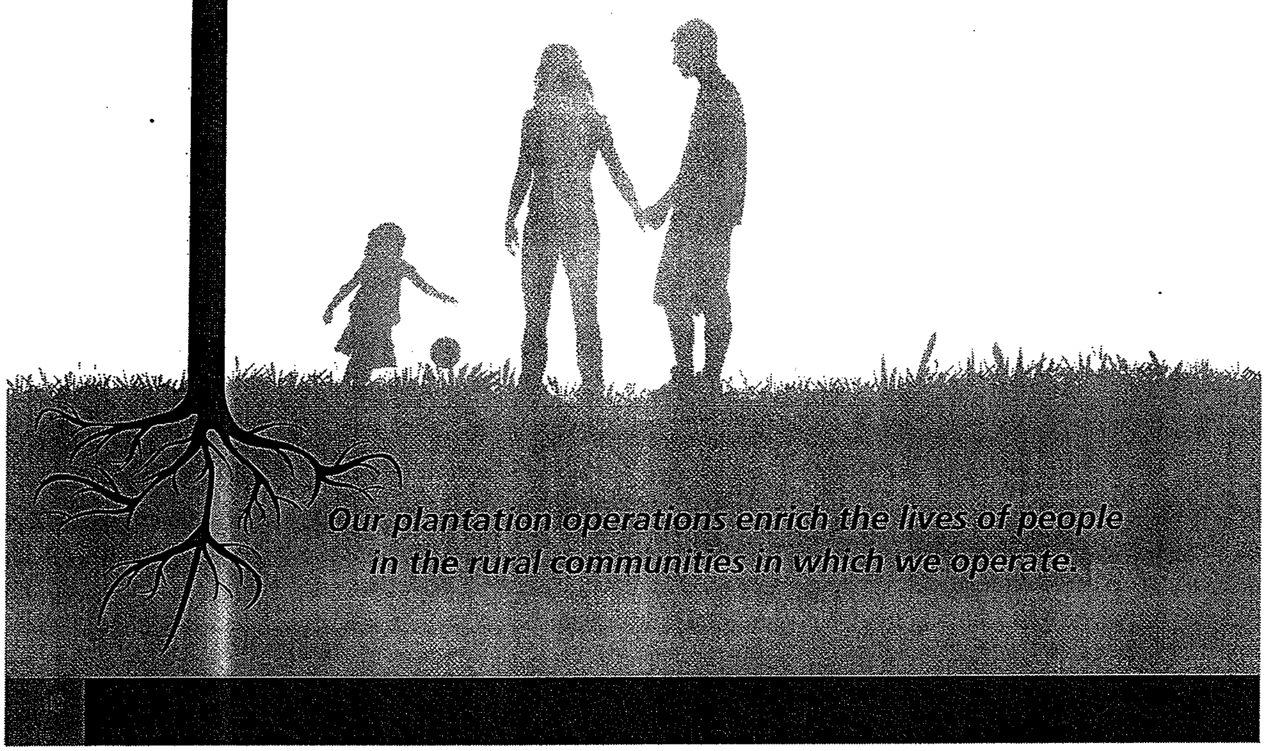


As we look out to the horizon, we see more challenging market conditions in China and overseas. But we also see supportive government policies, strong fibre demand and abundant acquisition opportunities. With our strong management team, proven operating experience and industry knowledge, and a strong balance sheet, we are in a unique position to make additional tree and manufacturing facility investments.

We look forward to stronger collaboration with government authorities and local communities to develop forestry operations with the best practices in China. We will continue to add value to our fibre throughout the multiple stages of the supply chain. Our shareholders can rest assured that we will remain vigilant, agile and prudent as we invest in Sino-Forest's growth.

These concluding words are for our many stakeholders. We are uniquely positioned to create and enhance value from growing trees, to enrich the lives of our employees and people in rural communities where we operate, and to deliver attractive returns to our investors. Thank you to those who have contributed to Sino-Forest's success: our management team, our Board of Directors and our employees. The company's many notable achievements are a tribute to their knowledge and commitment.

Allen Chan
Chairman and Chief Executive Officer
March 31, 2009



Growing Our Business with Research and Development

For over a decade, Sino-Forest's research and development (R&D) team has worked diligently, often in collaboration with third-party academics and industry experts, on a wide variety of R&D projects aimed at significantly improving plantation yield and management techniques.

Making Eucalyptus Grow Better

In order to improve the sustainable growth and yield of our Eucalyptus tree seedlings, we choose biotechnology R&D at our plantations.

Tree biotechnology has brought major advances to the forest industry. Genomic technologies have been applied to better understand and identify genes that determine the major chemical and physical features of the wood properties of Eucalyptus species, and will eventually identify "elite" clones derived from hybrid breeding programs. Recognizing the economic impact of these technologies on operational breeding of Eucalyptus species, we are incorporating improvements in genotyping and sequencing methods and major advances in bioinformatics into its breeding tools. Our goal is to responsibly create new Eucalyptus strains with improved growth, cold tolerance and biomass properties, lower cultivation costs, and increased capacity to capture atmospheric carbon.

In 2009, Sino-Forest will participate in the International Eucalyptus Genome Consortium (IEuGC), which will give its members access to a draft of the Eucalyptus genome sequence when it becomes available. Strategic alliances will also be formed between plant genomic organizations, which we expect will further strengthen our R&D programme.

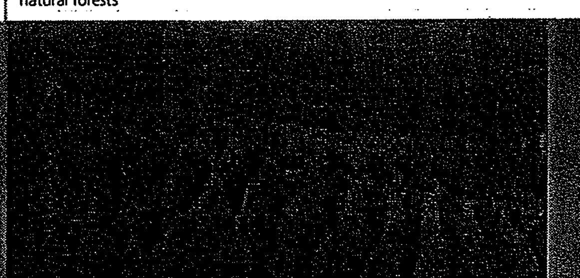
Developing Biofuel from Jatropha

As a founding member of the China Green Carbon Foundation, Sino-Forest is collaborating with the Hong Kong University of Science & Technology and the State Forestry Administration to research and develop elite Jatropha cultivars suitable for large-scale propagation in China.

Jatropha is a drought-resistant and fast-growing oil seed bush that can grow on marginal, less arable land. It produces a relatively high biofuel yield, increases the fertility of the planted land, and helps prevent soil erosion. Jatropha plantations also absorb large amounts of carbon dioxide from the atmosphere, and can therefore earn carbon credits.

We plan to invest approximately $15 million in R&D for nursery propagation and to lease land to plant Jatropha cultivars. Our goal is to grow Jatropha on under-utilized forest or non-agricultural land as a source of biofuel, creating additional jobs in rural communities in the process.

Plantation forest mitigates human exploitation of China's natural forests



By continuously improving the science of silviculture, we significantly increase the yield of land we replant

Environmental Stewardship

The Sustainable Forestry Initiative is a fully independent, non-profit organization dedicated to promoting sustainable and responsible forest management. Based in the United States, it works with conservation groups, local communities, resource professionals, landowners and other organizations and individuals. Its forest certification standard is based on principles, is used widely across North America and has strong acceptance in the global marketplace. Below is a table describing our practices related to each principle.

Sustainable Forestry Initiative Principles	Sino-Forest Practices
Sustainable Forestry: To practice a land stewardship ethic that integrates reforestation and the managing, growing, nurturing and harvesting of trees for useful products with the conservation of soil, air and water quality, biological diversity, wildlife and aquatic habitat, recreation and aesthetics.	Our sustainable forestry strategy is developed in accordance with national and international standards for plantation forests. In 2003, we obtained Forest Stewardship Council ("FSC") certification for our plantations in Gaoyao City, Guangdong Province. We have been making progress since then on expanding this certification to all of our plantations. FSC certification is globally one of the most highly regarded forest certification systems endorsing sustainably managed forests.
Responsible Practices: To use and promote among other forest landowners sustainable forestry practices that are both scientifically credible and economically, environmentally and socially responsible.	Sino-Forest contributes to local employment and economic development; respects local culture and tradition; protects employees' health and safety; improves wood production; promotes non-wood product fabrication; harvests forests sustainably; and enhances forest ecological function and environment conservation. All operating practices at our certified plantations have passed strict annual inspection and assessment by SmartWood, an FSC-authorized and US-based auditor.
Reforestation and Productive Capacity: To provide for regeneration after harvest and maintain the productive capacity of the forestland base.	Our original tree planting was primarily on barren or abandoned lands, which greatly contributed to local reforestation and forest resources. We develop optimal regeneration plans for harvested sites, either replanting with better genetic materials, or with fast-early-growth coppices or naturally seeded saplings. Our regenerated forests normally perform better than the previous stands in terms of wood yield, overall ecological function and environmental conservation. We maintain our forestland's productive capacity by effectively controlling soil and nutrition erosion, and prescriptively fertilizing.
Forest Health and Productivity: To protect forests from uncharacteristic and economically or environmentally undesirable wildfire, pests, diseases and other damaging agents, and thus maintain and improve long-term forest health and productivity.	Our systematic management continuously improves forest wood yield and protects our forests from failure or loss associated with biotic and climatic stress such as fire, pest, disease, drought, frost and snow. We use the best genetic materials, optimal prescribed fertilizer and integrated silvicultural technology. We deploy efficient forest protection by deploying disease/insect-resistant species such as eucalyptus and Chinese fir, stress-tolerant varieties, high technology such as satellite sensing, and systematic damage prevention and control systems.
Long-Term Forest and Soil Productivity: To protect and maintain long-term forest and soil productivity.	We effectively sustain the productivity of our long-term-leased forestland by properly managing sites, conserving vegetation, controlling soil and nutrition erosion, improving soil condition, prescriptively fertilizing, switching to back-up species if needed, etc.
Protection of Water Resources: To protect water bodies and riparian zones.	Our "Management Technical Guidelines for Ecologically Sensitive Areas" are designed to avoid or minimize the potential adverse environmental impacts of forest management on adjacent water bodies and riparian zones, and steep hill slopes. We ensure that commercial plantations are far enough away from reservoirs or other sources of drinking water, and use conservation areas or buffer zones as barriers between ponds/riparian zones and plantations.
Protection of Special Sites and Biological Diversity: To manage forests and lands of special significance (biologically, geologically, historically or culturally important) in a manner that takes into account their unique qualities and to promote a diversity of wildlife habitats, forest types and ecological or natural community types.	We have ecological conservation procedures: to conserve wildlife and plants at our plantations; to identify and protect special habitats that may benefit plant and wildlife diversity; and to apply appropriate technical measures in these special habitats. We strictly limit our tree planting to the forestlands that are designated for commercial plantation development. Local cultural sites such as fengshui and recreation areas within our plantations are fully respected and protected for local community enjoyment. In addition, we help local communities manage certain areas of forests for public ecological benefit.
Legal Compliance: To comply with applicable federal, provincial, state and local forestry and related environmental laws, statutes and regulations.	Our plantation management and operations fully conform to all forestry and environmental laws and regulations at national, provincial and local levels. Our in-house legal counsel and environmental team monitor the development and implementation of new policies and ensure they are well communicated to department and operational heads.
Continual Improvement: To continually improve the practice of forest management, and monitor, measure and report performance in achieving the commitment to sustainable forestry.	We have been improving our forest practices through timely updating of our environmental management systems, silvicultural technology, and personnel knowledge and skills. Our management system effectively coordinates field operation, performance monitoring, information feedback, and operation improvement, with a goal of ensuring sustainable plantation management.

Community Activities

Sino-Forest is dedicated to the improvement of the forestry sector and to the enrichment of lives in the communities in which we operate. This commitment to corporate citizenship was exemplified through a variety of benevolent activities we carried out over the past year.

Support for Victims of the Earthquake

After the massive earthquake in Sichuan Province, Sino-Forest and its subsidiaries undertook various initiatives to help the countless victims. We announced plans to donate $2 million to rebuild schools, replace education materials, and help treat sufferers of severe trauma resulting from the tragedy. Employees of Sino-Maple, our flooring subsidiary, raised approximately $8,000 to help the people in Wenchuan County, and donated and delivered 300 special tents to the An County, Mianyang disaster area for emergency use.

Sponsorship of Education

Sino-Forest is an avid believer in providing the next generation with valuable learning opportunities. For the past several years, we have sponsored scholarships, built elementary schools in rural areas and provided educational materials for students. This year, our contributions to education extend to students enrolled at the Beijing Forestry University and Nanjing Forestry University. In addition to scholarships, students will receive first-hand practical training and be exposed to employment opportunities at our processing operation in Suzhou.

Advocacy of Ecological Living

With the PRC Central Government advocating scientific and technological development, the State Forestry Administration ("SFA") is developing a modern forestry management philosophy, including a push for forestry reform. The SFA aims to develop a holistic and eco-friendly forestry system for a harmonious society. To raise awareness of this new forestry initiative and to cultivate ecological culture, the SFA and the Chinese Artists Association jointly organized a nationwide art campaign entitled "Live a Green Life, Build the Ecological Civilization – Sino-Forest National Artwork", sponsored by Sino-Forest with financial support of approximately $1.7 million. This campaign takes place between October 2008 and May 2009.

Tents donated by Sino-Maple employees being delivered for earthquake victims

Corporate Governance

Message from the Board's Lead Director

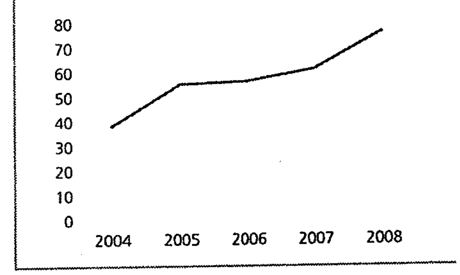
Despite the economic malaise experienced around the world during 2008, Sino-Forest continued to expand its portfolio of plantations and deliver strong financial results. Of vital importance to management, the Board of Directors and our investors, the company's liquidity is very strong and its capital base has never been larger. This success is founded on well-entrenched competitive advantages and an effective strategy executed by our capable management team. Sino-Forest is well positioned to prudently pursue long-term growth opportunities that will present themselves.

To ensure that we attract, retain and engage our top executives and qualified Directors, the Board undertook with the assistance of Mercer as our expert consultant a comprehensive compensation review in 2008. We carefully benchmarked our compensation levels and plans against industry norms for base salary, short-term and long-term incentive plans. One of the modifications we made for 2009 was to replace stock option grants for non-employee Directors with deferred share units ("DSUs") and provide such Directors the ability to receive DSUs with a value equal to their annual retainer fees.

In accordance with the new rules on executive compensation disclosure adopted by the Canadian Securities Administrators, in this year's Management Information Circular, we will disclose all direct and indirect compensation paid to "named executives officers" and Directors, and include a new Compensation Discussion and Analysis that explains the significant factors underlying Sino-Forest's compensation policies and practices. Further, in accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, in our Annual Management's Discussion and Analysis for the year ended December 31, 2008, we have disclosed an area relating to Sino-Forest's internal controls over financial reporting that require remediation work during 2009. Not surprisingly, the deficiency relates to the fact that our business is conducted in the PRC; an environment where business is conducted based on trust and respect and centralization of authority is commonplace.

I am pleased to report that Sino-Forest's governance has steadily improved according to a methodical assessment by the leading national newspaper in Canada, where Sino-Forest is publicly listed. Despite increasingly stringent standards, the company's overall governance score increased from 38 in 2004 to 73 in 2008, during which its ranking rose from #216 to #76. Nevertheless, our Board will continue to adopt best practices as justified. This year, for example, we will begin scheduling at least one third-party presentation per year on both (1) financial accounting and tax issues and (2) the global forestry industry to further help our Directors make well informed, independent decisions.

Governance Score



Source: The Globe & Mail, Corporate Governance Rankings

Also this year, we will search for an additional independent Director. The ideal candidate would have financial experience (given the advent of International Financial Reporting Standards, more complex disclosure requirements and the demands of capital markets), as well as forestry sector experience.

On behalf of our Board of Directors, I wish to thank Sino-Forest management and employees for their excellent work and dedication, and our shareholders for their continued trust.

W. Judson Martin
Lead Director
March 31, 2009

Board of Directors

1. ALLEN T. Y. CHAN
Chairman and Chief Executive Officer, Hong Kong

2. KAI KIT (K. K.) POON
President, Hong Kong

3. W. JUDSON MARTIN
Lead Director, Toronto
1, 2, 3 (chair)

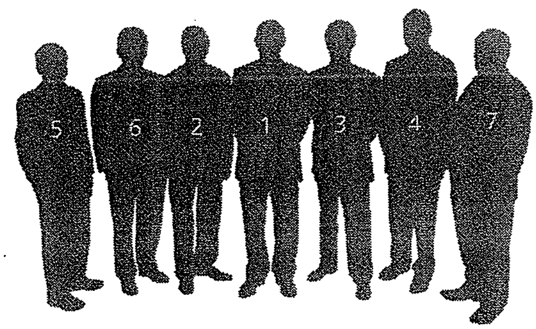
4. JAMES (JAMIE) M.E. HYDE
Director, Toronto
1 (chair), 2 (chair), 3

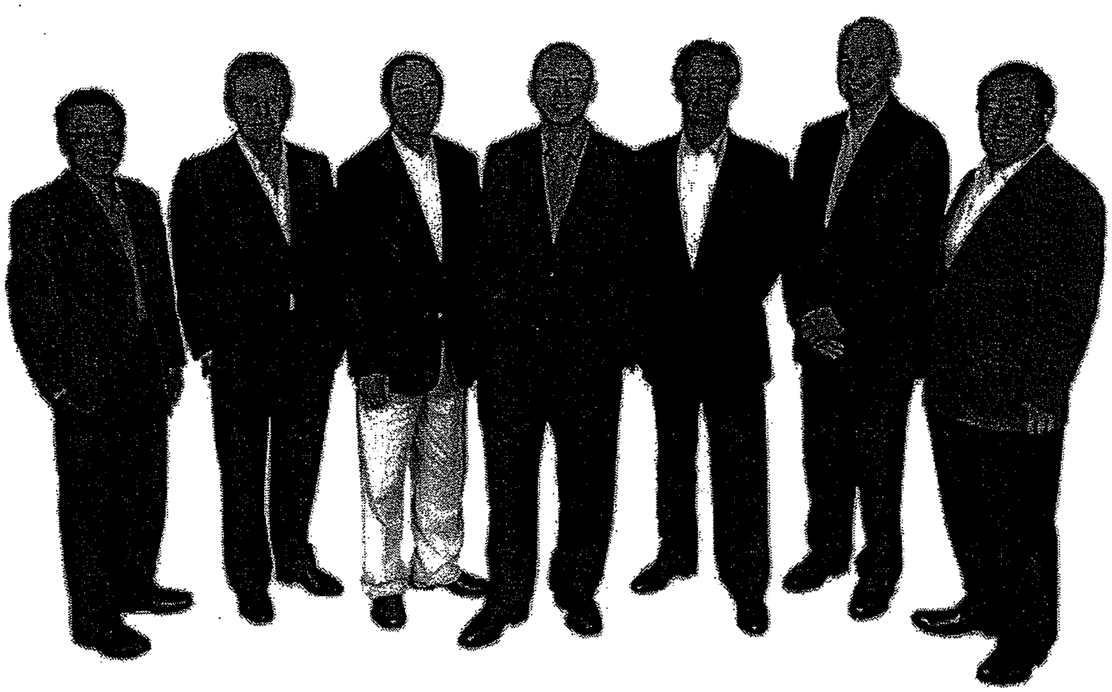
5. EDMUND MAK
Director, Vancouver
1, 2

6. SIMON MURRAY
Director, Hong Kong
3

7. PETER WANG
Director, Hong Kong

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





Management's Discussion and Analysis (MD&A) relates to the financial condition and results of Sino-Forest Corporation's operations for the year ended December 31, 2008. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with Sino-Forest's audited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

Additional information relating to our company, including our annual information form and other statutory reports are available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers, our ability to operate our production facilities on a profitable basis, changes in currency exchange rates and interest rates, evaluation of our provision for income and related taxes and PRC economic, political and social conditions and government policy, other factors not currently viewed as material could cause actual results to differ materially from those described in the forward-looking statements. Although Sino-Forest has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be anticipated, estimated or intended. Accordingly, readers should not place any undue reliance on forward-looking statements. The Company does not undertake any obligation to update or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this report.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forestry plantation operator in the PRC. As at December 31, 2008, we had approximately 347,000 hectares of forestry plantations located in southern and eastern China.

Our principal businesses include the ownership and management of forestry plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products.

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments - **Wood Fibre Operations** is the major revenue contributor, while our **Manufacturing & Other Operations** enable us to add value to our fibre by producing downstream products.

Revenue from Wood Fibre Operations is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantation business models in seven provinces and regions across China.

Other Fibre

- wood logs – we source logs from PRC suppliers and sell them in the domestic PRC market; and
- imported wood products – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing & Other Operations include:

- particleboard manufactured in Guangdong Province;
- engineered wood flooring produced in Jiangsu Province and sold through over 200 stores nationwide in the PRC;
- oriented strand board manufactured in Heilongjiang Province;
- sawn timber produced in Yunnan Province;
- finger joint board, block board and particleboard produced in Hunan Province; and
- greenery & nursery operation based in Jiangsu Province.

Our Vision and Strategy

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.

Our strategy is to build on our competitive strengths and seize business opportunities in the PRC in order to become a leading plantation developer and wood resource supplier with established operations in or close to PRC regional markets, providing wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements for executing our strategy:

- expand geographically, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufacturing products;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;
- improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing; and
- strengthen management processes and information systems to support the growth of our multi-faceted businesses.

Other Key Factors Affecting Our Business

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Market prices and demand for standing timber, wood logs and wood products have been, and in the future are expected to be, subject to cyclical fluctuations. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in the PRC, including furniture, construction materials, interior decoration materials and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes. The market for wood products is sensitive to changes in industry capacity and output levels, general timber industry conditions and cyclical changes in the world and PRC economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior decoration activity and the demand for wood chips in the pulp and paper markets. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- interest rates;
- government regulations and policies;

- population growth and changing demographics; and
- seasonal weather cycles (e.g. dry or hot summers, wet or cold winters) and other factors affecting tree growth.

Cyclical changes in the forest products industry, including changes in demand and pricing for our products and the other factors described above, could have a material adverse effect on our business, financial condition and results of operations.

Our decisions and abilities to develop and operate future forestry plantations are subject to various factors and uncertainties. Should we be unable to exercise our rights to obtain additional forestry plantations, our business, financial condition and results of operations could be materially and adversely affected.

The success of our business depends upon the productivity of our forestry plantations and our ability to realize our expected yields. Forestry plantation yields depend on a number of factors, many of which are beyond our control. These include damage by disease, pests and other natural disasters, and weather, climate and soil conditions. Our ability to maintain and improve our yields will depend on these factors and the results of our research and development efforts.

We rely on our relationships with local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on a number of large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

We are heavily dependent on the expertise of our senior management in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes and relationships cultivated by them with our major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. Violations of PRC laws or regulations, including PRC environmental policies and programs that apply to our forestry plantations, could result in civil and criminal penalties, including the revocation of licenses required for our business.

The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of our control. The occurrence of these or other natural disasters may disrupt or reduce the supply of trees available for harvesting in the areas of the PRC where our forestry plantations are located.

Our manufacturing plants are in an early stage of development and have a short operating history. Our manufacturing plants may not be profitable or successful and are subject to the risks inherent in establishing a new business, including competitive pressures, which could have a material adverse effect on our business, financial condition and results of operations.

We report our financial statements in United States dollars, while substantially all of our revenue is denominated in Renminbi. Any significant fluctuation in the exchange rates between the Renminbi and other currencies, such as the United States dollar, Canadian dollar and Hong Kong dollar, or in the United States dollar against the Renminbi, the Canadian dollar or the Hong Kong dollar, may have an adverse impact on our results of operations and may adversely affect the value, translated or converted into United States dollars, Canadian dollars or otherwise, of our revenue and net income.

Significant Accounting Policies and Interpretation

Costs of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (4) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

Timber holdings include acquisition costs for standing timber (young and mature trees) and planting and maintenance costs, which are capitalized at cost in our financial statements until the trees are sold. Planting and maintenance costs include the following: planning, operations design, site preparation, terracing, fertilization, planting, thinning, tending, protection, forestry bureau service charge, overhead and lease costs. Timber holdings from standing timber sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into.

EBITDA

Defined as income from continuing operations for the period after adding back depreciation and amortization, as well as depletion of timber holdings from cost of sales, for the period. EBITDA is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is not a measure of financial performance under Canadian GAAP and should not be considered as an alternative to cash flows from operating activities, a measure of liquidity or an alternative to net income as indicators of our operating performance or any other measures of performance derived in accordance with Canadian GAAP.

SIGNIFICANT BUSINESS ACTIVITIES

Significant activities that have occurred during the year ended December 31, 2008 and to the date of this report were as follows:

Sino-Forest Updated the Valuation of its Forest Plantation Assets in China

In March 2008, the Company announced that it had received the updated, independent valuation of its commercial plantation assets as well as a prospective valuation of its proposed plantation development plans in China. Using a discounted cash flow methodology, Poyry Forest Industry Ltd. ("Poyry") estimates that the existing forest plantation (single rotation only) as at December 31, 2007 had a value of approximately $1.2 billion and on a perpetual rotation basis, a value of approximately $3.2 billion (assuming trees to be acquired under the three master agreements). A copy of such valuation is available on SEDAR at www.sedar.com.

Sino-Forest Donates $2 million to Sichuan Earthquake Relief Effort

In June 2008, the Company announced plans to donate $2 million in support of the relief and reconstruction efforts in China's Sichuan province following the devastating earthquake which hit the region on May 12, 2008.

Sino-Forest Completed a Convertible Senior Notes Offering

In July 2008, the Company announced and closed an offering for $300 million convertible senior notes (the "Notes") to international investors. The Notes bear interest at a rate of 5.0% per annum, payable semi-annually and will mature on August 1, 2013 (unless converted prior to such date). The Notes are convertible into common shares of the Company at a conversion price of $20.29 (Cdn$20.32) per share, equivalent to a conversion rate of 49.2974 shares per $1,000 principal amount of Notes, subject to customary adjustments. The Company intends to use the net proceeds of the offering as follows: approximately $230 million, to acquire commercial plantation forests in the Fujian Province of the PRC; approximately $15 million to lease land and plant with Jatropha trees, and the balance of the net proceeds will be employed for general corporate purposes.

In August 2008, the Company announced the full exercise of the over-allotment option granted to the underwriters in connection with the offering. Pursuant to the over-allotment option, the Company sold an additional $45 million of the Notes.

Sino-Forest Signed a Long-term Tree Acquisition Agreement in Fujian Province

In August 2008, the Company signed an agreement to acquire 200,000 hectares of non-state-owned, plantation trees in Fujian Province. The Master Agreement for Acquisition of Pine, Chinese Fir and Eucalyptus Forest is with Zhangzhou Lu Sheng Forestry Development Company Limited, which will act as the authorized agent for the individual holders of original plantation rights. Under this agreement, Sino-Forest will purchase the trees at a price not to exceed RMB350 per m^3 or approximately $51.40 per m^3 over a 10-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 to 120 m^3 per hectare, or an aggregate of 20 to 24 million m^3 of wood fibre. Sino-Forest has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years.

Omnicorp Purchase

In February 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21.6 million (equivalent to HK$168 million) 4% secured convertible bonds of Omnicorp Limited ("Omnicorp") from various vendors. The purchase price consisted of cash of $4.3 million and approximately 2,700,000 common shares of the Company at a price of Cdn$10 per share. Total consideration was approximately $25.8 million (equivalent to HK$201 million). Among the vendors were a director of the Company and an entity controlled by such director the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2008, 2007 and 2006:

Years ended December 31, (in thousands, except earnings per share and common shares outstanding)	2008 $	2007 $	2006 $
Operating Results			
Revenue	901,295	713,866	555,480
Cost of sales	(536,557)	(470,825)	(380,508)
Gross profit [1]	364,738	243,041	174,972
Net income from continuing operations	216,393	142,431	92,212
Net income	228,593	152,273	113,480
EBITDA [2]	592,541	487,640	316,850
Earnings per share from continuing operations [3]			
Basic	1.18	0.85	0.67
Diluted	1.17	0.84	0.66
Earnings per share [3]			
Basic	1.25	0.91	0.82
Diluted	1.24	0.90	0.81
Financial Position			
Current assets	783,869	527,028	333,609
Non-current assets	1,820,055	1,310,469	873,646
Total assets	2,603,924	1,837,497	1,207,255
Current liabilities (including current portion of long-term debt)	285,478	197,003	179,048
Long-term debt (net of current portion)	714,468	441,985	450,000
Total shareholders' equity (net assets)	1,598,764	1,187,298	578,207
Cash dividends declared per share	Nil	Nil	Nil
Common shares outstanding	183,119,072	182,592,961	137,999,548

Over the past three fiscal years, we have focused on growing our wood fibre operations. Revenue has grown over these periods primarily due to increased sales of fibre from our plantation operation. Our revenue from plantation fibre operations increased from $521.5 million (9.9 million m³ of fibre) in 2007 to $685.4 million (10.2 million m³ of fibre) in 2008.

During these periods, our gross profit increased accordingly. Gross profit margin, being gross profit expressed as a percentage of revenue, increased to 40.5% in 2008 from 34.0% in 2007 due to a higher proportion of sales from wood fibre operations which earn a higher gross profit margin than our other business segments.

Non-current assets, primarily standing timber, increased over the past three years as we continued to focus on expanding our plantation area under management. As at December 31 of each year, we had the following plantation area under management:

2006	352,000 hectares
2007	312,000 hectares
2008	347,000 hectares

According to the recent forest asset valuation conducted by Poyry, the estimated volume of our merchantable standing timber increased 17% to approximately 37.6 million m³ by year end 2008.

In 2008, we completed an issuance of $345.0 million convertible senior notes. In 2007, we completed equity financings of $388.5 million through a private placement and a public offering. The proceeds from these financings have been or will be used mainly for the acquisition of plantation assets.

RESULTS OF OPERATIONS – 2008 VS 2007

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2008 and 2007:

	2008		2007	
	$'000	%	$'000	%
Wood Fibre Operations				
Plantation Fibre	685,404	76.0	521,489	73.1
Other Fibre	153,517	17.0	153,964	21.5
Manufacturing and Other Operations	62,374	7.0	38,413	5.4
Total	901,295	100.0	713,866	100.0

Our revenue increased 26.3% to $901.3 million in 2008. The increase in revenue was due primarily to the increase in sales of plantation fibre and manufacturing and other operations.

Wood Fibre Operations Revenue

Plantation Fibre

The following table sets forth revenue from plantation fibre sales for the years ended December 31, 2008 and 2007:

Plantation Model	2008 Hectares	2008 Sales per hectare $	2008 Total revenue $'000	2007 Hectares	2007 Sales per hectare $	2007 Total revenue $'000
Purchased plantations	86,067	6,040	519,872	138,365	3,686	509,953
Integrated plantations	14,071	11,313	159,185	-	-	-
Planted plantations	3,807	1,667	6,347	7,672	1,504	11,536
Total	103,945	6,594	685,404	146,037	3,571	521,489

Revenue from sales of plantation fibre increased 31.4% to $685.4 million in 2008, mainly due to sales of logs harvested from 14,071 hectares of integrated plantations in 2008 compared to none in 2007.

The total volume of fibre sold in 2008 was approximately 10.2 million m^3 with approximately 8.6 million m^3 from purchased and planted plantations, and approximately 1.6 million m^3 from integrated plantations. In 2007, we sold a total of approximately 9.9 million m^3 from purchased and planted plantations.

The average yield of fibre sold under the purchased and planted plantations in 2008 was 96 m^3 per hectare compared to 68 m^3 per hectare last year and obtained an average selling price of $61 per m^3 compared to $53 per m^3 – an increase of 16.3% (including 10.3% appreciation of the Renminbi versus US dollars).

The average yield of harvested logs sold under the integrated plantations was 111 m^3 per hectare and it commanded an average selling price of $102 per m^3.

Plantation fibre sales comprised 76.0% of total revenue in 2008, compared to 73.1% in 2007.

Other Fibre

Revenue from sales of imported wood products decreased 7.3%, from $150.7 million in 2007 to $139.7 million in 2008. This decrease was primarily as a result of a lower average selling price due to a change of product mix from expensive wood logs to lower cost wood logs.

Revenue from sales of wood logs increased to $13.8 million in 2008 from $3.2 million in 2007, due primarily to the increased volume of PRC-sourced wood logs sold.

Other fibre sales comprised 17.0% of total revenue in 2008, compared to 21.5% of total revenue in 2007.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 62.4% from $38.4 million in 2007 to $62.4 million in 2008, mainly due to higher revenue from the sales of engineered wood flooring and relatively new processing facilities in southern China.

Gross Profit

Gross profit increased 50.1%, from $243.0 million in 2007 to $364.7 million in 2008. Gross profit margin, being gross profit expressed as a percentage of revenue, increased from 34.0% in 2007 to 40.5% in 2008, mainly due to the higher proportion of sales from plantation fibre operations which earn a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of purchased and planted plantations increased from 45.4% in 2007 to 56.8% in 2008, mainly due to a higher selling price and the improved yield per hectare sold resulting in a lower fibre cost per m^3.

The gross profit margin for sales of logs under the integrated plantations operations was 36.0% or $37 per m^3 in 2008.

Gross profit margin from sales of imported wood products increased from 2.9% in 2007 to 3.8% in 2008.

Gross profit margin from sales of wood logs increased from 8.8% in 2007 to 18.8% in 2008 as a result of the change in mix of species of wood logs sold as compared to 2007.

Manufacturing and Other Operations Gross Profit

Gross margin from our manufacturing and other operations decreased from 4.6% in 2007 to 1.3% in 2008, primarily due to increased production costs at our manufacturing plants.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 41.1%, from $40.2 million in 2007 to $56.7 million in 2008, due primarily to additional staff complement.

Depreciation and Amortization

Depreciation and amortization decreased 13.7%, from $5.4 million in 2007 to $4.6 million in 2008, mainly due to the impairment charge taken on certain manufacturing facilities, partially offset by the increased capital assets.

Income from Operations

Income from operations increased 53.6%, from $197.5 million in 2007 to $303.4 million in 2008, due to the factors explained above. Our income from operations as a percentage of revenue increased from 27.7% in 2007 to 33.7% in 2008.

Interest Expense

Interest expense increased 19.0%, from $44.0 million in 2007 to $52.3 million in 2008, due primarily to the interest on the 5% convertible senior notes issued in 2008.

Interest Income

Our interest income decreased 26.7%, from $15.2 million in 2007 to $11.1 million in 2008, due primarily to the decrease in the interest rate earned on deposits in 2008.

Exchange (Losses) Gains

The Company incurred an exchange loss of $5.3 million in 2008 due to the weakening of U.S. dollar against the Hong Kong dollar and Renminbi, compared to an exchange gain of $12.4 million in 2007.

Impairment of Capital Assets

The impairment of capital assets amounted to $18.2 million in 2008 and $20.8 million in 2007, representing a write-down of certain manufacturing facilities to fair market value due to continued losses over the years.

Loss on Changes in Fair Value of Financial Instrument

In 2008, the Company recorded a loss of $1.8 million related to changes in fair value of financial instruments, resulting from a loss of $2.9 million on the embedded conversion option of the convertible bonds issued by Omnicorp Limited, offset by a gain of $1.1 million on the foreign currency swap.

EBITDA

EBITDA increased 21.5%, from $487.6 million in 2007 to $592.5 million in 2008, as a result of the increase in revenue in 2008.

Provision for Income Taxes

In 2008, the provision for income taxes was $24.1 million compared to $18.0 million in 2007; the increase was due primarily to the higher income earned for the year.

Net Income for the Year

As a result of the foregoing, net income for the year increased 50.1%, from $152.3 million in 2007 to $228.6 million in 2008. Overall net income for the year as a percentage of revenue increased from 21.3% in 2007 to 25.4% in 2008.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the years ended December 31, 2007 and 2008:

Years ended December 31, (in millions)	2008 $	2007 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations[4]	541.7	455.5
Net change in working capital[5]	(58.6)	27.0
Total	483.1	482.5
Cash flows from operating activities of discontinued operations		3.8
Cash flows used in investing activities	(704.0)	(692.3)
Cash flows from financing activities	331.8	376.9
Effect of exchange rate changes on cash and cash equivalents	1.6	4.9
Net increase in cash and cash equivalents	112.5	175.8

Cash Flows from Operating Activities of Continuing Operations

Net cash provided from operating activities increased from $482.5 million in 2007 to $483.1 million in 2008. The increase was due to the increase in cash provided by operations, offset by the decrease in cash provided by working capital that mainly resulted from the increase in accounts receivables of wood fibre operations.

Cash Flows Used in Investing Activities

In 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $640.3 million in 2007 and $656.7 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $12.6 million in 2007 and $30.2 million in 2008. Our cash outlays for other assets amounted to $31.2 million in 2007 and $9.6 million in 2008. The increase in non-pledged short-term deposits was $8.7 million in 2007 and $5.6 million in 2008. In addition, we paid $0.8 million in 2007 and $1.9 million in 2008 in business acquisitions.

Cash Flows from Financing Activities

In 2008, cash flows from financing activities consisted of net proceeds of $335.9 million from the issuance of convertible senior notes, an increase in bank indebtedness of $15.6 million and net proceeds from the issuance of shares of $1.6 million, offset by payment on derivative financial instruments of $4.9 million and the increase of pledged short-term deposits of $16.3 million. In 2007, cash flows from financing activities consisted of primarily net proceeds from issuance of shares of $389.9 million and a decrease in pledged short-term deposits of $6.2 million, offset by a decrease in bank indebtedness of $17.0 million and payment on derivative financial instruments of $2.2 million.

RESULTS OF OPERATIONS – Q4 2008 VS Q4 2007

The following table sets forth the selected financial information for the three months ended December 31, 2008 and 2007:

Three months ended December 31, (in thousands, except earnings per share)	2008 $	[Restated] 2007 $
Revenue	282,485	310,850
Cost of sales	(159,448)	(212,522)
Gross profit [1]	123,037	98,328
Net income from continuing operations	79,918	42,690
Net income	95,490	55,470
EBITDA [2]	192,039	247,055
Earnings per share from continuing operations [3]		
Basic	0.44	0.23
Diluted	0.43	0.23
Earnings per share [3]		
Basic	0.52	0.30
Diluted	0.51	0.30

Revenue

The following table sets forth the breakdown of our total revenue in the fourth quarters of 2008 and 2007:

Three months ended December 31,	2008 $'000	%	2007 $'000	%
Wood Fibre Operations				
Plantation Fibre	211,907	75.0	260,359	83.8
Other Fibre	51,960	18.4	34,569	11.1
Manufacturing and Other Operations	18,618	6.6	15,922	5.1
Total	282,485	100.0	310,850	100.0

Revenue declined slightly in the fourth quarter of 2008 compared to the same quarter of 2007 due to lower volume in cubic metres of fibre sold as demand slowed in China after the global economic slowdown started in the second half of 2008. Given uncertainty during these current economic times, some customers were reluctant to make large purchases of fibre in the fourth quarter of 2008.

Wood Fibre Operations Revenue

Plantation Fibre

For the fourth quarters ended December 31, 2008 and 2007, plantation fibre sales were as follows:

Plantation Model	Three months ended December 31, 2008 Hectares	Sales per hectare $	Total revenue $'000	Three months ended December 31, 2007 Hectares	Sales per hectare $	Total revenue $'000
Purchased plantations	35,796	5,708	204,331	75,827	3,335	252,853
Integrated plantations	438	11,384	4,986	-		
Planted plantations	2,131	1,215	2,590	5,668	1,324	7,506
Total	38,365	5,523	211,907	81,495	3,195	260,359

Plantation fibre revenue decreased 18.6% in the fourth quarter 2008. This decrease was mainly due to lower sales of purchased and planted plantations in 2008.

The total volume of fibre sold during the fourth quarter 2008 was approximately 3.4 million m^3, with approximately 3.3 million m^3 from purchased and planted plantations, and approximately 48,000 m^3 from integrated plantations.

In the same quarter last year, we sold a total of approximately 4.9 million m^3 from purchased and planted plantations. The average yield of fibre sold under the purchased and planted plantations in 2008 was 88 m^3 per hectare compared to 60 m^3 per hectare in the same quarter last year and obtained an average selling price of $62 per m^3 compared to $53 per m^3 – an increase of 16.9% (including 10.4% appreciation of the Renminbi versus US dollars).

The average yield of harvested logs sold under the integrated plantations was 110 m^3 per hectare and it commanded an average selling price of $104 per m^3.

Plantation fibre sales comprised 75.0% of total revenue in 2008, compared to 83.8% in 2007.

Other Fibre

Revenue from sales of imported wood products increased 19.3%, from $34.3 million in 2007 to $40.9 million in 2008. This increase was primarily due to higher volume of imported logs sold.

Revenue from sales of wood logs increased to $11.1 million in 2008 from $0.3 million in 2007, due primarily to the increased volume of PRC-sourced wood logs sold.

Other fibre sales comprised 18.4% of total revenue in 2008, compared to 11.1% of total revenue in 2007.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 16.9% from $15.9 million in 2007 to $18.6 million in 2008 mainly due to higher revenue from sales of engineered wood flooring and relatively new processing facilities in southern China.

Gross Profit

Gross profit increased 25.1%, from $98.3 million in 2007 to $123.0 million in 2008. Gross profit margin, being gross profit expressed as a percentage of revenue, increased from 31.6% in 2007 to 43.6% in 2008 mainly due to the sales of plantation fibre and sales of wood logs which earn a higher gross profit margin compared to other business segments.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of purchased and planted plantations increased from 36.9% in 2007 to 56.1% in 2008, due to higher selling prices and the improved yield per hectare sold resulting in a lower fibre cost per m^3.

The gross profit margin for sales of logs from the integrated plantation operations was 37.8% or $39 per m^3.

Gross profit margin from sales of imported wood products increased from 3.1% in 2007 to 3.5% in 2008.

Gross profit margin from sales of wood logs decreased from 23.3% in 2007 to 19.0% in 2008 as a result of the change in mix of species of wood logs sold as compared to the same quarter last year.

Manufacturing and Other Operations Gross Profit

Gross profit margin from our manufacturing and other operations increased from 7.6% in 2007 to 8.3% in 2008, primarily due to the improvement from nursery segments and the suspension of certain manufacturing facilities during the quarter.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 48.6%, from $15.6 million in 2007 to $23.2 million in 2008, due primarily to additional staff complement.

Depreciation and Amortization

Depreciation and amortization decreased 30.0%, from $1.9 million in 2007 to $1.3 million in 2008, due to the impairment charge taken on certain manufacturing facilities, partially offset by the increased capital assets.

Income from Operations

Income from operations increased 21.9%, from $80.8 million in 2007 to $98.5 million in 2008, due to the factors explained above. Our income from operations as a percentage of revenue increased from 26.0% in 2007 to 34.9% in 2008.

Interest Expense

Interest expense increased 56.7%, from $10.7 million in 2007 to $16.7 million in 2008, due primarily to the interest on the 5% convertible senior notes issued in 2008.

Interest Income

Interest income decreased 22.6%, from $4.0 million in 2007 to $3.1 million in 2008, due primarily to the decrease in interest rate earned on deposits in 2008.

Exchange Losses

The Company incurred an exchange loss of $1.1 million in 2008 due to weakening of the U.S. dollar versus the Hong Kong dollar and Renminbi, compared to $4.2 million in 2007.

Impairment of Capital Assets

Impairment of capital assets amounted to $20.8 million in 2007, representing the write-down of certain manufacturing facilities to fair market value due to continued losses as a result of increasing input cost of production.

Loss on Changes in Fair Value of Financial Instruments

During the quarter, the Company recorded a loss of $0.7 million related to changes in fair value of financial instruments, resulting from a loss of approximately $0.8 million on the foreign currency swap, offset by a gain of approximately $0.1 million on the embedded conversion option of the convertible bonds issued by Omnicorp Limited.

EBITDA

EBITDA decreased 22.3% from $247.1 million in 2007 to $192.0 million in 2008, as a result of lower revenue in 2008.

Provision for Income Taxes

In 2008, the provision for income taxes was $4.2 million compared to $6.6 million in 2007; the decrease was primarily due to lower PRC income tax rates in 2008 and the impact of accounting policy for uncertainty in income tax.

Net Income for the Period

As a result of the foregoing, net income for the period increased 72.1%, from $55.5 million in 2007 to $95.5 million in 2008. Overall net income for the period as a percentage of revenue increased from 17.8% in 2007 to 33.8% in 2008.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the three months ended December 31, 2008 and 2007:

Three months ended December 31, (in millions)	2008 $	2007 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations[4]	180.4	222.8
Net change in working capital[5]	33.2	20.8
Total	213.6	243.6
Cash flows used in operating activities of discontinued operations		(0.4)
Cash flows used in investing activities	(261.0)	(320.0)
Cash flows (used in) from financing activities	(9.9)	18.1
Effect of exchange rate changes on cash and cash equivalents	(0.6)	(11.8)
Net decrease in cash and cash equivalents	(57.9)	(70.5)

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities decreased 12.3% to $213.6 million in 2008. The decrease was mainly due to decrease in cash provided by operations.

Cash Flows Used in Investing Activities

In 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing facilities. Our cash outlays for our forestry plantations amounted to $296.2 million in 2007 and $242.5 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $6.2 million in 2007 and $5.1 million in 2008. Increase in non-pledged short-term deposits in 2007 amounted to $5.4 million and $3.1 million in 2008. Our cash outlays for other assets amounted to $12.6 million in 2007 and $10.3 million in 2008. In addition, the Company paid $0.8 million in a business acquisition in 2007.

Cash Flows (Used in) from Financing Activities

In 2008, cash flows used in financing activities consisted of an increase in pledged short-term deposits of $13.9 million, offset by an increase in bank indebtedness of $4.0 million. In 2007, cash flows from financing activities consisted of an increase in bank indebtedness of $14.5 million, a decrease in pledged short-term deposits of $2.5 million and net proceeds from the issuance of shares of $1.1 million.

ISSUED AND OUTSTANDING SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 185,779,062 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 206,400,673 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,614,008 outstanding stock options and the issuance of 17,007,603 common shares upon the conversion of the $345,000,000 convertible senior notes.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of funding have been short-term and long-term borrowings, equity offerings and cash provided by operating activities. Our primary uses of funding have been to obtain new forestry plantations in the form of standing timber to develop our existing forestry plantations, for imported logs trading, for working capital requirements, to service our short-term and long-term borrowings and to invest in and develop our manufacturing facilities.

The Company begins 2009 with a strong financial position. Cash and cash equivalents of $441.2 million allows Sino-Forest to manage the pace of its vision and strategies during the current global recession, the duration of which is difficult to predict. Sino-Forest continually assesses the quality of its accounts receivable, cash and cash equivalent and other assets and will take appropriate actions in response to changing market conditions.

Financing Arrangements and Contractual Obligations

As of December 31, 2008, we had secured and unsecured short-term borrowings of $73.2 million, comprising $38.6 million of short-term bank loans and $34.6 million of trust receipt loans. We had long-term debt of $714.5 million. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of December 31, 2008, we had $189.5 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. Pursuant to the non-convertible senior notes' covenants, the maximum amount of the short-term borrowings allowed is $100 million. As of December 31, 2008, $73.2 million in respect of bank indebtedness and $25.5 million in respect of other bank instruments were utilized. Interest is payable on these short-term borrowings at a weighted average rate of 6.4% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2008, the short-term credit facilities were secured by certain of our land-use rights, buildings and timber holdings having an aggregate net book value of approximately $20.7 million and certain bank deposits of $16.6 million.

Other Contractual Obligations

As of December 31, 2008, we had other contractual obligations relating to: (1) approximately $75.0 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $15.0 million of capital commitments with respect to buildings and plant and machinery; (3) $6.4 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $56.1 million; and (5) $714.5 million long-term convertible and non-convertible guaranteed senior notes and syndicated loans.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of December 31, 2008:

		Payment Due by Period			
	Total $'000	Within one year $'000	In the second and third year $'000	In the fourth and fifth year $'000	After the fifth year $'000
Long-term debt (6)	714,468	-	443,898	270,570	-
Capital contributions	75,000	750	4,250	70,000	-
Capital commitments (7)	15,020	15,020	-	-	-
Purchase commitments	6,400	6,400	-	-	-
Operating leases (8)	56,074	3,164	4,857	4,657	43,396
Total contractual cash obligations	866,962	25,334	453,005	345,227	43,396

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at December 31, 2008.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 70,834 hectares of plantation trees for $299.0 million as at December 31, 2008.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 39,502 hectares of plantation trees for $232.5 million as at December 31, 2008.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 75,111 hectares of plantation trees for $343.5 million as at December 31, 2008.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at December 31, 2008.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2008, we had provided guarantees of approximately $131.4 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the fourth quarter and year ended December 31, 2008:

	Three months ended December 31, 2008		Twelve months ended December 31, 2008	
	Hectares	$'millions	Hectares	$'millions
Tree acquisition – Purchased plantations	64,302	271.3	127,834	646.4
Re-planting and maintenance of plantations		10.7		26.1
Panel manufacturing and other operations		5.0		30.1
Total		287.0		702.6

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees, and various plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures for manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our forestry planations in the consolidated statements of cash flows and the above capital expenditure on plantations was due to non-cash transactions movement of accounts payable and capitalization of deposit paid for acquisition of plantations from other assets to timber holdings.

For 2009, capital expenditures are expected to be around $700 million for plantation acquisitions, replanting and maintenance, and approximately $30 million for the development of manufacturing facilities integrated with plantation operations. These acquisition levels will be adjusted as necessary given future changes in the economic climate in the PRC.

Independent Valuation of our Forest Assets by Poyry

According to the forest asset valuation conducted by independent forestry consultants, Poyry, the valuation of the Company's existing forest assets as at December 31, 2008 based on a single rotation was $1.64 billion, and on a perpetual rotation was $1.69 billion (using a pre-tax discount rate of 11.5%). Poyry's original 2007 valuation, based on a perpetual rotation, included forest assets assumed to be acquired under the three master agreements in Hunan, Yunnan and Guangxi Provinces (the "Master Agreements"). Poyry's revised 2007 valuation, based on a perpetual rotation, excluding forest assets assumed to be acquired under the three Master Agreements, was $1.47 billion. Poyry's 2008 valuations represent increases of 32% based on a single rotation and 15% based on a perpetual rotation, compared to the revised 2007 valuation.

A full copy of the valuation report will be posted on our website www.sinoforest.com under "Investor Relations, Filings" and also filed on www.sedar.com.

Aging of Accounts Receivable

Plantation Fibre Operations

We recognize revenue from plantation fibre when the buyer has signed the sales contract and the significant risks and rewards of ownership have been transferred to the buyer. After the buyer has entered into the sales contract, we generally give the buyers of standing timber extended credit terms to log and haul the timber from the plantations. Based on a twelve-month period, on average, customers repay outstanding balances in approximately three months.

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At December 31, 2008	182,307	73,527	74,586	14,653	19,489	52	-
At December 31, 2007	72,139	69,689	268	175	2,004	3	-

Other Fibre Operations, Manufacturing and Other Operations

We recognize revenue from the sale of logs and other products when the significant risks and rewards of ownership of the logs and other products have been transferred to the customer, usually on the delivery of the goods. Revenue from wood product and nursery contracts are recognized based on percentage-of-completion method.

		Aging Analysis					
	Total Accounts Receivable $'000	0-30 Days $'000	31-60 Days $'000	61-90 Days $'000	91-180 Days $'000	181-360 Days $'000	Over One Year $'000
At December 31, 2008	44,149	23,002	8,787	4,457	2,975	2,320	2,608
At December 31, 2007	33,190	12,291	5,738	13,185	1,700	276	-

Currently, there is no indication that the Company's accounts receivables are non-collectible thus, an allowance has not been set up. To mitigate the risk on these receivables, the Company has established relationships with customers who have a very good credit rating and solid reputation.

Inflation

Inflation in the PRC has not had a significant impact on Sino-Forest's results of operations in recent years. According to the National Bureau of Statistics in the PRC, the change in the Consumer Price Index in the PRC was 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively.