ANNUAL REPORT 2009

RIGHT PLACE

RIGHT TIME

RIGHT COMPANY

Sino-Forest Corporation

Contents

Sino-Forest eucalypt plantation in Guangdong Province.

SINO-FOREST IS A LEADING COMMERCIAL FOREST PLANTATION OPERATOR IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC"). OUR PRINCIPAL BUSINESSES INCLUDE THE OWNERSHIP AND MANAGEMENT OF TREE PLANTATIONS, THE SALE OF STANDING TIMBER AND WOOD LOGS, AND THE COMPLEMENTARY MANUFACTURING OF DOWNSTREAM ENGINEERED-WOOD PRODUCTS. THE COMPANY'S COMMON SHARES HAVE TRADED ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL **TRE** SINCE 1995. LEARN MORE AT **WWW.SINOFOREST.COM.**

IN THE RIGHT PLACE

We operate in the PRC, where the economy has grown at an average annual rate of 10% over the past five years. Industrialization and urbanization of the country have created great demand for natural resources. With restrictions on the logging of its natural forests, the PRC has a large and growing wood fibre deficit. Sino-Forest is well placed to help close the gap. Our plantations are strategically located primarily in southern and eastern provinces with favourable climates for cultivating fast-growing, high-yielding ("FGHY") tree species at designated plantation areas and supplying major manufacturing hubs and huge consumer markets.

AT THE RIGHT TIME

Sino-Forest has been planting trees since 1996, and has gradually improved its yields through research and development in tree growth and intensive plantation forest management. Our efforts seem to be paying off. The yield of our planted eucalyptus plantations has significantly increased from 60 cubic metres per hectare ("m^3/ha") to more than 200 m^3/ha at certain locations. In addition, with demand for wood fibre on the rise, wood is becoming an increasingly valuable economic commodity. As a result, log prices are trending upward. Now is the right time for us to commence large-scale tree planting and convert low-yield plantations to FGHY in order to fulfill domestic demand.

WITH THE RIGHT COMPANY

Sino-Forest has a 15-year track record as a successful leader in the PRC forest industry. We have developed unique silviculture expertise and valuable business relations with forestry bureaus, plantation owners, service suppliers and wood product dealers. Our large, geographically diverse portfolio of plantations covers approximately 668,300 hectares ("ha"). In addition, we have access to a minimum of 838,000 ha of trees yet to be acquired under our long-term fibre acquisition agreements. Our capable management is continually developing new ways to maximise the market value of our fibre. With a proven track record and a strong financial position, our vision is to become a regional wood resources developer, leading the development of regional wood markets in the PRC.

BUSINESS OVERVIEW

OPERATIONS AT A GLANCE

Sino-Forest operates in 10 provinces and municipalities, where we have approximately 668,300 hectares ("ha") of trees under management, including approximately 155,600 ha acquired from Mandra Forestry Holdings Limited ("Mandra Forestry") in February 2010, and complementary manufacturing facilities.

Wood Fibre Operations

Plantation models

Within our core business, we have three operating models:

- **Purchased plantations:** we acquire young trees, capture value through fibre growth during the course of our ownership, then sell the mature trees as standing timber.
- **Planted plantations:** we lease suitable land on a long-term basis, typically 30 to 50 years, apply silviculture and scientific techniques to improve the breeding and planting of the trees we grow. We sell the mature trees as standing timber, then we continuously replant with superior seedlings.
- **Integrated plantations:** we combine our purchased and planted models, acquiring mostly mature trees which ties in with our long-term fibre acquisition agreements. We either sell fibre as harvested logs or use the fibre at our manufacturing facilities. Then we lease the underlying land long-term and apply our scientific techniques to increase the fibre yield. Our plan is to replace our purchased plantation with our integrated plantation model.

In China, plantation land is either collectively-owned or owned by the State. To operate plantations in China, we usually lease land long-term from the local collective landowners or the holders of the land use rights, for periods of 30 to 50 years. Our goal is to transform China's low-yield forests to fast-growing, high-yielding plantations at designated plantation areas.

Other fibre

As a trader of wood products, we source and import large-diameter logs, veneer, sawn timber and other wood-based products globally, and sell them in the PRC markets. We also have access to large-diameter, tropical logs in South America*.

Manufacturing and other operations

We manufacture engineered-wood products using small-diameter domestic logs to produce finger-joint board, plywood, veneer and blockboard. Our Sino-Maple branded flooring is distributed through more than 300 outlets nationwide. We also provide nursery, greenery and other forest product services.

End users

We sell our wood fibre and wood-based products to commercial and industrial customers, who produce wood panels, furniture and interior decorative fixtures, materials for constructing infrastructure and buildings such as cement forming boards, and pulp and paper.

* Sino-Forest owns a 20% equity interest in Omnicorp Limited, which is listed on the Hong Kong Stock Exchange and owns indirectly a 60% interest in Greenheart Resources Holdings Limited, a concession operator in Suriname.

PERFORMANCE HIGHLIGHTS

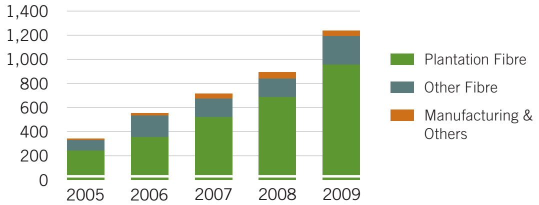
2009 OPERATING HIGHLIGHTS

- Increased fibre sold 40% to 14.2 million m³
- Tripled sales volume of harvested logs from integrated plantations to 4.9 million m³ from 2008
- Replanted approximately 18,000 ha in Hunan, Guangxi and Guangdong provinces
- Signed our fifth long-term fibre acquisition agreement in Jiangxi, securing 15 to 18 million m³ of fibre at a capped acquisition price, and subsequently signed our sixth agreement in Guizhou in January 2010, securing 11 to 17 million m³ of fibre at a capped acquisition price
- Negotiated acquisition of Mandra Forestry with access to approximately 155,600 ha representing 14 million m³ of fibre (completed in February 2010)

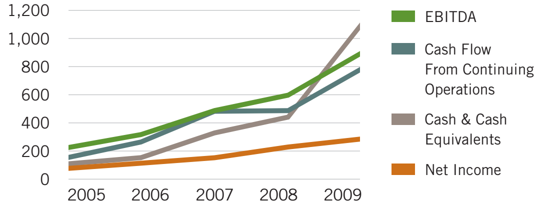
2009 FINANCIAL HIGHLIGHTS

- Revenue surpassed $1.2 billion milestone; EBITDA increased 50%, EPS up 11%
- Raised gross proceeds of $1.1 billion; extended our debt maturities; ended 2009 with cash and short-term deposits of $1.2 billion and debt-to-equity ratio of 0.35:1
- Share price nearly doubled during the year, compared to an increase of 27% for the S&P/TSX60 Index and 45% for the Hang Seng Index

SOURCES OF REVENUE
($ MILLIONS)



KEY PERFORMANCE INDICATORS
($ MILLIONS)



Note: Figures from 2005 to 2007 are not restated after Gaoyao's operation discontinued in 2009.

Note: All dollar amounts in this report are in US denomination unless otherwise stated.

PERFORMANCE HIGHLIGHTS

US DOLLARS IN MILLIONS, EXCEPT EPS AND SHARE PRICE	2009	2008	Change (%)	4-year CAGR* (%)
Revenue	**$1,238.2**	$896.0	38	26
Gross profit	**$440.9**	$366.0	20	34
Gross profit margin	**35.6%**	40.8%	(5.2%pts)	-
EBITDA	**$898.3**	$597.1	50	37
Net income	**$286.4**	$228.6	25	37
Diluted earnings per share	**$1.38**	$1.24	11	24
Cash flow from operating activities	**$784.5**	$487.2	61	41
Capital expenditures	**$1,071.8**	$702.6	53	38
Cash and cash equivalents	**$1,102.4**	$441.2	250	79
Assets	**$3,963.9**	$2,603.9	52	45
Share price at year end (Cdn$)	**$19.38**	$9.87	96	41
Total volume of wood fibre sold (M m^3)**	**15.4**	10.9	41	-
Volume of plantation fibre sold (M m^3)***	**14.2**	10.2	40	-
Hectares of trees acquired	**255,503**	127,834	100	-
- Average purchase price (per ha)	**$3,978**	$5,057	(21)	-
Hectares of trees sold	**109,189**	103,945	5	-
- Average selling price (per m^3)				
- Purchased and planted plantations model	**$61**	$61	-	-
- Integrated plantations model	**$78**	$102	(24)	-
Hectares under management	**512,700**	347,000	48	12

* Compound annual growth rate from 2005 to 2009.

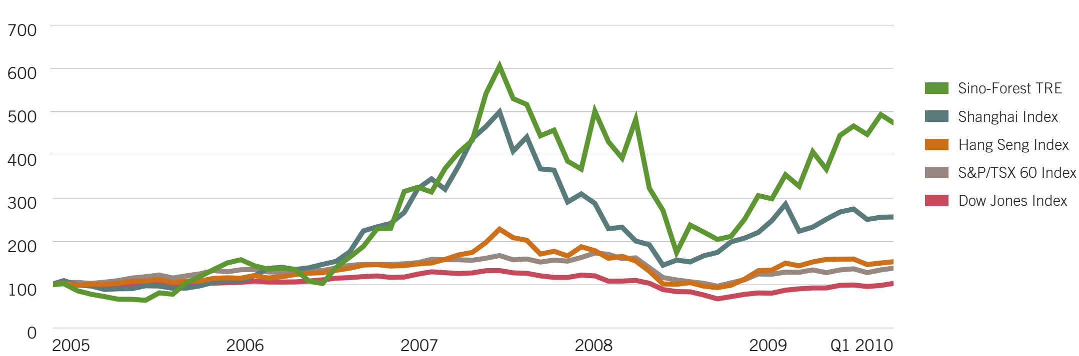
** Total volume sold includes plantation fibre and other fibre.

*** Sino-Forest's goal is to sell 17 million m^3 of fibre from plantation operations by 2011.

Note: Figures from 2005 to 2007 are not restated after Gaoyao's operation discontinued in 2009.

SHARE PRICE PERFORMANCE

Over the past five years, the share price of our common shares trading on the Toronto Stock Exchange ("TSX") in Canada increased almost fivefold. Our market capitalization rose to over Cdn$4 billion by year-end 2009, giving Sino-Forest the highest market capitalization of all Chinese companies listed on the TSX. Sino-Forest outperformed the North American S&P/TSX60 and Dow Jones Indices by 243% and 363%, respectively, and outperformed China's Shanghai Composite and Hang Seng Indices by 84% and 209%, respectively.



Source: Bloomberg

INCREASINGLY VALUABLE FOREST ASSETS

Every year, Sino-Forest engages Pöyry Management Consulting ("Pöyry"), a leading global consulting and engineering company, to conduct a market valuation of our forest assets. Pöyry's full report is available at www.sinoforest.com and www.sedar.com.

	2009 **$**	2008 $	Change (%)
Hectares of trees under management at year end	**512,700**	347,000	47.8
Value of existing forest assets* (billions)	**2.30**	1.64	39.7
Value with perpetual rotation** (billions)	**2.13**	1.69	25.7
Total merchantable volume (millions m^3)	**62.0**	37.6	65.3
Average yield (m^3 per hectare)	**126**	112	12.5

Assuming application of an 11.5% discount rate to future cash flows generated from sales of forest assets:

* Based on a single rotation; assuming majority of forest crop is harvested over the next 10 years, with an average log price increase totalling 6.7% over five years and 0% thereafter.

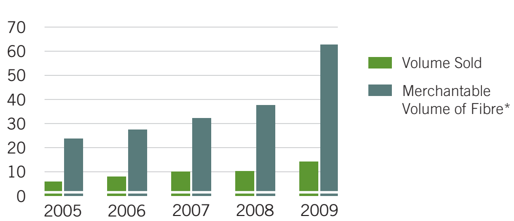
** Based on perpetual rotation (replanting and cultivation of plantation land after harvesting) over a 60-year period; excludes forest assets yet to be acquired under long-term fibre purchase agreements; assuming an average log price increase totalling 6.7% over five years and 0% thereafter.

From 2005 to 2009, the total volume of our tree fibre under management increased at a compound annual growth rate of 27%.

As our hectares under management and volume of fibre continue to grow, our output sold has also increased from 10 million m^3 to 14 million m^3.

PLANTATION FIBRE SOLD VS MERCHANTABLE VOLUME UNDER MANAGEMENT

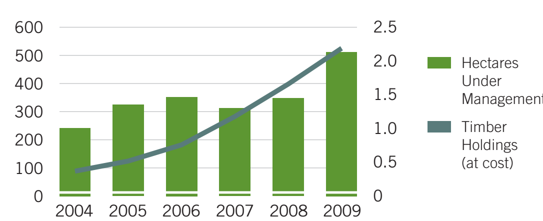
(MILLIONS CUBIC METRES)



* Based on Pöyry Management Consulting's estimation

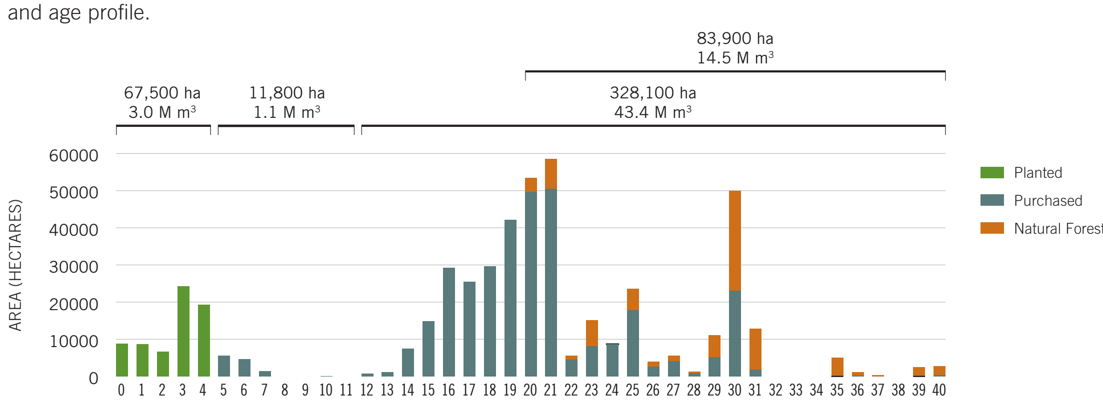
FOREST AREA AND ASSET VALUATION

('000 HECTARES AND $ BILLIONS)



PROFILE OF TREE MATURITIES

The inventory of trees at Sino-Forest's plantations at year-end 2009 was especially diverse, in terms of tree species and age profile.



Source: Pöyry Management Consulting

RIGHT PLACE

POWERFUL MACRO-ECONOMIC AND MARKET TRENDS ARE DRIVING DEMAND FOR FIBRE IN CHINA.

China's increasing urbanization will boost demand for construction and housing wood products.

RIGHT PLACE

STRONG ECONOMIC GROWTH

In 2008, China's economy became the world's third largest economy (after US and Japan). It grew at more than 10% per annum over the past five years, and the International Monetary Fund expects it to grow at nearly the same pace over the next five years. Industrialization and construction of infrastructure and housing have been the main drivers of the growth. Sustaining high economic growth is crucial to the Central Government, given its goal to encourage urbanization and increase rural employment and income.

GROWING MIDDLE CLASS AND URBANIZATION

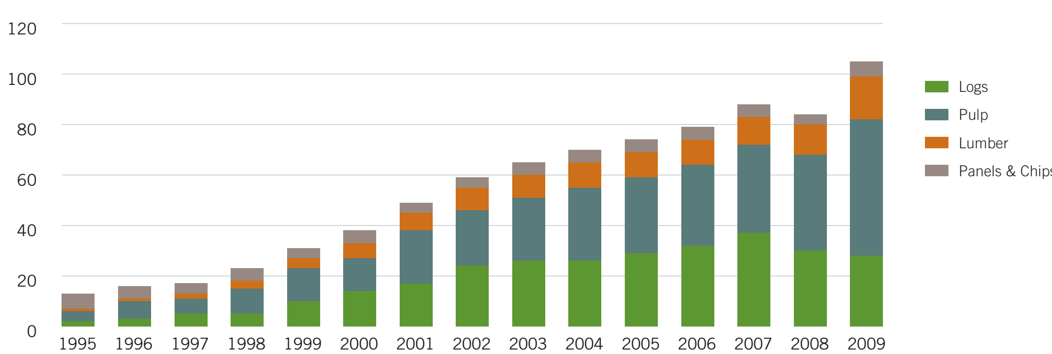
With China's economy growing its middle-income class will increase in absolute numbers and disposable income. The middle class is estimated to exceed 400 million people. At the same time, more rural residents are migrating to urban areas for better employment opportunities. As part of its social and economic re-alignment plan, the Chinese government is focused on developing the economies of small and medium sized cities, aiming to increase urbanization from the current 48% to 65% in 2050. Credit Suisse has predicted the migration of about 700 million people (equivalent to the combined population of the US and Europe), which will create a surge in demand for new town development, affordable housing and infrastructure to accommodate this predicted movement.

RISING WOOD FIBRE DEFICIT

Since 1998, China has imposed significant bans or restrictions on the logging of natural forests for environmental reasons. This, along with fewer log imports, has increased the huge deficit between the country's supply and demand of wood products. The Chinese Society of Forestry has predicted that demand for commercial timber will reach 350 million m^3 by 2015 while domestic supply will remain at 200 million m^3 (or 57% of demand). We believe our FGHY plantations can play a significant part in reducing this large growing deficit.

CHINA'S GROWING TIMBER DEFICIT

(MILLION CUBIC METRES, ROUNDWOOD EQUIVALENT)



Source: RISI Multi-Client Study: China Timber Supply Outlook

INCREASED USE OF PLANTATION LOGS

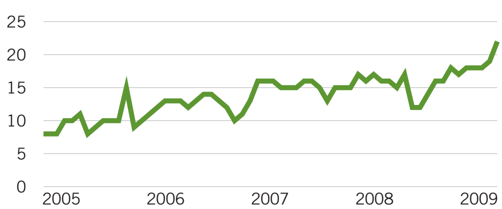
China's wood processing markets are expected to grow significantly over the next five years as demand strengthens in domestic markets. With the supply of large-diameter imported logs becoming more uncertain and costly, many wood product manufacturers in the PRC have modified their equipment to process small-diameter plantation logs instead. This, too, has increased demand for Sino-Forest's plantation timber and logs.

DECLINING LOG IMPORTS

China is the world's largest log importing country, representing one third of global log trading. The majority of its imported logs are softwood from Russia. However, over the past two years, China has imported fewer logs as Russia has imposed higher log export tariffs to encourage its own wood processing industry, and as nearby countries are significantly curbing or banning the logging of natural forests. As a result, the average price of logs imported into China has gradually risen and increased the market value of domestic logs, including Sino-Forest's plantation logs.

WOOD FURNITURE PRODUCTION

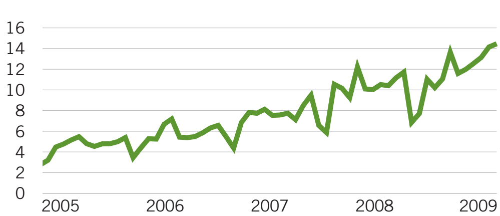
(MILLIONS OF PIECES)



Source: Beijing Orient Agribusiness Consultant Ltd. (BOABC)

PANEL BOARD PRODUCTION

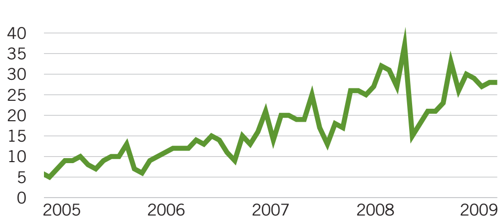
(MILLIONS OF CUBIC METRES)



Source: Beijing Orient Agribusiness Consultant Ltd. (BOABC)

ENGINEERED WOOD FLOORING PRODUCTION

(MILLIONS OF SQUARE METRES)



Source: Beijing Orient Agribusiness Consultant Ltd. (BOABC)

INCREASED DEMAND FOR DOWNSTREAM WOOD PRODUCTS

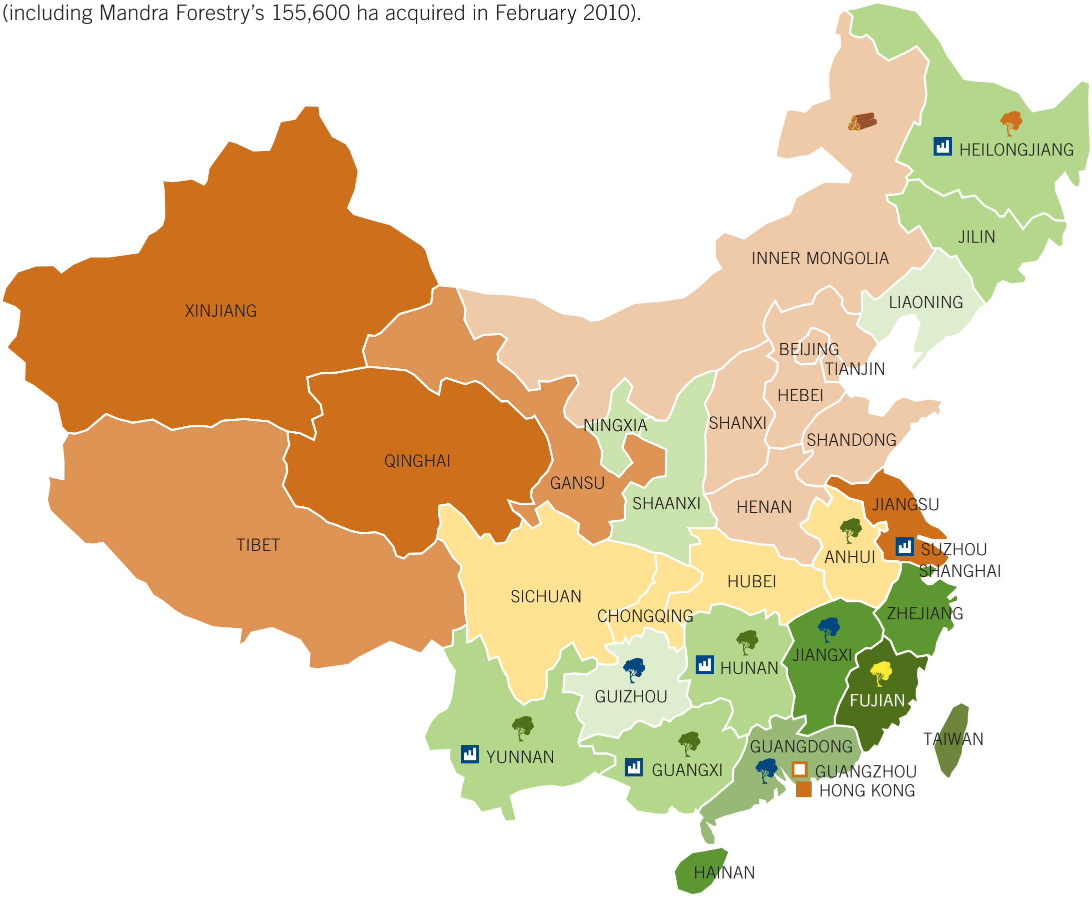
The additional construction of homes for more affluent buyers and the Central Government's intention to construct more affordable housing to accommodate new city dwellers will likely increase demand for downstream manufacturing of wood-based products. These products include blockboards, wood furniture, flooring, panels for walls and cabinets, as well as windows, doors and interior decoration products. According to RISI, as many as 75-80% of timber demand in China is for domestic consumption (e.g., housing, furniture, pulp and paper), while 20-25% is for exports (e.g., wood products such as plywood, furniture and paper products).

Rising domestic demand for housing and home products is good for Sino-Forest's manufacturing facilities. We produce engineered-wood flooring in Jiangsu Province, which is distributed through more than 300 outlets across China. We manufacture engineered-wood products such as plywood and veneer in Guangxi Province, and finger-joint boards and blockboards in Hunan Province. In Yunnan Province and Heilongjiang Province, we produce sawn timber. As we expand our integrated operations under long-term fibre acquisition agreements, we plan to establish complementary manufacturing facilities that maximize the use of our plantation fibre, diversify our revenue and enhance rural employment and livelihood.

RIGHT PLACE

STRATEGICALLY LOCATED OPERATIONS

Sino-Forest's plantations, manufacturing facilities and other forest product operations in China are located in as many as 10 provinces and municipalities. Most of our plantations are located in the southern and eastern provinces where mild and humid climates accelerate the growth of trees, and where over half of the PRC's total timber volume is produced. They are also located in close proximity to manufacturing hubs, huge consumer markets and major ports where wood products are exported and imported. Total hectares under management is approximately 668,300 ha (including Mandra Forestry's 155,600 ha acquired in February 2010).



PRC FOREST COVERAGE
(PERCENTAGE)

- 60-66
- 54-60
- 48-54
- 42-48
- 36-42
- 30-36
- 24-30
- 18-24
- 12-18
- 6-12
- 0-6

SINO-FOREST'S FOREST DISTRIBUTION
(HECTARES AS AT DECEMBER 31, 2009)

- <5,000
- 5,000-20,000
- 20,000-60,000
- 60,000-100,000
- 100,000-160,000

LEGEND

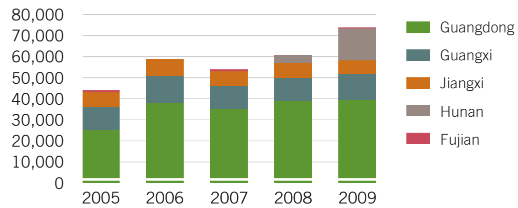
- Executive Office
- China Office
- Manufacturing Operation
- Long-term Wood Fibre and Forestry Regeneration

SINO-FOREST PLANTATION SPECIES BREAKDOWN (INCLUDING MANDRA'S 155,600 HA)

(HECTARES)

SINO-FOREST PLANTED TREE PLANTATIONS

(HECTARES)

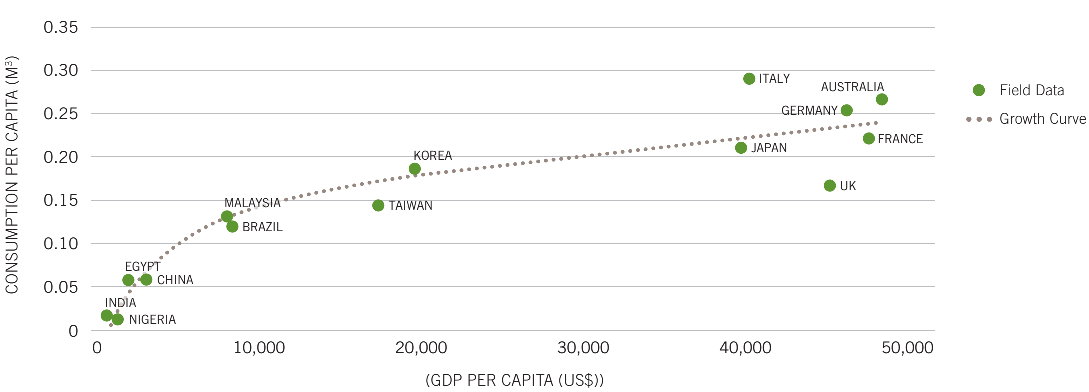


Source: Pöyry Management Consulting

At our planted plantations, we had approximately 73,800 ha of trees as at December 31, 2009. The primary species grown is eucalyptus, which grows in 6-year cycles and is used for wood-based products and pulp and paper production. At certain locations, it is estimated that our eucalyptus plantations could achieve a yield of more than 200 m³/ha. This compares favourably to plantations with 12-year-cycle pine trees typically grown by Chinese farmers, which have a yield of 100 to 120 m³/ha. Our outstanding results have been achieved by continuously applying scientifically enhanced biotechnology and silviculture to our planted plantations.

GLOBAL WOOD CONSUMPTION AND GDP PER CAPITA

(CUBIC METRES)



Source: ITTO Annual Timber Review 1993-2008, CCBI Securities estimates

CCBI Securities has estimated that China's consumption of wood fibre (sawn timber, veneer and plywood) increased at a compound annual growth rate of 12% from 2004 to 2008. On the graph above, CCBI estimated that the country's fibre consumption per capita in 2008 was 0.056m³/capita, only 26% of the average consumption of developed countries. Assuming China's GDP per capita increases 8% per annum, CCBI expects fibre consumption to rise to 0.067m³/capita in 2011 and 0.104m³/capita in 2015, implying total demand growth of 10% per annum between 2009 and 2015F.

Aiming to improve living standards in China's rural communities, the Central Government provides financial incentives to encourage commercialization of the forestry sector.

RIGHT TIME

A NUMBER OF KEY FACTORS ARE CONVERGING TO MAKE NOW AN IDEAL TIME TO INVEST IN CHINA, THE FORESTRY SECTOR AND SINO-FOREST.

At Sino-Forest laboratories, elite seedlings are developed through our hybrid breeding and cross-breeding programs.

RIGHT TIME

GOVERNMENT INCENTIVES

The global financial crisis significantly reduced demand for exports from China. As a result, the Central Government has sought to boost employment and make the economy more driven by domestic consumption. It earmarked a budget of RMB4 trillion (US$ 585 billion) of stimulus spending in 2009-2010 for the construction of roads, railways, airports, Sichuan earthquake rebuilding and low-income housing. In its second year of economic stimulus spending, the Central Government is reining in its loan policies to avoid over-heating China's economy, especially with the potential for property speculation.

Construction of infrastructure is driving demand for lumber and wood panels.

Moreover, President Hu Jintao stated at a United Nations meeting in 2009 that China is committed to reducing its carbon intensity by cutting carbon dioxide emissions as a percentage of future economic output by a notable margin. This would include expanding the country's forest coverage by 40 million ha and forest stock volume by 1.3 billion m^3 by 2020. The plan also includes increasing the proportion of energy generated from non-fossil fuels such as bio-fuel.

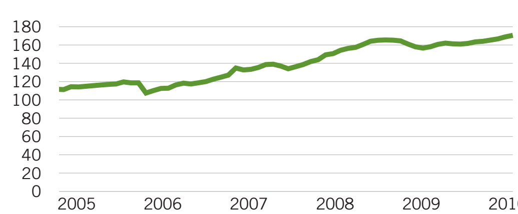
In addition to these economic policies, the Central Government has rolled out forestry sector incentives. It is promoting fast-growth plantations and increasing its tax exemptions and financial support for forest product companies in an effort to increase forest coverage and plantation land productivity. In October 2009, five government ministries including the State Forestry Administration jointly announced a Forestry Industry Revitalization Plan (2010 – 2012) intended to promote industry development and revitalize the wood product manufacturing sector. To encourage the sustainable development and growth of the forestry sector, further supportive government policies and measures are expected.

RISING LOG PRICES

Wood fibre is an increasingly valuable economic commodity. In China, the prices of logs rebounded as China's RMB4 trillion of stimulus spending in 2009 revived domestic demand for industrial and consumer wood products for infrastructure and housing construction. Wood fibre in China remains in tight supply, as logging of natural forest remains highly restricted and as foreign countries reduce their log exports to protect their environments. As a result, domestic log prices rebounded 10 to 15% by the end of 2009 from their low levels earlier in the year. We expect log prices to rise in the range of 5 to 10% in 2010 as the Chinese government plans to build affordable housing and develop new towns to accommodate the rural/urban migration.

LOG PRICE - 36 CITIES, 14-18CM DIAMETER

(USD/M^3)

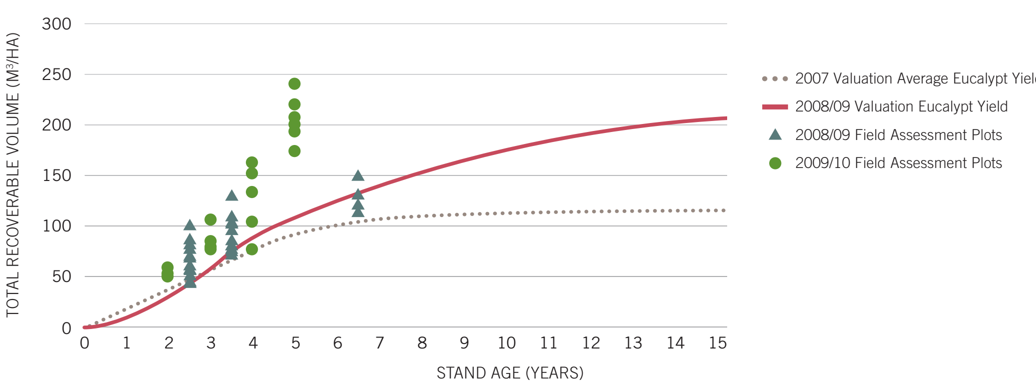


Source: CEIC Data Company Ltd.

PLANTATION YIELDS

According to the seventh five-year National Forest Inventory released by China's State Forestry Administration, the country had 196 million ha of total forest area in 2008 and the density of its total forest area was only 70 m^3/ha. Sino-Forest has been planting trees since 1996 and to date we have approximately 73,800 ha under our planted plantations. Through continuous R&D and silviculture improvements, the yield of our eucalyptus at planted plantations increased approximately 150% over the past decade from a yield of 60 m^3/ha to an average 150 m^3/ha. And at certain locations, we are able to achieve a yield of more than 200 m^3/ha. Therefore, now is the right time for us to commence large-scale tree planting on our large plantation base where we have established long-term master agreements in key strategic locations. It is clear that Sino-Forest has remarkable capabilities for improving the productivity of China's plantations. We plan to convert those low-yield plantations into FGHY plantations at designated plantation areas to help fulfill enormous domestic demand and minimize the harvesting of natural forests.

PÖYRY YIELD MEASUREMENT AND PROJECTION FOR PLANTED EUCALYPT



Source: Pöyry Management Consulting

This chart shows the average eucalypt yield measured and forecasted by Pöyry. The tree growth data was collected by Pöyry during their field assessments in 2008/09 and 2010. Pöyry measured and calculated what it considered to be extremely high volume growth at certain plots, with yields of more than 200 m^3/ha achievable by age six. These measurements are significantly higher compared to 12-year-old pine trees that are currently grown by farmer-collectives that yield 100 to 120 m^3/ha. Our objective is to shorten tree growth cycles and double or triple plantation fibre output to help reduce China's chronic fibre deficit.

COMMERCIALIZATION OF STATE-OWNED PLANTATIONS

The Central Government is expediting the commercialization and modernization of the country's forest industry to reduce China's mounting wood deficit. Its goal is to convert large tracts of low-yield plantation land into FGHY plantations. Of the approximately 74 million ha of state-owned forest in the PRC, about one third are plantation forest, primarily located in southern China. This provides Sino-Forest with an exceptional opportunity to further expand its access to fibre while cooperating with state-owned entities to appreciably increase the currently low-yield and underutilized state-owned plantations. We can do so by applying our advanced silviculture techniques and superior breeding and propagation methods.

This Sino-Forest plantation in Guangxi Province demonstrates how we can significantly increase productive yields; our goal is to collaborate with State Forestry Administration to improve yield output of state-owned plantations.

RIGHT COMPANY

WITH ITS MARKET OPPORTUNITIES, COMPETITIVE ADVANTAGES AND STRATEGIC PLAN, SINO-FOREST CORPORATION REPRESENTS A UNIQUE INVESTMENT OPPORTUNITY.

Based on successful replanting at plantations such as this one in Guangdong Province, Sino-Forest is poised to accelerate its eucalypt planting, especially at integrated plantations.

RIGHT COMPANY

CEO LETTER TO SINO-FOREST STAKEHOLDERS

ON BEHALF OF OUR EXECUTIVE TEAM, I AM VERY PLEASED TO REPORT THAT SINO-FOREST CONTINUED TO DELIVER EXCELLENT OPERATIONAL AND FINANCIAL PERFORMANCE IN 2009. TODAY, WE ARE WELL POSITIONED TO ACHIEVE FURTHER GROWTH IN THE YEARS TO COME. WE HAVE UNIQUE STRENGTHS IN CHINA'S FORESTRY SECTOR, PROMISING MARKET OPPORTUNITIES, A LONG-TERM PLAN AND THE ACCESS TO CAPITAL TO EXTEND OUR LEADERSHIP POSITION.

COMPETITIVE STRENGTHS

Over the years, we have developed key advantages over our forestry industry competitors in China. Our superior research and development and silviculture knowledge and technologies are specifically designed to promote fast-growing, high-yielding ("FGHY") plantations. Our management team is highly educated and experienced; and has established expertise in large-scale integrated operations and possess invaluable relationships in the forest plantation sector. In addition, our history of profitable growth, strong financial position and access to capital from a well developed global investor base allow us to pursue opportunities that many other companies cannot.

When the Chinese government opened the forestry sector to foreign entities in the mid-1990s, Sino-Forest was one of the first private sector operators to enter the market. By establishing strong business relations with forestry intermediaries and dealers, wood product customers, university researchers and the State Forestry Administration, and building a solid reputation, we were able to successfully expand the business. Our growth has been steady, substantial and profitable since then. Today, Sino-Forest is considered as one of the leading and most successful publicly listed companies involved in the PRC timber sector, according to RISI, the leading information provider for the global forest products industry.

A cornerstone of our success is Sino-Forest's growing scientific and management knowledge and expertise in the field of FGHY plantations. With a passionate commitment to sustainable forestry, our researchers and specialists have put in place best practices for genetically advanced breeding and seedling growth, superior silviculture techniques, customized fertilizer application, systematic harvesting and replanting with coppice or with advanced and improved seedlings in designated plantation areas. Together, these practices have led to above-average yields at our plantations, particularly with the eucalypt species.

LONG-TERM STRATEGY

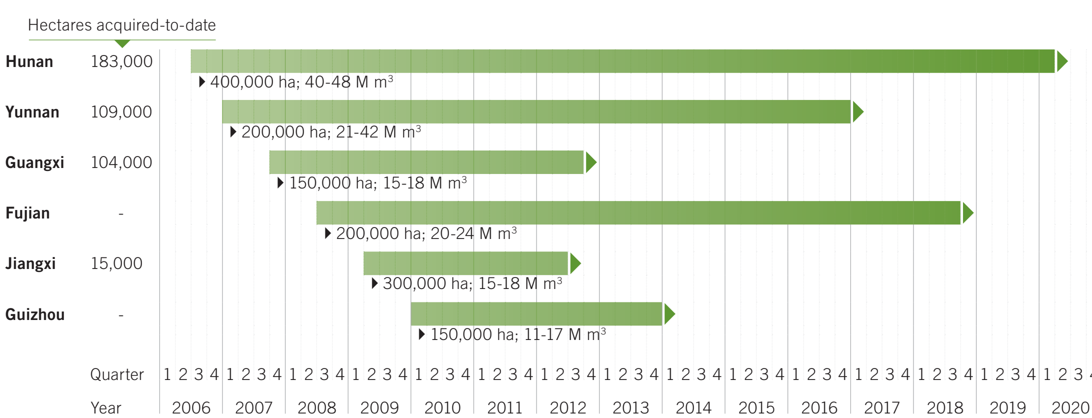
Our company's long-term strategy builds on our competitive strengths and allows us to seize opportunities in our markets. Our strategy guides our investment in human resources and allocation of our financial resources and is focused on extending our leading position in the forest plantation sector by:

- expanding geographically in the PRC, particularly to inland provinces, locking in access to plantation wood fibre and selling at attractive margins,
- leasing harvested land for 30 years or longer to replant with our genetically superior seedlings, enabling us to significantly improve our plantation yields,
- operating complementary wood-processing facilities that manufacture value-added products, which diversify our sources of revenue and enhance local employment,
- investing in human capital as required to support and enhance our knowledge and expertise,
- managing our businesses in a sustainable and environmentally responsible manner, and
- aligning our strategy with the PRC government plans for improving forest productivity and rural economic growth and employment.

Master fibre purchase agreements

To further expand our presence in China, Sino-Forest entered into two long-term fibre acquisition agreements in 2009 and in early 2010 to purchase fibre and lease the underlying land for long-term replanting. We gained access to acquire up to 300,000 ha in Jiangxi Province and to approximately 150,000 ha in Guizhou Province. Both agreements come with capped costs for fibre and land rental, to the extent permitted under the relevant PRC laws and regulations.

As of February 2010, we have secured access to approximately 1.3 million ha of plantation fibre and land through six master agreements located in six provinces in the PRC. As at December 31, 2009, we had acquired approximately 412,000 ha of trees in this contracted fibre base. Our focus is on executing the agreements in an efficient, timely and profitable manner. In the **first phase of executing our integrated model,** we focus on tree acquisition, by surveying the properties, selecting the appropriate plots of trees and land, then exercising the terms of our fibre purchase agreements. This first phase takes time and requires more hiring and training of managers and staff, so that we can systematically apply our knowledge and expertise over the long-term.



Transition toward integrated plantation models

As we implement our strategy, we are gradually moving away from simply trading of wood products toward owning and managing integrated plantation operations with continuous replanting cycles. When we first started operating in China, our revenues were in large part dependent on the trading of wood chips and imported logs. Today, our revenue is derived mostly from the sale of standing timber and harvested logs, and to a lesser extent, from manufactured products. Sino-Forest is becoming a leading operator of a large-scale portfolio of commercial plantations, which will give us added flexibility to vary our harvesting and sales mix based on market conditions. For example, we now have more choice to sell our fibre either as standing timber or harvested logs. We believe that integrated operations will further enhance our sales volumes, revenue and earnings.

Accelerated replanting

In the **second phase of executing our integrated plantation model,** after harvesting, we lease land long-term and significantly improve its yield with replanting and application of our knowledge based silviculture expertise. Over the years, we have invested extensively in scientific research and development. While generating income primarily from buying and selling trees, we worked to improve the genetic constitution of our seedlings, our silviculture techniques, the resistance of our trees to pests and tolerance to cold temperature, in order to ultimately improve productive yields at maturity. At some of our eucalyptus plantations, we were able to achieve fibre yield of more than 200 m^3/ha, while the average yield at our planted plantations is 150 m^3/ha. To date, we have planted approximately 73,800 ha of FGHY trees in designated plantation areas. In 2010, we plan to replant 25,000 ha. We will gradually ramp up our replanting in the coming years, continuously planting superior seedlings, with an aim to alleviate the country's burden on natural forest and neighboring countries.

RIGHT COMPANY

Another way we are growing our operations in China is through corporate acquisitions.

Acquisition of Mandra Forestry

In February 2010, we invested $235 million in Mandra Forestry, increasing our ownership from 15% to 99.99%. The purchase price was comprised of cash and an exchange of debt with the existing Mandra bondholders. This corporate acquisition gave us access to 155,600 ha of relatively mature plantation trees representing approximately 14 million m^3 of fibre located primarily in Anhui Province. Our initial strategic investment in Mandra Forestry was completed six years ago. The agreement included an option to acquire all other outstanding shares allowing us to make this follow-on investment, which has given us ownership of a large plantation of well-priced fibre. In addition, the investment further diversifies the geographic locations of our plantations within the PRC.

HOMIX acquisition

In accordance with our strategy to focus on research and development and to improve the end-use of our wood fibre, we acquired HOMIX Ltd. in January 2010 for $7.1 million. This corporate acquisition is small but strategically important – adding valuable intellectual property rights and two engineered-wood processing facilities located in Guangdong and Jiangsu Provinces to our operations. Homix has developed environment-friendly technology, an efficient process using recomposed technology to convert small-diameter plantation logs into building materials and furniture. Since we plan to grow high volumes of eucalypt and other FGHY species, this acquisition will help us achieve our long-term objectives of maximizing the use of our fibre, supplying a variety of downstream customers and enhancing economic rural development.

Foreign opportunities

Sino-Forest is also looking at ways to tap into overseas concession timber. China shares a 4,000-kilometre border with Russia, and is the largest importer of Russian logs. Although Russia has the largest forest area in the world, it has relatively low road density and harvesting efficiency, and is increasing its tariffs on exported logs in an attempt to develop the country's wood processing industry. We are holding discussions with Russian counterparties in regions where we could potentially co-operate and expand our Sino-Russia business ties and mutually benefit both countries.

We also own a 20% common share interest and hold HK$ 212 million of convertible debentures in Omnicorp Limited, a listed company on the Hong Kong Stock Exchange. Upon conversion of the debentures, we would own approximately 40% of Omnicorp's outstanding common shares. Omnicorp indirectly owns approximately 60% of Greenheart Resources Limited which in turn holds a 180,000 ha tropical forest concession located in Suriname, South America. During 2010 we will continue to look at ways that Sino-Forest can cooperate with Omnicorp and assist the company to maximize the value of its current forestry holdings and expand into others.

Partnership with state-owned plantations

Sino-Forest is pursuing future growth as we seek opportunities to align our strategy with the PRC Government's forestry priorities for our mutual benefit. State-owned forestry plantations cover approximately 74 million ha in China, one third of which are plantation forests primarily located in southern provinces. The majority of them have low productive yields due to a lack of capital investment and a focus on afforestation and/or reforestation rather than on commercialization. With our proven track record and experience working with local forestry bureaus and other PRC authorities, Sino-Forest is very well qualified to improve land use and enhance these plantation yields. One possibility we are pursuing is pioneering new ventures with state-owned entities by forming co-operative entities. The co-operative entities could represent a cost-effective way to expand our access to fibre and land for replanting, while working closely with the State Forestry Administration to improve fibre output on state-owned plantations with the goal of lessening pressure on the country's natural forests and conserving ecosystems and biodiversity.

OUTLOOK

Sino-Forest has established a leading industry position in one of the largest and fastest-growing economies in the world. There is huge, rising demand for wood products in China, creating a mounting national wood deficit. Already, our portfolio of plantations in China covers approximately 668,300 ha together with another 838,000 ha accessible under our long-term master agreements. In terms of our potential for growth, we are in **the right place.**

From the outset, we have invested substantially in the development of unique silviculture knowledge and expertise. Our productive yields to date have increased substantially compared to China's average plantation yield. At the same time, fibre prices are rising with demand. Sino-Forest is well positioned to fully capitalize on our advanced knowledge, expertise and technology and on favourable trends in the industry, and by expanding our replanting program. In terms of our potential for future prosperity, this is **the right time.**

By forging valuable alliances with partners and intermediaries in China's forest product industry and with the support of our global investor base, we have gained access to large-scale tree plantations with significant volumes of fibre at capped prices and land for long-term sustainable replanting. Our experienced management is determined to maximize the market value of our fibre and generate sustainable and growing income streams from increasingly integrated operations. What's more, we have a strong financial position with which to buy, harvest, sell and plant more trees. We are therefore poised to significantly ramp up our harvesting, replanting and downstream product manufacturing. In terms of potential for future success, Sino-Forest is **the right company**.

Having invested in the science of silviculture, plantation trees and people with expertise since 1994, we are now taking advantage of our competitive strengths and market opportunities to take giant steps toward achieving our long-term vision. I am pleased to report that Sino-Forest's prospects are very promising.

OUR LONG-TERM VISION IS TO SUSTAINABLY MANAGE A GEOGRAPHICALLY DIVERSIFIED PORTFOLIO OF FAST-GROWING, HIGH-YIELDING PLANTATIONS IN ORDER TO PRODUCE, ON A PROFITABLE BASIS, A STEADY STREAM OF QUALITY FIBRE AND TO INCREASE CHINA'S WOOD SUPPLY INDEPENDENCE.

WELL-DESERVED THANKS

Sino-Forest's success has been the result of the outstanding qualifications and efforts of our customers, directors, executives, managers, staff and external service providers, and of the trust and commitment of our shareholders and lenders. On behalf of our management team, I extend our sincere thanks. We look forward to pursuing our course with you in the future – embracing exciting opportunities and strengthening our industry leadership.

Allen T.Y. Chan
Chairman and Chief Executive Officer
March 31, 2010

SUSTAINABLE ENVIRONMENTAL PRACTICES

Sino-Forest is proud to have a reputable history of practicing environmental stewardship. We proactively ensure that our plantations and other operations conform to applicable forestry and environmental laws and regulations at national, provincial and local levels. Our primary sustainable management tool is our comprehensive Environmental Management System ("EMS"), which includes forestry management best practices. We consider ourselves as industry leaders in China in preserving natural ecosystems where we manage plantations and manufacturing facilities.

Protection of forest plantation ecologies

Our "Management Technical Guidelines for Ecologically Sensitive Areas" are designed to avoid or minimize the potential adverse environmental impacts of forest plantations on adjacent water bodies, riparian zones and steep hill slopes. While effectively controlling soil and nutrition erosion by avoiding harvesting during the rainy season, we also fertilize prescriptively, using environmentally-friendly materials. We ensure that our plantations are far enough away from sources of drinking water, and use conservation areas or buffer zones as barriers between riparian zones and plantations. Applying modern science to improve tree species protects our forests from biotic and climatic stress such as fire, pest, disease, drought, frost and snow. Sino-Forest aims to conserve wildlife and plants at its plantations, and we identify and protect special habitats that sustain biodiversity. In addition, we help local communities manage certain forest lands for public ecological benefit.

Societal enhancements

A wholly-owned subsidiary of Sino-Forest, Jiayao Forestry Development Company ("JFDC"), manages approximately 7,000 ha of planted plantations near Gaoyao City in Guangdong Province. JFDC has established the following sustainable development practices:

- Since 2003, JFDC has voluntarily cooperated with local forest bureaus to protect "ecological forest" by providing patrols to help prevent forest fires and illegal cutting, as well as technological assistance when needed.
- JFDC always offers employment and training opportunities first to local communities and villagers at its plantations. Both company and sub-contractor forest workers are trained with respect to Forest Stewardship Council ("FSC") practices and occupational health and safety matters before they work in the field. The company complies with measures stipulated in PRC's labour law and the related International Labour Organization's Conventions.
- JFDC has set up a communication channel enabling staff to express their opinions. Regular public meetings and opinion surveys are conducted with local residents and interested agencies. To promote the care and protection of the forest and its natural resources, JFDC provides education and promotes environmental protection practices.

Sino-Forest operations contribute to rural economic development and employment, and to the preservation of natural forests. At our plantations and manufacturing facilities, we create thousands of local jobs, protect the health and safety of employees and enhance their living standards. Cultural sites such as fengshui and recreation areas within our plantations are fully respected and protected for community enjoyment.

Forest Stewardship Council certification

Our sustainable forest strategy is developed in accordance with national and international standards for plantation forests. In 2004, we obtained FSC certification for our plantations in Gaoyao City, Guangdong Province. FSC certification is recognized globally as one of the most respected forest certification systems supporting sustainably managed forests. All operating practices at our certified plantations have passed strict annual inspection and assessment by SmartWood, an FSC-accredited, US-based forestry auditor. Our long-term goal is to expand our success in obtaining FSC certification to a larger area of our plantation forests and also in other provinces.

Biofuels from forests

China has announced a goal to reduce carbon dioxide emissions per unit of GDP by 40-45% from 2005 to 2020. Scientists have proposed that China could reduce emissions from coal-fired plants by 45-60% in part by using biofuel-fired energy generation. The Jatropha is a drought-resistant and fast-growing oil seed bush that can grow on marginal, less arable land. Sino-Forest has been working closely with scientists in China and abroad on analysing and cross-breeding a variety of Jatropha species suitable for potential production of biodiesel. We have also established a gene bank and nursery in Yunnan to prepare for experimental planting.

LEAD DIRECTOR LETTER TO SHAREHOLDERS

2009 was a year of outstanding effort and corresponding accomplishment by the management and employees of Sino-Forest Corporation. Operating and financial objectives were exceeded on virtually every level. We ended the year with an extensive list of first-class opportunities to exploit for future profitable growth and a capital base and liquidity position stronger than ever before to help us do so. On behalf of the Board of Directors I would like to thank Allen Chan and his management team and all of our employees who collectively contributed to our Company's success.

With this operating and financial success as a backdrop, our ambitious growth targets visible on the horizon and the increasing complexity of financial reporting requirements with the advent of IFRS and other regulatory changes, the Board is keenly focused on progressive governance practices and policies, Director experience, knowledge and diversity as well as management depth. It is essential that the Board constantly monitor these variables to ensure the blend is right for the business environment in which we are currently operating and we will endeavour to do so.

As previously committed to our shareholders, we have recently strengthened our Board and are very pleased with the appointment of William E. Ardell as an independent Director. Bill brings a wealth of Chief Executive Officer experience in the large public company arena and has acted as an independent Chairman and/or Director on the boards of several other listed and private companies as well as not-for-profit organizations. We intend to add another independent Director during 2010. The candidate we are seeking will possess strong technical, financial and regulatory knowledge and skills as well as senior public company practical experience.

In order to act effectively as an independent Director in today's increasingly complicated public company-regulated environment, knowledge is key to making the proper decisions and providing sound advice. Knowledge is gained from experience or education and sometimes both. It is with this in mind that our Board has focused on ensuring there is a broad base of experience and diversity within our independent Directors. The Board has also adopted a Director education program. This program will include: (i) tutorial sessions from topical experts at special scheduled board meetings covering key financial and regulatory issues of the day; and (ii) encouraging our Directors to enrol in the various Director education programs and funding the costs.

On behalf of the Board of Directors, I would like to thank our shareholders for their continued trust.

W. Judson Martin
Lead Director
March 31, 2010

CFO LETTER TO INVESTORS

Sino-Forest Corporation created substantial value for its shareholders in 2009 by increasing its fibre acquisitions, inventory and sales. We delivered strong financial results, strengthened our capital base and liquidity and advanced our leadership position in China's forest industry.

As at December 31, 2009, we had under management approximately 512,700 ha of plantation area (excluding Mandra's 155,600 ha). In addition, we have the rights to acquire a minimum of 838,000 ha under our long-term fibre acquisition agreements. This provides a sustainable supply of fibre to continue to grow our business and the opportunity to transition toward a sustainable model of continuous replanting.

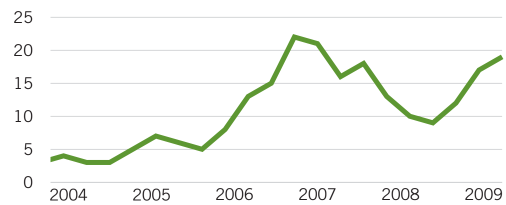
We plan to further transition our operations away from our purchased plantation model (timber trading) toward our integrated model with continuous replanting. At the same time, we will continue to refine our operations to best serve our customers while ensuring high operating efficiency. Whether we sell our fibre as standing timber or harvested logs is not as important as the gross margin per m^3 we achieve. Gross margin will continue to be the key underlying driver of our decisions to sell fibre.

During 2009, we completed three very successful financing transactions. In June and December respectively, we issued C$380 million and C$367 million of common shares, and simultaneously in December we completed the private placement of $460 million of convertible senior notes. The net proceeds from these transactions were used to finance our fibre acquisitions and the continued expansion of our integrated operations.

We also reported double-digit increases in most of our key financial metrics in 2009. As more fully described in the accompanying Management's Discussion and Analysis, total revenues increased 38% – surpassing the $1 billion milestone. This increase was attributable to 40% higher volume of plantation fibre sold. EBITDA, a non-GAAP but meaningful measure of earnings, rose 50%. Diluted earnings per share increased 11% to $1.38, and the share price of the Company's common shares nearly doubled.

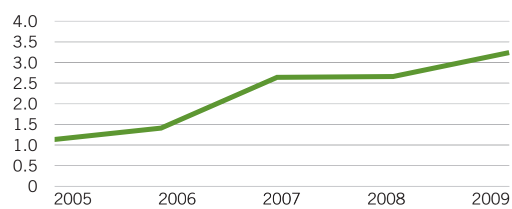
STOCK PRICE (TSX:TRE)

($)



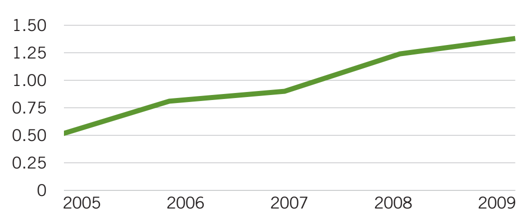
DILUTED CFFO/SHARE

($)



DILUTED EPS

($)



CFO LETTER TO INVESTORS

We believe that Sino-Forest is well positioned to deliver further value appreciation to our shareholders.

- We have a strong 15-year track record, as well as flexible operating models and access to an inventory of fibre on approximately 1.5 million ha.
- Our replanting program will generate increased gross margin per m^3 as the yield of our eucalyptus plantations increases due to continuous R&D efforts and investments.
- We continued to maintain a strong balance sheet, closing the books last year with over $1 billion of cash and cash equivalents and a relatively conservative ratio of long-term debt to shareholder's equity of 0.35 to 1.
- Through our focused investor relations efforts and global financings transactions, we have significantly increased and broadened Sino-Forest's investor base worldwide.

We have favourable long-term contractual agreements in place to further expand our portfolio of plantations, as well as the capital to execute those agreements. We believe Sino-Forest Corporation has the right blend of business model, access to capital, liquidity and future opportunities to continue to be one of the most financially successful and fast growing forestry companies in the world.

DJ Horsley

David J. Horsley
Senior Vice-President and Chief Financial Officer
March 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009. 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 the 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. 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 the relationship with 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 economic, political and social conditions and government policy in the PRC, 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, except as required by law.

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forest plantation operator in the PRC. As of December 31, 2009, we had approximately 512,700 hectares of forest plantations located primarily in southern and eastern China.

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

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments. Our **Wood Fibre Operations** is our main revenue contributor, while our **Manufacturing and Other Operations** enables us to enhance the value of our fibre operations 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 eight provinces and regions across China as of December 31, 2009.

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.

Manufacturing and Other Operations include:

- engineered-wood flooring produced in Jiangsu Province and distributed through more than 300 outlets nationwide in the PRC;
- sawn timber produced in Yunnan Province and Heilongjiang Province;
- finger-joint board and block board produced in Hunan Province;
- plywood and veneer products produced in Guangxi Province; and
- greenery and nursery operations based in Jiangsu Province.

Our Vision and Strategy

Our vision is to become the leading commercial forest 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. We intend to create value by effectively buying, selling and processing fibre, as well as enhancing the growth of our trees using advanced research and development and plantation management practices.

Our strategy is to build on our competitive strengths and business opportunities to become the leading plantation developer and wood resource supplier in the PRC. We are establishing operations in close proximity to PRC's key regional markets with the ability to effectively provide wood fibre products to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. We believe the following key initiatives will allow us to successfully execute our strategy:

- expand our geographical locations by investing 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 manufactured products;
- improve the yields of our tree plantations through continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;
- strengthen management processes and information systems to support the growth of our multi-faceted businesses; and
- maintain strategic alignment with the PRC government's plans.

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 markets for wood products are 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. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- changes in market prices of commodities;
- 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 tree plantations are subject to various factors and uncertainties. Should we be unable to purchase the trees, exercise our rights to acquire the underlying plantation land use rights or complete the requisite governmental approval and registration procedures, or should we be unable to locate available and suitable plantation land for expansion, 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 as well as our ability to develop genetic improvements in planting materials, our ability to grow improved species of eucalyptus trees and our ability to implement improved silvicultural practices as we gain experience in managing eucalyptus plantations. If we cannot achieve yields at expected levels, our business, financial condition and results of operations could be materially and adversely affected.

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 tree plantations.

We are heavily dependent on the expertise of our senior management in relation to their expertise in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes, and the 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 that we may subject to, including PRC environmental policies and programs that apply to our tree 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 publish our financial statements and incur substantially all of our indebtedness 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, the Canadian dollar and the 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, operation design, site preparation, terracing, fertilization, planting, thinning, tending, protection, forestry administrative charge, overhead and lease costs. Timber holdings from plantation fibre sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer.

EBITDA

Defined as income from continuing operations for the year/period after adding back depreciation and amortization, as well as depletion of timber holdings from cost of sales, for the year/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 occurred during the year ended December 31, 2009 and to the date of this report were as follows:

Increased investment in Omnicorp Limited

In February 2009, the Company acquired 55,000,000 ordinary shares and approximately $21.7 million (equivalent to approximately HK$168 million) 4% convertible bonds of Omnicorp Limited ("Omnicorp") from various vendors. The purchase price consisted of cash of approximately $4.3 million and 2,659,990 common shares of the Company. Total consideration was approximately $25.8 million (equivalent to approximately 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.

Entered into agreement to dispose equipment at Gaoyao plant

In March 2009, a subsidiary of the Company signed an agreement to dispose the particleboard manufacturing equipment at its plant in Gaoyao for total consideration of approximately $30 million. The Company retained the ownership of the manufacturing building and property. The purchaser has leased these Gaoyao premises from the Company for five years and operates the equipment in the premises.

Released independent 2008 forest asset valuation report

In April 2009, the Company released its yearly, independent forest valuation report conducted by Pöyry Forest Industry Pte Ltd ("Pöyry"). Pöyry has estimated the valuation of the Company's existing forest assets as at December 31, 2008 based on a single rotation was $1.64 billion, and based on a perpetual rotation was $1.69 billion (using a pre-tax discount rate of 11.5%). Pöyry'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"). Pöyry'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. Pöyry's 2008 valuation 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 is posted on our website at www.sinoforest.com under "Investor Relations, Filings" and is also available on SEDAR at www.sedar.com.

Completed a Cdn.$379.5 million public offering

In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares at Cdn.$11.00 per share for gross proceeds of Cdn.$379,500,000. The offering included the exercise in full of the over-allotment option by the underwriters to purchase 4,500,000 common shares. The net proceeds of the offering will be used primarily for the acquisition of commercial plantation forests in Jiangxi Province in the PRC and for general corporate purposes.

Entered into master agreement to acquire 150,000 to 300,000 hectares of standing timber in Jiangxi Province

In June 2009, a subsidiary of the Company entered into a master agreement with Jiangxi Zhonggan Industrial Development Company Limited to acquire between 15 million and 18 million cubic metres ("m^3") of wood fibre located in plantations in Jiangxi Province over a three-year period with a price not to exceed RMB300 per m^3, to the extent permitted under the relevant PRC laws and regulations. The plantations in which such amount of wood fibre is being acquired are between 150,000 and 300,000 hectares to achieve an estimated average wood fibre yield of approximately 100 m^3 per hectare, and include tree species such as pine, Chinese fir and others. The agreement also provides the Company with pre-emptive rights to lease the underlying plantation land at a price not to exceed RMB450 per hectare per annum for 30 years after harvesting, and the land lease can also be extended to 50 years as permitted under the PRC laws and regulations.

Completed bond exchange offer

On June 24, 2009, the Company offered to eligible holders of its outstanding $300,000,000 9.125% guaranteed senior notes due 2011 (the "2011 Senior Notes") to exchange, subject to certain conditions, any and all of the outstanding 2011 Senior Notes for up to $300,000,000 10.25% new guaranteed senior notes due 2014 (the "2014 Senior Notes"). The Company also solicited consents from holders of the 2011 Senior Notes to amend certain of the provisions of the indenture governing the 2011 Senior Notes.

On July 27, 2009, the Company completed the exchange offer and consent solicitation, issuing an aggregate principal amount of $212,330,000 of the 2014 Senior Notes, representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes. The remaining principal amount of approximately $87,670,000 of the 2011 Senior Notes will be repaid upon maturity in 2011. The Company received the requisite consents from holders of the 2011 Senior Notes and, as a result, the outstanding 2011 Senior Notes are subject to amended provisions of the indenture governing the 2011 Senior Notes.

Acquisition of Mandra and issuance of additional 2014 Senior Notes

On December 1, 2009, the Company entered into a memorandum of understanding, as amended on February 5, 2010, with Mandra Forestry Finance Limited ("Mandra Forestry"), Mandra Forestry Holdings Limited ("Mandra") and certain holders of the $195,000,000 12% guaranteed notes due 2013 issued by Mandra Forestry and guaranteed by Mandra (the "Mandra Notes") and certain warrants issued by Mandra (the "Mandra Warrants"), regarding an exchange by the holders of Mandra Notes and Mandra Warrants for new guaranteed senior notes to be issued by the Company bearing interest at a rate of 10.25% per annum with a maturity date of July 28, 2014 (the "New 2014 Senior Notes"), subject to certain conditions, including the waiver of any defaults or events of default under the Mandra Notes and Mandra Warrants.

On February 5, 2010, the Company completed the acquisition of substantially all of the outstanding common shares of Mandra. Pursuant to the terms of a contingency payment agreement dated February 5, 2010 between the Company, Mandra Forestry Limited and Sino-Forest Investments Limited, the Company paid initial cash consideration of $2 million and will pay an additional $2 million on August 5, 2010. Additional contingent consideration amounts of $5 million will be payable within ten days of June 30, 2010 and December 31, 2010 respectively, based on achieving certain agreed milestones. Each amount will be paid by the issuance of common shares of the Company at an issuance price based on the volume-weighted average price for the preceding ten trading days, subject to a minimum per-share price of Cdn$7.00. These amounts may be reduced by negotiation if any of the milestones are not met, subject to a maximum reduction of 50%.

Concurrently with this acquisition, the Company completed an exchange with holders of 99.7% of the Mandra Notes and 96.7% of the Mandra Warrants, for an aggregate principal amount of $187,177,375 of the New 2014 Senior Notes. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged their notes with the Company in consideration of the issuance by the Company of 2014 Senior Notes with an aggregate principal amount of $187,187,000.

Completed $460 million convertible notes Offering and Cdn.$367 million public offering

On December 17, 2009, the Company completed the offering made on a private placement basis of an aggregate of $460,000,000 principal amount of convertible senior notes (the "2016 Convertible Notes"), which amount included $60,000,000 principal amount of the 2016 Convertible Notes issued upon the exercise in full of the over-allotment option by the initial purchasers. The 2016 Convertible Notes bear interest at a rate of 4.25% per annum, payable semi-annually, and will mature on December 15, 2016. The 2016 Convertible Notes are convertible into common shares of the Company at an initial conversion rate of 47.2619 common shares per $1,000 principal amount of the 2016 Convertible Notes (equivalent to an initial conversion price of approximately $21.16 per share or approximately Cdn.$22.26 per share based on a fixed exchange rate), subject to customary adjustments.

Concurrently with the offering of the 2016 Convertible Senior Notes, the Company completed an offering by way of a short form prospectus offering in all provinces of Canada and on a private placement basis in the United States and internationally of 21,850,000 common shares (the "Equity Offering"), which included the exercise in full of the over-allotment option by the underwriters to purchase 2,850,000 common shares, at a price of Cdn.$16.80 per common share for gross proceeds of Cdn.$367,080,000.

The Company intends to use the net proceeds of the offering of 2016 Convertible Notes and the Equity Offering primarily as follows: approximately $150,000,000 to prepay the full amount of borrowings under the Company's syndicated term loan facility, including accrued but unpaid interest and related fees and expenses thereunder; approximately $250,000,000 to acquire commercial plantation forests in the Guizhou province of the PRC; approximately $200,000,000 to fund forestry investments in cooperation with state-owned plantation entities ("SOPs") in the PRC; and the balance of the net proceeds for the consummation of the exchange for Mandra Notes and Mandra Warrants and the acquisition of common shares of Mandra, for investments in Mandra Forestry as the Company may determine to make, and for general corporate purposes.

Acquired HOMIX Limited

On January 4, 2010, the Company acquired all of the issued and outstanding shares of HOMIX Limited ("HOMIX"), a company engaged in research and development and manufacturing of engineered-wood products in the PRC, for an aggregate consideration of $7,100,000. The acquisition included HOMIX's facilities and its patents in the PRC.

Entered into master agreement to acquire 150,000 hectares of standing timber in Guizhou Province

In January 2010, a subsidiary of the Company entered into a master agreement with Guizhou Sen Li Industry Company Limited to acquire between 10.5 million and 16.5 million m^3 of wood fibre located in plantations in Guizhou Province over a three-year period with a price not to exceed RMB300 per m^3, to the extent permitted under the relevant PRC laws and regulations. The plantations in which such amount of wood fibre being acquired are within an area of 150,000 hectares that has an estimated average wood fibre yield of approximately 70 to 110 m^3 per hectare, and include tree species such as pine, Chinese fir and others. The agreement also provides the Company with pre-emptive rights to lease the underlying plantation land at a price not to exceed RMB450 per hectare per annum for 30 years after harvesting, and the land lease can also be extended to 50 years, as permitted under the PRC laws and regulations.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2009, 2008 and 2007:

YEARS ENDED DECEMBER 31, [IN THOUSANDS, EXCEPT EARNINGS PER SHARE AND COMMON SHARES OUTSTANDING]	2009 $	2008 $	2007 $
Operating Results			
Revenue	**1,238,185**	896,045	709,401
Cost of sales	**(797,292)**	(530,083)	(465,843)
Gross profit [1]	**440,893**	365,962	243,558
Net income from continuing operations	**278,787**	241,322	164,131
Net income	**286,370**	228,593	152,273
EBITDA [2]	**898,294**	597,122	490,254
Earnings per share from continuing operations [3]			
Basic	**1.35**	1.32	0.98
Diluted	**1.34**	1.31	0.97
Earnings per share [3]			
Basic	**1.39**	1.25	0.91
Diluted	**1.38**	1.24	0.90
Financial Position			
Current assets	**1,586,761**	811,457	570,639
Non-current assets	**2,377,138**	1,792,467	1,266,858
Total assets	**3,963,899**	2,603,924	1,837,497
Current liabilities	**373,780**	290,692	197,003
Long-term debt	**925,466**	714,468	441,985
Total shareholders' equity (net assets)	**2,664,653**	1,598,764	1,187,298
Cash dividends declared per share	**Nil**	Nil	Nil
Common shares outstanding	**242,129,062**	183,119,072	182,592,961

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 fibre operations. Our revenue from plantation fibre operations increased from $685.4 million (10.2 million m^3 of fibre) in 2008 to $954.2 million (14.2 million m^3 of fibre) in 2009.

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:

2007	312,000 hectares
2008	347,000 hectares
2009	**512,700 hectares**

According to the preliminary forest asset valuation conducted by Pöyry, the estimated volume of our merchantable standing timber increased 67.1% to approximately 62.7 million m^3 by year ended December 31, 2009.

In 2009, we completed equity financings of $674 million through private placement and public offerings, exchanged $212 million senior notes for new senior notes and issued $460 million convertible senior notes. In 2008, we completed an issuance of $345 million convertible senior notes. The proceeds from these financings have been or will be used mainly for the acquisition of plantation assets and for general corporate purpose.

RESULTS OF OPERATIONS – YEARS ENDED DECEMBER 31, 2009 AND 2008

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2009 and 2008:

	2009		2008	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**954,194**	**77.1**	685,404	76.5
Other Fibre	**237,921**	**19.2**	153,517	17.1
Manufacturing and Other Operations	**46,070**	**3.7**	57,124	6.4
Total	**1,238,185**	**100.0**	896,045	100.0

Our revenue increased 38.2% from $896.0 million in the year ended December 31, 2008 to $1,238.2 million in 2009. The increase in revenue was mainly due to the increase in sales from our wood fibre operations.

Wood Fibre Operations revenue

Plantation Fibre

The following table sets forth revenue from our plantation fibre operations for the years ended December 31, 2009 and 2008:

	2009			2008		
Plantation Model	**Hectares**	**Sales per hectare $**	**Total revenue $'000**	Hectares	Sales per hectare $	Total revenue $'000
Purchased plantations	**58,350**	**9,557**	**557,666**	86,067	6,040	519,872
Integrated plantations	**44,057**	**8,775**	**386,595**	14,071	11,313	159,185
Planted plantations	**6,782**	**1,465**	**9,933**	3,807	1,667	6,347
Total	**109,189**	**8,739**	**954,194**	103,945	6,594	685,404

Revenue from sales of plantation fibre increased 39.2% from $685.4 million in the year ended December 31, 2008 to $954.2 million in 2009, mainly due to an increased volume of fibre sold in 2009.

The total volume of fibre sold during the year ended December 31, 2009 was approximately 14.2 million m^3, with approximately 9.3 million m^3 from purchased and planted plantations and approximately 4.9 million m^3 from integrated plantations. During the year ended December 31, 2008, we sold a total of 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.

The average yield of fibre sold from purchased and planted plantations in the year ended December 31, 2009 increased 48.7% to 142 m^3 per hectare compared to 96 m^3 per hectare in 2008, and in both years, we obtained an average selling price of approximately $61 per m^3.

The average yield of logs sold from integrated plantations in the year ended December 31, 2009 was 113 m^3 per hectare and it commanded an average selling price of $78 per m^3. During the year ended December 31, 2008, the average yield of logs sold from integrated plantations was 111 m^3 per hectare for which we obtained an average selling price of $102 per m^3. The average selling price of $102 in the year ended December 31, 2008 included harvesting costs as the harvesting was organized and managed by us while the average selling price of $78 in 2009 excluded harvesting costs as the harvesting was managed by the buyer.

Plantation fibre sales comprised 77.1% of total revenue in the year ended December 31, 2009, compared to 76.5% in 2008.

Other Fibre

Revenue from sales of imported wood products increased 67.2%, from $139.7 million in the year ended December 31, 2008 to $233.5 million in 2009. This increase was primarily due to higher volume of Russian logs sold.

Revenue from sales of domestic wood logs decreased 68.3% from $13.8 million in the year ended December 31, 2008 to $4.4 million in the year ended December 31, 2009. The decrease was primarily due to lower volume of wood logs traded in the year ended December 31, 2009.

Other fibre sales comprised 19.2% of total revenue in the year ended December 31, 2009, compared to 17.1% of total revenue in 2008.

Manufacturing and Other Operations revenue

Revenue from our manufacturing and other operations decreased 19.4% from $57.1 million in the year ended December 31, 2008 to $46.1 million in 2009. The decrease was mainly due to the lower sales from the Hunan production facilities in the year ended December 31, 2009.

Gross Profit

Gross profit increased 20.5%, from $366.0 million in the year ended December 31, 2008 to $440.9 million in 2009. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased from 40.8% in the year ended December 31, 2008 to 35.6% in 2009, mainly due to the reduced gross profit margin from plantation fibre operations.

Wood Fibre Operations gross profit

Plantation Fibre

Gross profit margin from sales of purchased and planted plantations decreased from 56.8% in the year ended December 31, 2008 to 50.2% in 2009, mainly due to the sales of plantations with a higher fibre cost per m^3 as compared to 2008.

The gross profit margin for sales of logs from integrated plantations was 36.0% or $28 per m^3 in the year ended December 31, 2009. In the year ended December 31, 2008, the gross profit margin for sales of logs from integrated plantations was 36.0% or $37 per m^3.

Other Fibre

Gross profit margin from sales of imported wood products increased from 3.8% in the year ended December 31, 2008 to 5.5% in 2009.

Gross profit margin from sales of wood logs decreased from 18.8% in the year ended December 31, 2008 to 15.7% in 2009.

Manufacturing and Other Operations gross profit

Gross profit margin from our manufacturing and other operations increased from 3.5% in the year ended December 31, 2008 to 7.4% in 2009.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 20.8%, from $53.4 million in the year ended December 31, 2008 to $64.5 million in 2009, due primarily to additional staff complement, increased accrued incentive compensation and increased research & development expenses.

Depreciation and Amortization

Depreciation and amortization increased 46.4%, from $3.2 million in the year ended December 31, 2008 to $4.7 million in 2009, mainly due to increased capital assets.

Income from Operations

Income from operations increased 20.1%, from $309.4 million in the year ended December 31, 2008 to $371.7 million in 2009, due to the factors explained above. Our income from operations as a percentage of revenue decreased from 34.5% in the year ended December 31, 2008 to 30.0% in 2009.

Interest Expense

Interest expense increased 36.7%, from $51.9 million in the year ended December 31, 2008 to $71.0 million in 2009, mainly due to the interest on the 5.0% convertible senior notes issued in the third quarter of 2008 and 4.25% convertible senior notes issued in the fourth quarter of 2009.

Interest Income

Our interest income decreased 23.1%, from $12.6 million in the year ended December 31, 2008 to $9.7 million in 2009, due primarily to the decrease in the interest rate earned on deposits in 2009.

Exchange Losses

The Company incurred an exchange loss of $5.0 million in the year ended December 31, 2009.

Loss on Changes in Fair Value of Financial Instrument

In the year ended December 31, 2009, the Company recorded a loss of $0.4 million related to changes in fair value of financial instruments, which resulted from a loss of $3.3 million on the change in fair value of embedded conversion option of the convertible bonds issued by Omnicorp and a loss of $0.6 million on the foreign currency swap, offset by a gain of $3.5 million on the remeasurement of the fair value of the convertible bonds of Omnicorp as a result of the extension of the maturity date of the convertible bonds.

EBITDA

EBITDA increased 50.4%, from $597.1 million in the year ended December 31, 2008 to $898.3 million in 2009, as a result of the increase in revenue in 2009.

Provision for Income Taxes

The provision for income taxes was $27.9 million in the year ended December 31, 2009 compared to $24.1 million in 2008.

Net Income for the Year

As a result of the foregoing, net income for the year increased 25.3%, from $228.6 million in 2008 to $286.4 million in 2009. Overall net income for the year as a percentage of revenue decreased from 25.5% in the year ended December 31, 2008 to 23.1% in 2009.

Cash Flows

The following table sets forth a condensed summary of our statements of cash flows for the years ended December 31, 2009 and 2008:

YEARS ENDED DECEMBER 31, [IN MILLIONS]	**2009** **$**	2008 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations [4]	**825.7**	547.2
Net change in working capital [5]	**(41.2)**	(60.0)
Total	**784.5**	487.2
Cash flows used in operating activities of discontinued operations	**(0.8)**	(3.8)
Cash flows used in investing activities	**(1,092.6)**	(703.0)
Cash flows from (used in) investing activities of discontinued operations	**24.1**	(1.2)
Cash flows from financing activities	**952.0**	332.2
Cash flows used in financing activities of discontinued operations	**(6.0)**	(0.5)
Effect of exchange rate changes on cash and cash equivalents	**-**	1.6
Net increase in cash and cash equivalents	**661.2**	112.5

Cash Flows from Operating Activities of Continuing Operations

Net cash provided from operating activities increased from $487.2 million in the year ended December 31, 2008 to $784.5 million in 2009. The increase was due to the increase in cash provided by operations and a reduction of cash used in working capital that resulted mainly from a decrease in accounts receivables related to the wood fibre operations.

Cash Flows Used in Investing Activities

In the years ended December 31, 2009 and 2008, cash flows used in investing activities were primarily used for capital expenditures to purchase additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $656.7 million in the year ended December 31, 2008 and $1,032.0 million in 2009. Our cash outlays for our manufacturing facilities and other capital assets amounted to $29.2 million in the year ended December 31, 2008 and $11.6 million in 2009. Our cash outlays for other assets amounted to $9.6 million in the year ended December 31, 2008 and $38.0 million in 2009. The increase in non-pledged short-term deposits was $5.6 million in the year ended December 31, 2008 and $10.9 million in 2009. In addition, we paid $1.9 million in the year ended December 31, 2008 in business acquisitions and $200,000 during the acquisition of convertible bonds of Omnicorp in 2009. We also received $8,000 and $216,000 for the proceeds from disposal of capital assets in the years ended December 31, 2008 and 2009, respectively.

Cash Flows from Financing Activities

In the year ended December 31, 2009, cash flows from financing activities consisted of the net proceeds from the issuance of shares of $652.5 million, an increase in bank indebtedness of $36.5 million and an increase in long-term debt of $460.0 million, offset by the payment on derivative financial instruments of $5.8 million, payment on deferred financing costs from the issuance of the 2014 Senior Notes and the 2016 Convertible Notes of $27.6 million, prepayment of long-term debt of $150.0 million and an increase in pledged short-term deposits of $13.6 million. In the year ended December 31, 2008, cash flows from financing activities consisted of the net proceeds from the issuance of shares of $1.6 million, an increase in bank indebtedness of $16.0 million and proceeds from the issuance of convertible senior notes in the aggregate principal amount of $345.0 million (the "2013 Convertible Notes"), offset by an increase in pledged short-term deposits of $16.3 million, payment on derivative financial instruments of $4.9 million and payment on deferred financing costs from the issuance of the convertible senior notes of $9.1 million.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2009 AND 2008

The following table sets forth the selected financial information for the three months ended December 31, 2009 and 2008:

THREE MONTHS ENDED DECEMBER 31, [IN THOUSANDS, EXCEPT EARNINGS PER SHARE]	**2009** **$**	2008 $
Revenue	**469,570**	281,873
Cost of sales	**(322,258)**	(159,895)
Gross profit [1]	**147,312**	121,978
Net income from continuing operations	**97,349**	82,266
Net income	**112,699**	95,490
EBITDA [2]	**356,018**	194,073
Earnings per share from continuing operations [3]		
Basic	**0.43**	0.45
Diluted	**0.43**	0.44
Earnings per share [3]		
Basic	**0.50**	0.52
Diluted	**0.49**	0.51

Revenue

The following table sets forth the breakdown of our total revenue in the three months ended December 31, 2009 and 2008:

	2009		2008	
	$'000	%	$'000	%
Wood Fibre Operations				
Plantation Fibre	**371,497**	**79.1**	211,907	75.2
Other Fibre	**82,992**	**17.7**	51,960	18.4
Manufacturing and Other Operations	**15,081**	**3.2**	18,006	6.4
Total	**469,570**	**100.0**	281,873	100.0

Our revenue increased 66.6% from $281.9 million in the three months ended December 31, 2008 to $469.6 million in the same period in 2009. The increase in revenue was mainly due to the increase in sales from the plantation fibre operations and sales of imported wood products.

Wood Fibre Operations Revenue

Plantation Fibre

The following table sets forth revenue from plantation fibre operations for the three months ended December 31, 2009 and 2008:

	Three months ended December 31, 2009			Three months ended December 31, 2008		
Plantation Model	**Hectares**	**Sales per hectare $**	**Total revenue $'000**	Hectares	Sales per hectare $	Total revenue $'000
Purchased plantations	**9,349**	**10,556**	**98,684**	35,796	5,708	204,331
Integrated plantations	**33,286**	**8,042**	**267,683**	438	11,384	4,986
Planted plantations	**3,086**	**1,662**	**5,130**	2,131	1,215	2,590
Total	**45,721**	**8,125**	**371,497**	38,365	5,523	211,907

Revenue from sales of plantation fibre increased 75.3% from $211.9 million in the three months ended December 31, 2008 to $371.5 million in the same period in 2009, mainly due to an increased volume of fibre sold.

The total volume of fibre sold during the three months ended December 31, 2009 was approximately 5.2 million m^3, with approximately 1.7 million m^3 from purchased and planted plantations and approximately 3.5 million m^3 from integrated plantations. During the same period last year, we sold a total of 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.

The average yield of fibre sold from purchased and planted plantations in the three months ended December 31, 2009 increased 57.6% to 138 m^3 per hectare compared to 88 m^3 per hectare in the same period last year and we obtained an average selling price of approximately $60 and $62 per m^3 respectively.

The average yield of logs sold from integrated plantations in the three months ended December 31, 2009 was 105 m^3 per hectare and it commanded an average selling price of $76 per m^3. During the same period in 2008, the average yield of logs sold from integrated plantations was 110 m^3 per hectare for which we obtained an average selling price of $104 per m^3. The average selling price of $104 in the three months ended December 31, 2008 included harvesting costs as the harvesting was organized and managed by us while the average selling price of $76 in the same period in 2009 excluded harvesting costs as the harvesting was managed by the buyer.

Plantation fibre sales comprised 79.1% of total revenue in the three months ended December 31, 2009, compared to 75.2% in the same period in 2008.

Other Fibre

Revenue from sales of imported wood products increased 99.0%, from $40.9 million in the three months ended December 31, 2008 to $81.4 million in the same period in 2009. This increase was primarily due to higher volume of imported Russian logs sold.

Revenue from sales of domestic wood logs decreased 85.3% to $1.6 million in the three months ended December 31, 2009 from $11.1 million in the same period in 2008. The decrease was primarily due to lower volume of wood logs traded in the three months ended December 31, 2009.

Other fibre sales comprised 17.7% of total revenue in the three months ended December 31, 2009, compared to 18.4% of total revenue in the same period in 2008.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations decreased 16.2% from $18.0 million in the three months ended December 31, 2008 to $15.1 million in the same period in 2009.

Gross Profit

Gross profit increased 20.8%, from $122.0 million in the three months ended December 31, 2008 to $147.3 million in the same period in 2009. Gross profit margin, being gross profit expressed as a percentage of revenue, decreased from 43.3% in the three months ended December 31, 2008 to 31.4% in the same period in 2009.

Wood Fibre Operations Gross Profit

Plantation Fibre

Gross profit margin from sales of purchased and planted plantations decreased from 56.1% in the three months ended December 31, 2008 to 46.7% in the same period in 2009, mainly due to the sales of plantations with a higher fibre cost per m^3 as compared to the same period in 2008.

The gross profit margin for sales of logs from integrated plantations was 35.0% or $27 per m^3 in the three months ended December 31, 2009. In the same period in 2008, the gross profit margin for sales of logs from integrated plantations was 37.8% or $39 per m^3.

Other Fibre

Gross profit margin from sales of imported wood products increased from 3.5% in the three months ended December 31, 2008 to 5.8% in the same period in 2009.

Gross profit margin from sales of wood logs decreased from 19.0% in the three months ended December 31, 2008 to 10.1% in the same period in 2009.

Manufacturing and Other Operations Gross Profit

Gross profit margin from our manufacturing and other operations decreased from 2.7% in the three months ended December 31, 2008 to 2.1% in the same period in 2009.

Selling, General and Administration Expenses

Our selling, general and administration expenses decreased 8.3%, from $20.1 million in the three months ended December 31, 2008 to $18.5 million in the same period in 2009 mainly due to reduced accrual for incentive compensation, being partially offset by additional staff complement.

Depreciation and Amortization

Depreciation and amortization increased 30.0%, from $1.0 million in the three months ended December 31, 2008 to $1.2 million in the same period in 2009, mainly due to increased capital assets.

Income from Operations

Income from operations increased 26.5%, from $100.9 million in the three months ended December 31, 2008 to $127.6 million in the same period in 2009, due to the factors explained above. Our income from operations as a percentage of revenue decreased from 35.8% in the three months ended December 31, 2008 to 27.2% in the same period in 2009.

Interest Expense

Interest expense increased 19.2%, from $16.6 million in the three months ended December 31, 2008 to $19.8 million in the same period in 2009, mainly due to the interest on the 4.25% convertible senior notes issued in December 2009.

Interest Income

Our interest income decreased 19.3%, from $3.6 million in the three months ended December 31, 2008 to $2.9 million in the same period in 2009, due primarily to the decrease in the interest rate earned on deposits in 2009.

Exchange Losses

The Company incurred an exchange loss of $4.4 million in the three months ended December 31, 2009, mainly due to the realization of proceeds of the Equity Offering from Canadian dollars to U.S. dollars.

Loss on Changes in Fair Value of Financial Instrument

In the three months ended December 31, 2009, the Company recorded a loss of $4.0 million on changes in fair value of financial instruments, which resulted from a loss of $7.5 million on the change in fair value of embedded conversion option of the convertible bonds issued by Omnicorp, offset by a gain of $3.5 million on the remeasurement of the fair value of the convertible bonds of Omnicorp as a result of the extension of the maturity date of the convertible bonds.

EBITDA

EBITDA increased 83.4%, from $194.1 million in the three months ended December 31, 2008 to $356.0 million in the same period in 2009, as a result of the increase in revenue in the three months ended December 31, 2009.

Provision for Income Taxes

The provision for income taxes was $5.3 million in the three months ended December 31, 2009 compared to $4.2 million in the same period in 2008.

Net Income for the Period

As a result of the foregoing, net income for the period increased 18.0%, from $95.5 million in the three months ended December 31, 2008 to $112.7 million in the same period in 2009. Overall net income for the period as a percentage of revenue decreased from 33.9% in the three months ended December 31, 2008 to 24.0% in the same period in 2009.

Cash Flows

The following table sets forth a condensed summary of our statements of cash flows for the three months ended December 31, 2009 and 2008:

THREE MONTHS ENDED DECEMBER 31, [IN MILLIONS]	**2009** $	2008 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations [4]	**337.3**	182.4
Net change in working capital [5]	**(111.2)**	32.6
Total	**226.1**	215.0
Cash flows from (used in) operating activities of discontinued operations	**1.5**	(0.9)
Cash flows used in investing activities	**(327.4)**	(260.5)
Cash flows used in investing activities of discontinued operations	**-**	(0.8)
Cash flows from (used in) financing activities	**642.9**	(10.1)
Cash flows used in financing activities of discontinued operations	**(5.9)**	-
Effect of exchange rate changes on cash and cash equivalents	**-**	(0.6)
Net increase (decrease) in cash and cash equivalents	**537.2**	(57.9)

Cash flows from operating activities of continuing operations

Net cash provided from operating activities increased from $215.0 million in the three months ended December 31, 2008 to $226.1 million in the same period in 2009. The increase was due to the increase in cash provided by operations, offset by cash used in working capital that mainly resulted from an increase in accounts receivables and an increase in prepaid expenses and others related to the wood fibre operations.

Cash flows used in investing activities

In the three months ended December 31, 2009 and 2008, cash flows used in investing activities were primarily used for capital expenditures to purchase additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $242.5 million in the three months ended December 31, 2008 and $302.3 million in the same period in 2009. Our cash outlays for our manufacturing facilities and other capital assets amounted to $4.6 million in the three months ended December 31, 2008 and $2.8 million in the same period in 2009. Our cash outlays for other assets amounted to $10.3 million in the three months ended December 31, 2008 and $18.0 million in the same period in 2009. Our non-pledged short-term deposits increased by $3.1 million in the three months ended December 31, 2008 and $4.3 million in the same period in 2009. We also received $5,000 and $105,000 from the proceeds of disposal of capital assets in the three months ended December 31, 2008 and 2009, respectively.

Cash flows from (used in) financing activities

In the three months ended December 31, 2009, cash flows from financing activities consisted of an increase in long-term debt of $460.0 million, net proceeds from the issuance of shares of $328.5 million and increase in bank indebtedness of $32.7 million, offset by the repayment of long-term debt of $150.0 million, payment on deferred financing costs from the issuance of the 2016 Convertible Notes of $13.6 million and an increase in pledged short-term deposits of $14.7 million. In the three months ended December 31, 2008, cash flows used in financing activities consisted of an increase in pledged short-term deposits of $13.9 million, offset by an increase of $3.8 million in bank indebtedness.

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 242,129,062 common shares are issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 284,995,765 common shares outstanding as of the date of this MD&A, assuming the exercise of 4,118,626 outstanding stock options and the issuance of 17,007,603 and 21,740,474 common shares upon the conversion of the 2013 Convertible Notes and the 2016 Convertible Notes, respectively.

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 acquire 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.

We expect that cash and cash equivalents of $1,102.4 million as at December 31, 2009 will allow us to manage the pace of our vision and strategies during the current global recession, the duration of which is difficult to predict. The Company continually assesses the quality of its accounts receivable, cash and cash equivalents and other assets and will take appropriate actions in response to changing market conditions.

Financing Arrangements and Contractual Obligations

As of December 31, 2009, we had secured and unsecured short-term borrowings of $104.0 million, comprising $59.5 million of short-term bank loans and $44.5 million of trust receipt loans. We had long-term debt of $925.5 million. Our borrowings were mainly denominated in U.S. dollars and Renminbi.

Short-term borrowings

As of December 31, 2009, we had $184.6 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As of December 31, 2009, $103.5 million in respect of bank indebtedness and $7.0 million in respect of other bank instruments were utilized. Pursuant to the amended provisions of the indenture governing the 2011 Senior Notes and the indenture governing the 2014 Senior Notes, the maximum aggregate amount of the short-term borrowings which is at any time outstanding may not exceed an amount equal to 10.0% of total consolidated assets of the Company, but in any case may not exceed $400.0 million. Interest is payable on these short-term borrowings at a weighted average rate of 4.5% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2009, 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 $45.1 million and certain bank deposits of $30.2 million.

Other contractual obligations

As of December 31, 2009, we had other contractual obligations relating to: (1) approximately $15.5 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $8.7 million of capital commitments with respect to buildings and plant and machinery; (3) $26.7 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $86.3 million; and (5) $925.5 million long-term convertible and non-convertible guaranteed senior notes.

Scheduled maturity of contractual obligations

The following table presents the scheduled maturities of our contractual obligations as of December 31, 2009:

		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]	**925,466**	**-**	**86,684**	**480,312**	**358,470**
Capital contributions	**15,450**	**5,050**	**10,400**	**-**	**-**
Capital commitments [7]	**8,703**	**8,703**	**-**	**-**	**-**
Purchase commitments	**26,687**	**14,687**	**12,000**	**-**	**-**
Operating leases [8]	**86,302**	**3,739**	**6,183**	**4,532**	**71,848**
Total contractual obligations	**1,062,608**	**32,179**	**115,267**	**484,844**	**430,318**

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 178,000 m^3 of wood fibre as at December 31, 2009.

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 183,441 hectares of plantation trees for $696.2 million as at December 31, 2009.

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 109,124 hectares of plantation trees for $515.5 million as at December 31, 2009.

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 103,896 hectares of plantation trees for $515.1 million as at December 31, 2009.

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, 2009.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired 15,140 hectares of plantation trees for $39.9 million as at December 31, 2009.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2009, we had provided guarantees of approximately $124.4 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 three months and years ended December 31, 2009 and 2008:

	Three months ended December 31,				Twelve months ended December 31,			
	2009		2008		**2009**		2008	
	Hectares	**$ million**	Hectares	$ million	**Hectares**	**$ million**	Hectares	$ million
Tree acquisition	**76,431**	**338.6**	64,302	271.3	**255,503**	**1,016.4**	127,834	646.4
Re-planting and maintenance of plantations		**8.1**		10.7		**36.3**		26.1
Panel manufacturing and others		**8.3**		5.0		**19.1**		30.1
Total		**355.0**		287.0		**1,071.8**		702.6

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees, various plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labour and plantation maintenance service fees. In the year ended December 31, 2009, we had replanted approximately 18,657 hectares of plantations. 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 plantations in the consolidated statements of cash flows and the above capital expenditure on plantations was due to non-cash transactions such as the movement of accounts payable and capitalization of deposit paid for the acquisition of plantations from other assets to timber holdings.

For fiscal 2010, capital expenditures are expected to be approximately $1.3 billion 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.

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 two 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, 2009	**192,674**	**159,636**	**32,749**	**3**	**-**	**286**	**-**
At December 31, 2008	182,307	73,527	74,586	14,653	19,489	52	-

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, 2009	**89,632**	**38,260**	**25,947**	**16,360**	**6,123**	**2,874**	**68**
At December 31, 2008	43,446	22,895	8,431	4,400	2,792	2,320	2,608

Currently, as there is no indication that the Company's accounts receivables are non-collectible, 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.

OFF-BALANCE SHEET ARRANGEMENTS

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of December 31, 2009. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, Sino-Forest pays the salaries of the Chairman and Chief Executive Officer and the President in the form of consultancy fees to companies controlled by the noted executive officers. The consultancy fees incurred in the three months and year ended December 31, 2009 amounted to $7,110,000 [three months ended December 31, 2008 – $5,504,000] and $7,569,000 [year ended December 31, 2008 – $5,960,000], respectively, and were recorded at an exchange amount as agreed upon by the related parties.

In addition, as at December 31, 2009, we had an aggregate amount of $6,958,000 [December 31, 2008 – $4,900,000] accrued for consultancy fees payable to these related companies.

As described above under "Significant Business Activities", Simon Murray, a director of the Company, and an entity controlled by Mr. Murray were among the vendors in the February 6, 2009 Omnicorp transaction.

NON-GAAP MEASURES

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included at the end of this MD&A is a table calculating or reconciling these non-GAAP measures where applicable.

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are included in this MD&A because these statistics are key performance indicators that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to budget and to make strategic decisions. Management believes that the inclusion of these statistics in the MD&A helps investors and analysts to assess the Company's ability to grow its timber holdings, to forecast future results, to assess our current and future operating results and to make investment decisions. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

QUARTERLY FINANCIAL INFORMATION

Our business is seasonal. Generally, the third and fourth quarters together account for approximately 60% of annual revenue, while the first and second quarters together account for approximately 40% of annual revenue. This reflects the preference of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, and the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2009:

	Revenue from continuing operations	Net Income from continuing operations	Net Income (Loss) from discontinued operations	Earnings Per Share (3) from continuing operations		Earnings (Loss) Per Share (3) from discontinued operations	
				Basic	Diluted	Basic	Diluted
[IN THOUSANDS, EXCEPT PER SHARE AMOUNTS]	$	$	$	$	$	$	$
2009							
December 31	**469,570**	**97,349**	**15,350**	**0.43**	**0.43**	**0.07**	**0.06**
September 30	366,962	106,497	(880)	0.48	0.48	(0.00)	(0.00)
June 30	224,419	47,019	(1,970)	0.24	0.24	(0.01)	(0.01)
March 31	177,234	27,922	(4,917)	0.15	0.15	(0.03)	(0.03)
2008							
December 31	281,873	82,266	13,224	0.45	0.44	0.07	0.07
September 30	293,696	95,237	(20,062)	0.52	0.50	(0.11)	(0.10)
June 30	184,981	46,576	(3,175)	0.26	0.25	(0.02)	(0.02)
March 31	135,495	17,243	(2,716)	0.09	0.09	(0.01)	(0.01)

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in note 1 to the consolidated financial statements. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations.

It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber holdings

Timber holdings represented 55.1% of the Company's consolidated total assets as at December 31, 2009. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

The Company believes that accounting estimates related to timber holding impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding timber market demand and pricing, cost of production such as harvesting costs, transportation costs, taxes and overhead costs, plantation risk such as fire, pest and disease, frost and typhoons, plantation growth and yield, future yield development and the Company's weighted average cost of capital; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated income statement and the reported timber holdings amount in the Company's consolidated balance sheet.

To assist with its impairment assessments, the Company engages an outside consultant to help derive cash flow estimates and to estimate the fair value of its existing timber holdings using a discounted cash flow valuation model. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, Sino-Forest could potentially experience future impairment charges and such charges could be material.

Capital assets

The Company evaluates the recoverability of the carrying value of its capital assets whenever indicators of impairment exist. Indicators of impairment include prolonged operating losses or a decision to dispose of, or otherwise change the use of, an existing capital asset. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on capital assets are measured as the amount by which the carrying value of the asset exceeds its fair value.

The Company believes that estimates related to capital assets impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding the impact of improvement plans on current operations, other new business opportunities, forecasted production volumes and cost of production assumptions on current and future business; and (ii) any resulting impairment loss could have a material impact on the Company's consolidated financial statements and the reported capital asset amount in the consolidated balance sheet.

Revenue Recognition

Standing timber

Sino-Forest sells standing timber at various stages of maturity to domestic wood dealers from its tree plantations. Standing timber revenue represents a significant portion of the Company's consolidated revenue. The timing of recognition of revenue from standing timber sales is dependent on the terms and conditions of the Company's contractual arrangements with its customers. To date, substantially all of the Company's standing timber revenue has been recognized when the Company and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, the Company and the buyer will have negotiated the approximate timber volume and the expected harvest yield associated with a specified plantation area. The sales agreement typically provides the buyer with a fixed period of time over which the buyer is entitled to harvest the timber on the specified plantation area and amounts due from the buyer are fixed at the time of entering into the agreement and are not subject to adjustment based on the actual amount of timber harvested by the buyer. Harvesting and all related costs have to date been the responsibility of the buyer and the Company has not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the timber on the specified plantation area over the harvest period.

A future change to the typical contractual arrangements for timber sales could materially impact the timing and manner in which revenue is recognized.

Provision for Tax Related Liabilities

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

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 remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. 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, 2009 is the balance of the tax provision for the tax related contingency amounting to $98,863,000 [December 31, 2008 – $89,909,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

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 and administrative practice 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 a period from four to six years in practice (including the current year). 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.

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that an adequate provision for tax related liabilities has been recognized in the financial statements.

Changes in Accounting Policies

On January 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standard and Emerging Issues Committee ("EIC") abstract.

Section 3064 Goodwill and Intangible Assets, which replaced previous guidance. The standard establishes guidelines for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. The standard had no impact on the Company's consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. Adoption of this guidance had no impact on the Company's consolidated financial statements.

On October 1, 2009, the Company adopted the following amendments and clarifications to CICA accounting standards.

Section 3862 Financial Instruments – Disclosures. The amendments require improved and consistent disclosures about fair value measurements of financial instruments and liquidity risk.

The enhanced requirements include classifying and disclosing fair value measurements based on a three-level hierarchy, reconciling beginning balances to ending balances for Level 3 measurements, identifying and explaining movements between levels of the fair value hierarchy, providing a maturity analysis for derivative financial liabilities based on how the entity manages liquidity risk, and disclosing the remaining expected maturities of non-derivative financial liabilities if liquidity risk is managed on that basis.

These amendments impact the Company's disclosures provided but do not affect the Company's results of operations or financial statements. These disclosures are provided in Note 18 to these financial statements.

Section 3855 Financial Instruments - Recognition and Measurement. The amendments (1) clarified the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period; (2) clarified the requirements regarding reclassification of held-for-trading financial instruments containing embedded derivatives, and (3) eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified.

The adoption of these amendments did not have a material impact on the financial position, cash flow or earnings of the Company.

Future Accounting Standards

The CICA has issued the following Handbook Sections which apply commencing with the Company's fiscal years noted below.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

International Financial Reporting Standards

[1] Project overview

Canadian reporting issuers will commence reporting under International Financial Reporting Standards ("IFRS") effective January 1, 2011, including providing IFRS-compliant comparative information for 2010. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in many aspects of recognition, measurement and disclosures.

The Company commenced its IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. The diagnostic phase was completed during the later part of 2008, and the design and planning phase was completed during the first half of 2009. The Company is now well advanced on the solution development phase, during which issue-specific work teams are analyzing areas of possible impact, setting out options and making recommendations. This phase should be largely completed during the first half of 2010, with the implementation phase continuing through 2011 and 2012 as the Company issues its initial IFRS interim and annual financial statements. Senior management reports regularly to the audit committee on the progress of the project.

The following table summarizes the key activities of the Company's conversion project and the progress made with respect to each of these activities:

Key Activities	Milestones	Status at December 31, 2009
Accounting policies and procedures:		
• Identify differences between IFRS and the Company's existing policies and procedures • Analyze and select ongoing policies where alternatives are permitted • Analyze and determine whether the Company will select any of the exemptions available to first-time adopters of IFRS • Implement revisions to accounting and procedures manuals	• Senior management approval and audit committee review of accounting policy decisions by Q2 2010 • Revised accounting policy and procedures manuals in place by changeover date	• Accounting policy alternatives are being analyzed and recommendations made as work progresses in each area. As at December 31, 2009, work is well advanced in most of the areas of greatest significance. • Key accounting policy decisions are expected to be approved by senior management and reviewed by the audit committee by Q2 2010. • Revisions to accounting and procedures manuals are being drafted as work progresses in each area.
Financial statement preparation:		
• Prepare financial statements and note disclosures in compliance with IFRS • Quantify the effects of converting to IFRS • Prepare first-time adoption reconciliations required under IFRS 1	• Senior management approval and audit committee review of pro forma financial statements and disclosures by Q2 2010	• Draft IFRS-compliant financial statements, including required note disclosures, have been prepared and are in the process of being updated. • The effects of the conversion are quantified as work progresses in each area.
Training and communication:		
• Provide topic-specific training to key employees involved with implementation • Provide training on revised policies and procedures to affected personnel, and develop awareness of IFRS throughout the organization • Provide timely communication of the impacts of converting to IFRS to our external stakeholders	• Topic-specific training provided to key employees on all areas by Q4 2009 • Broader training and internal awareness initiatives implemented prior to changeover date • Impact of converting to IFRS communicated prior to changeover	• Key employees involved with implementation have received topic-specific training. • Broader training and internal awareness initiatives to be developed by Q2 2010. • IFRS-related MD&A disclosures will become increasingly detailed during 2010. Other possible external communication initiatives to be considered by Q2 2010.
Business impacts:		
• Identify impacts of conversion on contracts including financial covenants and compensation arrangements • Identify impacts of conversion on tax matters	• Impacts on contracts identified by Q2 2010 • Tax impacts identified by Q1 2010	• Adoption of IFRS is not currently expected to have any material impact on the Company's contracts. • Work on tax-related matters is progressing as planned
IT systems and control environment:		
• Identify changes required to IT systems and implement solutions • For all identified changes to policies and procedures, assess impact on internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") and implement any necessary changes	• Necessary changes to IT systems and controls implemented by changeover date	• Required changes to IT systems, data collection mechanisms and controls are being identified as work progresses in each area; these are not currently expected to be materially significant.

[2] Financial reporting impact

The Company has identified a variety of changes to its existing accounting policies; however, the following are the most significant:

Timber holdings

Under Canadian GAAP, the Company accounts for its planted and purchased plantations on the cost basis. Under IAS 41 *Biological Assets*, it will measure these holdings at their fair value less costs to sell, reflecting changes as part of profit or loss. Sino-Forest already receives IFRS-compliant fair value information through the annual valuation report prepared by Pöyry and has disclosed this value in the MD&A for previous years, without reflecting it in the financial statements. For IFRS purposes, the Company will also engage Pöyry to provide fair value information at each interim reporting date.

Tax

IAS 12 *Income Taxes* differs from the Company's existing policies in several respects. Most prominently, the Company will be required for the first time to recognize deferred (future) tax assets or liabilities on temporary differences arising on translating non-monetary assets denominated in a functional currency other than US$, including standing timber and property, plant and equipment held in China and denominated in the RMB. Other differences will arise on the Company's issued convertible debt (which is a compound financial instrument) and on past inter-company transfers of assets and liabilities.

Additional tax consequences will arise from other changes in accounting policies. For example, additional temporary differences will arise from the measurement change for timber holdings described above. The Company will also disclose more tax-related information under IFRS, including information on temporary differences associated with investments in foreign subsidiaries for which it has not recognized deferred tax liabilities.

Proposed changes to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, issued for comment by the IASB in January 2010, would have an impact in particular on the Company's accounting for uncertain tax positions. These proposals may require recognizing and measuring a provision, using the probability-weighted average of the outflows for the range of possible outcomes, in various circumstances where this is not currently done (because an outflow of resources is not considered probable). The proposals are expected to be finalized later in 2010.

Impairment of long-lived assets

Under Canadian GAAP, when the Company determines that an asset group's carrying amount exceeds its undiscounted estimated future cash flows, it recognizes an impairment loss, measured as the amount by which that carrying amount exceeds the asset group's fair value. The approach under IAS 36 *Impairment of Assets* does not have an initial step based on undiscounted cash flows. Where any indication of an impairment loss exists, the IFRS approach compares carrying amounts to recoverable amounts, based on the higher of fair value less costs to sell and value in use (a discounted cash flow measure). This methodology could result in recognizing additional asset impairments on transition to IFRS.

In addition, the "cash-generating units" into which assets are organized for impairment-testing purposes under IFRS might be identified at a lower level than the asset groups identified under Canadian GAAP, possibly also leading to additional asset impairments under IFRS. On the other hand, unlike Canadian GAAP, IFRS allows reversing previously-recognized impairment losses where the circumstances have changed. The Company is continuing to assess the implications of these differences for its long-lived assets.

As explained above, while accounting estimates related to timber holding impairment assessments are critical accounting estimates under Canadian GAAP, timber holdings will be measured under IFRS at their fair value less costs to sell, removing these assets from the scope of the impairment testing methodology.

Foreign currency

The Company does not currently expect to identify material differences relating to foreign currency translation. However, IFRS 1 allows first-time adopters to elect that the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition to IFRS. If this election is selected, the gain or loss on a subsequent disposal of any foreign operation excludes translation differences that arose before the date of transition to IFRS, but includes later translation differences. The election, among other things, avoids potential considerable complexity in adjusting historical exchange calculations to reflect changes made under IFRS to the carrying values of other assets and liabilities. Sino-Forest expects it will make the election and reset the cumulative differences to zero at January 1, 2010.

Risk and Uncertainties

There are no significant changes to the risk and uncertainties as described in the most recent annual information form of the Company, which is available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Senior Vice President and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. As at December 31, 2009, the CEO and CFO have evaluated the effectiveness of the Company's DC&P and ICFR using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and CFO have concluded that the design and effectiveness of the Company's DC&P and ICFR are ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting.

As disclosed in the third quarter of 2009, improvements were made to our internal control system as follows:

- implemented compensating review and monitoring controls by corporate accounting staff; and
- implemented changes in roles and responsibilities within the senior finance group.

The implementation plan has been communicated to all key operational and finance personnel. Corrective measures are in progress and it is expected that all documentation to support these procedures will be available in the subsequent quarters. Management will continue to monitor and take steps to mitigate this deficiency.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

OUTLOOK

Although China's Central Government aims to tighten its credit lending in 2010 to avoid the economy from over-heating, economists generally expect that credit growth will nonetheless remain at the double-digit level with GDP estimated to grow approximately 6% per annum. In addition, China has committed to build over four million affordable housing units over the next three years. Recent policy initiatives are expected to encourage urbanization, so that an estimated 300 million rural inhabitants are expected to migrate into cities over the next decade resulting in higher income and consumption. This movement is expected to create a surge in demand for new town developments, infrastructure and wood products for housing and interior decoration products.

China's chronic wood fibre deficit is expected to continue to increase during this decade due to increased demand outpacing availability of supply. Moreover, China is aiming to increase the proportion of energy generated from non-fossil fuels such as bio-fuels.

Regarding the reform of state-owned forest plantations and the commercialization of their management, we are hopeful that China's new forestry policy will be rolled out in 2010. We believe that Sino-Forest is well positioned to provide plantation management expertise and investment capital in cooperation with local forestry authorities to achieve this important and ambitious goal.

Our BVI subsidiaries deriving income from sources in the PRC are subject to PRC enterprise income tax on a deemed profit basis. The deemed profit percentage applied by management to plantation fibre sales is 10% for 2009 and prior years. The PRC tax authorities issued a Circular in February 2010 which states that the deemed profit percentage for certain activities should be a minimum of 15%. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. The scope of the application of this provision is uncertain. Management expects that this will impact our accounting for uncertainty in income tax and will result in an increase to our tax related contingency recorded on our financial statements. While we continue to assess the impact, based on current information and where the minimum 15% deemed profit percentage is applied, we expect that our tax provision may increase by an additional amount between 5 to 10 cents per share over the 2010 fiscal year, thus reducing our reported earnings per share by the same amount. We do not expect there to be any impact on revenue, gross margin, income before tax or cash flows during the year.

With strong liquidity on hand, we plan on continuing to accelerate the execution of our master agreements. Income generated from our growing integrated plantation model will fund our replanting expenditures. We are confident that Sino-Forest will continue to lead its industry, with a strong market position, unmatched silviculture and market knowledge, and consistent operational excellence.

[1] Gross profit for any period is defined as total revenue less cost of sales. Gross profit is presented as additional information because we believe that it is a useful measure for certain investors to determine our operating performance. Gross profit is not a recognized term under Canadian GAAP and should not be considered as an alternative to net income as an indicator of our operating performance or any other measure of performance derived in accordance with Canadian GAAP. Because it is not a Canadian GAAP measure, gross profit may not be comparable to similar measures presented by other companies.

[2] EBITDA for any period is defined as income from continuing operations for the period after adding back depreciation and amortization, as well as depletion of timber holdings in 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.

EBITDA is calculated as follows:

	Years ended December 31,			Three months ended December 31,	
	2009	2008	2007	**2009**	2008
	$'000	$'000	$'000	**$'000**	$'000
Income from continuing operations	**371,712**	309,384	203,067	**127,602**	100,886
Plus: depreciation	**4,693**	3,206	2,379	**1,243**	956
depletion of timber holdings	**521,889**	284,532	284,808	**227,173**	92,231
	898,294	597,122	490,254	**356,018**	194,073

[3] Earnings (Loss) per share is calculated using the weighted average number of common shares outstanding during each period.

[4] Represents net income as adjusted for depletion of timber holdings in cost of sales, interest earned from Mandra, depreciation and amortization, impairment of capital assets, amortization of deferred financing costs, stock-based compensation, accretion of convertible senior notes, changes in fair value of financial instrument and other assets, unrealized exchange losses and others.

[5] Represents decreases (increases) in accounts receivable, inventories, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

[6] Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2011, 2013, 2014 and 2016.

[7] Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.

[8] These represent mainly leases of plantation land.

MANAGEMENT'S REPORT

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the Annual Report is consistent with the consolidated financial statements.

Management maintains systems of internal accounting and administrative controls to provide reasonable assurance as to the reliability of the financial records and the safeguarding of the Company's assets.

The Audit Committee, which is mainly comprised of outside directors, meets periodically with management to discuss the adequacy of the system of internal controls and the integrity of the Company's financial reporting.

The consolidated financial statements have been reviewed by the Audit Committee prior to submission to the Board of Directors. The consolidated financial statements have also been audited by Ernst & Young LLP, who have full access to the Audit Committee, with and without the presence of management.

Allen T.Y. Chan
Chairman and Chief Executive Officer
March 15, 2010

David J. Horsley
Senior Vice-President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Sino-Forest Corporation

We have audited the consolidated balance sheets of **Sino-Forest Corporation** as at December 31, 2009 and 2008 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada,
March 15, 2010.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31, [EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT FOR EARNINGS PER SHARE INFORMATION]	**2009** **$**	2008 $
Revenue	**1,238,185**	896,045
Costs and expenses		
Cost of sales	**797,292**	530,083
Selling, general and administration	**64,488**	53,372
Depreciation and amortization	**4,693**	3,206
	866,473	586,661
Income from operations before the undernoted	**371,712**	309,384
Interest expense	**(70,977)**	(51,933)
Interest income	**9,691**	12,604
Exchange losses	**(4,958)**	(4,735)
Loss on changes in fair value of financial instruments	**(417)**	(1,839)
Other income	**1,600**	1,946
Income before income taxes	**306,651**	265,427
Provision for income taxes [note 15]	**(27,864)**	(24,105)
Net income from continuing operations	**278,787**	241,322
Net income (loss) from discontinued operations [note 8]	**7,583**	(12,729)
Net income for the year	**286,370**	228,593
Earnings per share [note 16]		
Basic	**1.39**	1.25
Diluted	**1.38**	1.24
Earnings per share from continuing operations		
Basic	**1.35**	1.32
Diluted	**1.34**	1.31
Earnings (losses) per share from discontinued operations		
Basic	**0.04**	(0.07)
Diluted	**0.04**	(0.07)
Retained earnings		
Retained earnings, beginning of year	**769,557**	540,964
Net income for the year	**286,370**	228,593
Transfer to statutory reserve [note 14]	**(1,670)**	-
Retained earnings, end of year	**1,054,257**	769,557

SEE ACCOMPANYING NOTES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, [EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS]	**2009** **$**	2008 $
Net income for the year	**286,370**	228,593
Other comprehensive income:		
Unrealized gains on foreign currency translation of self-sustaining operations	**3,819**	108,038
Unrealized gains (losses) on financial assets designated as available-for-sale, net of tax of $1,403 (2008: $Nil)	**8,498**	(1,494)
Other comprehensive income	**12,317**	106,544
Comprehensive income	**298,687**	335,137

SEE ACCOMPANYING NOTES

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, [EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS]	2009 $	2008 $
ASSETS		
Current		
Cash and cash equivalents	**1,102,366**	441,171
Short-term deposits [note 3(a)]	**70,387**	45,784
Accounts receivable [note 4]	**282,306**	225,753
Inventories [note 5]	**45,978**	43,200
Prepaid expenses and other	**54,747**	21,768
Convertible bonds [note 7(c)]	**29,446**	2,659
Assets of discontinued operations [note 8]	**1,531**	31,122
Total current assets	**1,586,761**	811,457
Timber holdings	**2,183,489**	1,653,306
Capital assets, net [note 6]	**77,377**	63,704
Other assets [note 7]	**116,272**	75,457
	3,963,899	2,603,924
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 3(b)]	**103,991**	67,188
Accounts payable and accrued liabilities [note 15(d)]	**250,287**	179,903
Income taxes payable	**7,346**	6,383
Liabilities of discontinued operations [note 8]	**12,156**	32,004
Derivative financial instrument [note 10(a)]	**-**	5,214
Total current liabilities	**373,780**	290,692
Long-term debt [note 10]	**925,466**	714,468
Total liabilities	**1,299,246**	1,005,160
Commitments and Contingencies [notes 21 and 22]		
Shareholders' equity		
Equity portion of convertible senior notes [note 10(c) and 10(d)]	**158,883**	70,462
Share capital [note 11]	**1,213,495**	539,315
Contributed surplus [note 12]	**12,200**	7,599
Accumulated other comprehensive income [note 13]	**224,148**	211,831
Statutory reserve [note 14]	**1,670**	-
Retained earnings	**1,054,257**	769,557
Total shareholders' equity	**2,664,653**	1,598,764
	3,963,899	2,603,924

SEE ACCOMPANYING NOTES

On behalf of the Board:

Allen T.Y. Chan
Director

James M.E. Hyde
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, [EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS]	**2009** **$**	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**286,370**	228,593
Net (income) loss from discontinued operations	**(7,583)**	12,729
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**521,889**	284,532
Depreciation and amortization	**4,693**	3,206
Accretion of convertible senior notes	**13,689**	4,769
Stock-based compensation	**4,601**	4,276
Impairment of capital assets	**-**	219
Loss on changes in fair value of financial instruments	**417**	1,839
Unrealized exchange losses	**1,880**	5,604
Interest income from Mandra	**(1,200)**	(1,200)
Other	**957**	2,656
	825,713	547,223
Net change in non-cash working capital balances [note 17]	**(41,196)**	(60,040)
Cash flows from operating activities of continuing operations	**784,517**	487,183
Cash flows used in operating activities of discontinued operations	**(826)**	(3,826)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(1,032,009)**	(656,727)
Increase in other assets	**(38,041)**	(9,554)
Additions to capital assets	**(11,649)**	(29,187)
Increase in non-pledged short-term deposits	**(10,942)**	(5,604)
Business acquisition [note 9]	**-**	(1,928)
Acquisition of convertible bonds	**(200)**	-
Proceeds from disposal of capital assets	**216**	8
Cash flows used in investing activities	**(1,092,625)**	(702,992)
Cash flows from (used in) investing activities of discontinued operations	**24,120**	(1,236)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on deferred financing costs	**(27,591)**	(9,135)
Payment on derivative financial instrument	**(5,781)**	(4,919)
Increase in bank indebtedness	**36,534**	16,031
Increase in pledged short-term deposits	**(13,633)**	(16,314)
Issuance of shares, net of issue costs	**652,474**	1,591
Increase in long-term debt	**460,000**	345,000
Repayment of long-term debt	**(150,000)**	-
Cash flows from financing activities	**952,003**	332,254
Cash flows used in financing activities of discontinued operations	**(5,972)**	(460)
Effect of exchange rate changes on cash and cash equivalents	**(22)**	1,558
Net increase in cash and cash equivalents	**661,195**	112,481
Cash and cash equivalents, beginning of year	**441,171**	328,690
Cash and cash equivalents, end of year	**1,102,366**	441,171
Supplemental cash flow information		
Cash payment for interest charged to income	**52,363**	38,644
Interest received	**3,723**	9,837

SEE ACCOMPANYING NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

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

Use of estimates

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

Revenue recognition

Revenue from standing timber is recognized when the contract is entered into which establishes a fixed and determinable price with the customer, collection is reasonably assured and the significant risks and rewards of ownership have been transferred to the customer.

Revenue from wood product contracts are recorded based on the percentage-of-completion method, determined based on total costs incurred to expected total cost of the project and work performed. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any losses on such projects are charged to operations when determined.

Revenue from the sale of logs and other products is recognized 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 when a fixed and determinable price is established.

Foreign currency translation

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

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

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity or loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents and short-term deposits are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in the statement of income and retained earnings.

- Accounts receivable, subordinated loans and interest receivable, convertible bonds receivable and deposit for purchase of logs are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains or losses resulting from periodic revaluation are recorded in other comprehensive income. No revaluation is recorded where an investment does not have a quoted market price.

Derivative financial instruments

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value are recorded in income at each reporting period. The Company does not enter into derivative financial agreements for trading or speculative purposes.

Convertible Bonds

Convertible bonds receivable contain embedded derivative instruments that are bifurcated and accounted for as assets. The total disbursement allocated to the convertible hybrid instrument is first allocated to the fair value of all the derivative instruments to be bifurcated determined using the Black Scholes model. The remaining disbursements, if any, are then allocated to the host instruments, usually resulting in those instruments being recorded at a discount from their face amount.

To the extent that the total disbursement paid exceeds the fair values of any bifurcated derivative instrument assets, an immediate charge to income is recognized in order to initially record the derivative instrument assets at their fair value. The bifurcated embedded derivatives are then revalued at each reporting date, with changes in the fair value reported as charges or credits to income.

The discount from the face value of the convertible bonds, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to income, using the effective interest rate method.

Convertible Senior Notes

The Company's convertible senior notes are segregated into their debt and equity components at the date of issue, in accordance with the substance of the contractual agreements. The debt component of the instruments is classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the convertible senior notes, using the effective interest method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual value approach.

Inventories

Raw materials, timber logs, finished goods and nursery are valued at the lower of cost, determined on a weighted average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Timber holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance which are capitalized over a period of 5 to 12 years based on the growth cycle of the type of tree. Timber holdings from plantations sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of timber sold or harvested.

Investments

Investments where the Company does not have significant influence or control are accounted for on fair value or cost basis if there is no quoted market price available. Investments are written down only when there is evidence that a decline in value that is other than temporary has occurred.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting carrying value and tax basis of assets and liabilities. Future income tax liabilities and assets are calculated using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are evaluated and, if realization is not considered more-likely-than-not, a valuation allowance is provided.

The Company evaluates a tax position for uncertainty in income taxes using a two step process.

Step 1 – Recognition requires the Company to determine whether a tax position, based solely on technical merits, has a likelihood of more than 50 percent ("more-likely-than-not") that the tax position taken will be sustained upon examination assuming the appropriate tax authority has full knowledge of all relevant facts.

Step 2 – Measurement, which is only addressed if Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The Company recognizes interest and penalties as an income tax expense.

Capital assets

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

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

Asset impairment

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

Goodwill is subject to an annual assessment for impairment unless events or changes in circumstances indicate that the value may not be fully recoverable, in which case the assessment is done at that time. Goodwill is assessed primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the present value of expected future cash flows.

Licenses

Licenses are recorded at fair value on the date of acquisition. Licenses with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired and is not amortized.

Stock-based compensation plan

The Company has two stock-based compensation plans: the Stock Option Plan and the Deferred Stock Unit Plan ("DSU Plan") as described in note 11.

Under the Stock Option Plan, the Company measures and recognizes compensation expense using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized as a charge to selling, general and administration expenses on a straight line basis over the vesting period with a corresponding credit to contributed surplus. The contributed surplus balance is reduced as options are exercised through a credit to share capital. The consideration paid by option holders is credited to share capital when options are exercised.

Under the DSU Plan, the Company issues deferred stock units ("DSUs") to non-employee directors that are intended to be settled in cash or in the form of common shares of the Company. Upon issuance, the fair value of the DSUs is recorded as compensation expense and a corresponding liability is established using the fair value of the common shares. At all subsequent reporting dates, the liability is adjusted to the market value of the underlying shares and the adjustment is recorded as compensation cost.

Basic and dilutive earnings per share

Basic earnings per share are computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method.

Deferred financing costs

Financing costs incurred in connection with long-term debt have been deferred and are recorded as a reduction to the principal amount of the associated long-term debt. The costs are amortized over the term of the related long-term debt using the effective interest rate method.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are presented net when there is a legally enforceable right to set off the recognized amounts and the Company intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

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

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, the Company adopted the following new Canadian Institute of Chartered Accountants ("CICA") accounting standard and Emerging Issues Committee ("EIC") abstract.

Section 3064 Goodwill and Intangible Assets, which replaced previous guidance. The standard establishes guidelines for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to initial recognition. The standard had no significant impact on the Company's consolidated financial statements.

EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. Adoption of this guidance had no significant impact on the Company's consolidated financial statements.

On October 1, 2009, the Company adopted the following amendments and clarifications to CICA accounting standards.

Section 3862 Financial Instruments – Disclosures. The amendments require improved and consistent disclosures about fair value measurements of financial instruments and liquidity risk.

The enhanced requirements include classifying and disclosing fair value measurements based on a three-level hierarchy, reconciling beginning balances to ending balances for Level 3 measurements, identifying and explaining movements between levels of the fair value hierarchy, providing a maturity analysis for derivative financial liabilities based on how the entity manages liquidity risk, and disclosing the remaining expected maturities of non-derivative financial liabilities if liquidity risk is managed on that basis.

These amendments impact the Company's disclosures provided but do not affect the Company's results of operations or financial position. These disclosures are provided in Note 18 to these financial statements.

Section 3855 Financial Instruments - Recognition and Measurement. The amendments (1) clarified the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period; (2) clarified the requirements regarding reclassification of held-for-trading financial instruments containing embedded derivatives, and (3) eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified.

The adoption of these amendments did not have a material impact on the financial position, cash flow or earnings of the Company.

Future accounting standards

The CICA has issued the following Handbook Sections which apply commencing with the Company's fiscal years noted below.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582 Business Combinations, replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

Short-term deposits were made for varying periods for more than three months to less than twelve months depending on the immediate cash requirements of the Company, and earn interest at rates of 0.26% to 2.52% per annum [2008 – 1.0% to 4.1% per annum].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $184,637,000 [2008 – $189,498,000]. These credit facilities bear interest at a weighted average rate of 4.5% per annum as at December 31, 2009 [2008 – 6.4%] and are repayable on demand or due in less than one year. Pursuant to the covenants set out in the indentures governing the non-convertible senior notes, the maximum amount of short-term borrowings allowed was the lesser of $400,000,000 and 10% of total consolidated assets of the Company [2008 – $100,000,000].

As at December 31, the Company's bank indebtedness was:

	2009 **$**	2008 $
Trust receipt loans	**44,469**	34,560
Bank loans	**59,522**	32,628
	103,991	67,188

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2009 of $45,096,000 [2008 – $20,656,000]; and

[b] certain short-term deposits at December 31, 2009 of $30,242,000 [2008 – $16,608,000].

Total interest expense for the year on bank indebtedness was $3,481,000 [2008 – $3,469,000].

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

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when the collections are in doubt. Accounts receivable are substantially from companies located in the People's Republic of China ("PRC") and denominated in Renminbi and U.S. dollars. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi. As at December 31, 2009, none of the accounts receivable are past due according to the terms as stipulated in the contracts.

5. INVENTORIES

The Company's inventories consist of the following:

	2009	2008
	$	$
Raw materials	**2,411**	3,111
Work in progress	**6,641**	6,481
Finished goods	**5,793**	5,481
Timber logs	**21,675**	20,929
Nursery	**9,458**	7,198
	45,978	43,200

The amount of inventories recognized as an expense and included in cost of sales in 2009 was $275,403,000 [2008 – $245,551,000]. The amount charged to the statements of income and retained earnings and included in cost of sales for the write-down of inventories for valuation issues in 2009 was $1,515,000 [2008 – $1,422,000].

6. CAPITAL ASSETS

The Company's capital assets consist of the following:

	2009		2008	
	Cost	**Accumulated depreciation, amortization and impairment**	Cost	Accumulated depreciation, amortization and impairment
	$	**$**	$	$
Machinery and equipment	**28,449**	**13,742**	25,361	9,406
Buildings	**52,072**	**4,213**	37,900	3,106
Land-use rights	**9,714**	**1,297**	7,820	1,056
Office furniture and equipment	**4,059**	**2,040**	3,109	1,441
Vehicles	**7,326**	**2,951**	6,413	1,890
	101,620	**24,243**	80,603	16,899
Less: accumulated depreciation, amortization and impairment	**(24,243)**		(16,899)	
Net book value	**77,377**		63,704	

Buildings, machinery and equipment of $2,533,000 [2008 – $18,101,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior periods.

7. OTHER ASSETS

The Company's other assets consist of the following:

	2009	2008
	$	$
Investment in Mandra Holdings [a]	**2**	2
Subordinated loan and interest receivable [a]	**20,567**	19,366
Prepaid plantation costs and lease rentals [b]	**59,172**	40,380
Investment in Omnicorp and Greenheart [c]	**17,057**	2,872
Deposit for purchase of logs [d]	**8,000**	8,000
Deposit for acquisition of long-term investment [e]	**6,326**	-
Other	**5,148**	4,837
	116,272	75,457

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC. Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Forestry Holdings Limited ("Mandra Holdings") at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of Mandra's $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $5,567,000 [2008 – $4,367,000]. See note 24 for subsequent event.

[b] These represented prepaid land leases of plantation land in the PRC and prepaid expenses for planted plantations.

[c] In July 2007, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart Resources Holdings Limited ("Greenheart"). In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire, through a wholly-owned subsidiary approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 ordinary shares of Omnicorp, 4% convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp with a maturity date of November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000).

In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders.

In February 2009, the Company acquired 55,000,000 ordinary shares of Omnicorp and approximately $21,706,000 (equivalent to HK$167,631,000) convertible bonds issued by Omnicorp. The purchase price consisted of cash of approximately $4,300,000 (equivalent to HK$33,000,000) for the Omnicorp shares and 2,659,990 common shares of the Company for the Omnicorp convertible bonds.

The face value of the above bonds are convertible into ordinary shares of Omnicorp at a conversion price of HK$2.00 per share.

On November 6, 2009, at a special general meeting, shareholders of Omnicorp approved a Supplemental Deed Poll pursuant to which the conditions of the convertible bonds were modified to the effect that (i) the maturity date of the convertible bonds was extended from November 9, 2009 to November 8, 2010 and (ii) a control restriction was uplifted such that holders of the convertible bonds are able to exercise the conversion rights attaching to the convertible bonds even if such holder and parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers ("Takeovers Code") with it would become obliged to make a mandatory offer under Rule 26 of the Takeovers Code as a result of such conversion.

The convertible bonds were assessed under CICA Section 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset.

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

The derivative asset was adjusted to its fair value of $8,459,000 using the Black Scholes model as at December 31, 2009 resulting in an unrealized loss of $3,332,000 for the year ended December 31, 2009 [2008 – unrealized loss of $2,917,000] recorded in the statements of income and retained earnings.

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) and $21,181,000 (equivalent to HK$163,564,000) on the completion dates of November 8, 2007 and February 6, 2009, respectively. These discounts, together with the stated interest on the convertible bonds, are being accreted using the effective interest rate method over the convertible bonds' remaining term to November 8, 2009. On November 9, 2009 the fair value of the conversion option was remeasured and $10,826,000 was bifurcated from the carrying value of the convertible bond. The convertible bond was discounted at the original effective interest rate over the term to maturity to determine the present value of the convertible bond of $20,048,000 on November 9, 2009. The difference between the present value plus fair value of the conversion option and the carrying value of the convertible bond on November 9, 2009 of $3,482,000 was recognized as a gain in the statements of income and retained earnings in the year ended December 31, 2009. For the year ended December 31, 2009, the Company recorded accretion income of $4,829,000 [2008 – $1,476,000] in the statements of income and retained earnings.

The following assumptions were used to estimate the fair value of the conversion options as at:

	2009	2008
Risk-free interest rate	**0.31%**	0.49%
Expected option life (in years)	**0.86**	0.85
Dividend yield	**0.00%**	0.0%
Volatility	**104.70%**	146.21%

[d] The amount represents a refundable deposit of $10.0 million out of which $2.0 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million m^3 of wood fibre by the Company. The deposit will be refunded in equal instalments over five years after commencement of operations under the contract.

[e] This represented deposits paid for the acquisition of Homix Limited and subsidiaries, a group of companies engaged in research and development and manufacturing of engineered wood products in the PRC. See note 24 for subsequent event.

8. 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.

In March 2009, the Company committed to a plan to dispose of certain machinery and equipment of the Company's particleboard operations due to continued losses over the years. On March 30, 2009, a subsidiary of the Company entered into an agreement, as amended by a supplementary agreement in June 2009, to dispose of the capital assets of Gaoyao particleboard operation for proceeds of approximately $29,550,000 (equivalent to RMB202,000,000). The consideration will be paid over an eleven-month period with the final instalment due on March 12, 2010 pursuant to an amended agreement dated February 22, 2010. The Company has recognized the sale as disposal of capital assets and the results of operations of the Company's particleboard operations are detailed below and shown as discontinued operations.

As a result, the statements of income and retained earnings and balance sheets have been reclassified from statements previously presented.

The results of the discontinued operations are as follows:

	Twelve months ended December 31,	
	2009	2008
	$	$
Revenue	**1,111**	5,250
Cost and expenses		
Cost of sales	**837**	8,345
Selling, general and administration	**1,047**	1,486
Depreciation and amortization	**240**	1,421
	2,124	11,252
Loss from operations before the undernoted	**(1,013)**	(6,002)
Interest expenses	**(234)**	(388)
Exchange losses	**(8)**	(533)
Impairment of assets held for sale	**(4,670)**	(18,157)
Other income	**281**	151
Loss before income taxes	**(5,644)**	(24,929)
Recovery of income taxes	**13,227**	12,200
Net income (loss) from discontinued operations	**7,583**	(12,729)

Assets and liabilities of discontinued operations consist of the following:

	2009	2008
	$	$
Assets of discontinued operations		
Accounts receivable	**12**	703
Inventories	**-**	2,155
Prepaid expenses and others	**1,519**	676
Assets held for sale	**-**	27,588
	1,531	31,122
Liabilities of discontinued operations		
Bank indebtedness	**-**	5,970
Accounts payable and accrued liabilities [a]	**12,156**	26,034
	12,156	32,004

The statements of cash flows of discontinued operations are as follows:

	Twelve months ended December 31,	
	2009	2008
	$	$
Cash flows used in operating activities	**(826)**	(3,826)
Cash flows from (used in) investing activities	**24,120**	(1,236)
Cash flows used in financing activities	**(5,972)**	(460)
	17,322	(5,522)

Included in the cash flows from (used in) investing activities of discontinued operations in 2009 are receipts of $28,086,000 representing instalments received for the disposal of certain machinery and equipment of Gaoyao particleboard operation. The items of other comprehensive income of the discontinued operations for the years ended December 31, 2009 and 2008 are insignificant.

[a] Included in accounts payable and accrued liabilities as at December 31, 2009 is the balance of the tax provision for the tax related contingency of $8,717,000 [2008 – $21,934,000] provided on the income and commission earned from the sale of wood chips in prior years (see note 15).

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

9. BUSINESS ACQUISITION

In January 2008, the Company completed the acquisition of 100% of the equity interests of a limited company incorporated in the PRC for cash, which is principally engaged in the greenery and nursery operations.

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were as follows:

	$
Cash and bank balances	132
Accounts receivable	989
Other receivables	458
Inventories	751
Capital assets	318
License [a]	636
Accounts payable and accrued liabilities	(1,224)
Purchase price	2,060

[a] The purchase price in excess of the net tangible assets acquired of $636,000 was allocated to the identified intangible asset, being the license. The license enables the Company to tender for greenery projects in the PRC. The fair value of the license was based on the related discounted cash flows. The license is not amortized as it does not have a definite useful life.

10. LONG-TERM DEBT

The Company's long-term debt consists of the following:

	2009	2008
	$	$
2011 Senior Notes [a]	**87,670**	300,000
2014 Senior Notes [a]	**212,330**	-
Syndicated Loans [b]	**-**	150,000
2013 Convertible Notes [c]	**289,560**	277,391
2016 Convertible Notes [d]	**369,306**	-
Unamortized deferred financing costs	**(33,400)**	(12,923)
	925,466	714,468

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

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2011 Senior Notes, as amended) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- secured by pledge of the shares of the Subsidiary Guarantors.

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The contract matured on August 16, 2009. The loss on change in fair value of $567,000 in 2009 [2008 – gain of $1,078,000] has been recorded in losses on changes in fair value of financial instruments in the statements of income and retained earnings.

On June 24, 2009, the Company offered to eligible holders of the 2011 Senior Notes to exchange, subject to certain conditions, any and all of the outstanding 2011 Senior Notes for up to $300,000,000 10.25% new guaranteed senior notes due 2014 (the "2014 Senior Notes"). The Company also solicited consents from holders of the 2011 Senior Notes to amend certain of the provisions of the indenture governing the 2011 Senior Notes.

On July 27, 2009, the Company completed the exchange offer and consent solicitation, issuing an aggregate principal amount of $212,330,000 of 2014 Senior Notes, representing approximately 70.8% of the aggregate principal amount of the 2011 Senior Notes. The remaining principal amount of approximately $87,670,000 of 2011 Senior Notes will be repaid upon maturity in 2011. The Company received the requisite consents from holders of the 2011 Senior Notes and, as a result, the outstanding 2011 Senior Notes not tendered to the exchange offer are also subject to amended provisions of the indenture governing the 2011 Senior Notes. The 2014 Senior Notes are:

- general obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2014 Senior Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the 2014 Senior Notes).

In accordance with CICA Emerging Issues Committee Abstract – 88 "Debtors Accounting for a Modification or Exchange of Debt Instruments", the exchange offer with certain holders of the 2011 Senior Notes constitutes a modification of the 2011 Senior Notes. As a result, financing costs incurred in connection with the exchange offer were added to the unamortized deferred financing costs of the 2014 Senior Notes and will be amortized over the term of the debt using the effective interest rate method.

Total interest expense on the 2011 Senior Notes for the year was $18,602,000 [2008 – $28,689,000].

Total interest expense on the 2014 Senior Notes for the year was $11,917,000.

[b] On February 24, 2006, the Company entered into a $150 million syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum. The syndicated term loan facility was prepaid in full on December 29, 2009.

Total interest expense on the syndicated loans for the year was $5,258,000 [2008 – $7,376,000].

[c] On July 17, 2008, the Company closed an offering of convertible guaranteed senior notes (the "2013 Convertible Notes") for gross proceeds of $300,000,000. The 2013 Convertible Notes will mature on August 1, 2013 and bear interest at a rate of 5.0% per annum, payable semi-annually. The 2013 Convertible Notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per $1,000 principal amount of the 2013 Convertible Notes. If a Fundamental Change, as defined in the indenture which governs the 2013 Convertible Notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the 2013 Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company and any gain or loss arising from extinguishment of the debt is recorded in the period that the extinguishment occurs.

On August 6, 2008, the Company issued an additional $45,000,000 of 2013 Convertible Notes pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to $345,000,000. The Company has allocated $272,621,000 of the face value of the 2013 Convertible Notes to the liability component and $72,379,000 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $345,000,000 face value using the estimated effective interest rate of 11.1%. The residual carrying value of $70,462,000, net of issue cost and attributed to the equity component of the 2013 Convertible Notes, was classified as equity component of the 2013 Convertible Notes. The total issue cost of $9,135,000 has been prorated against the liability and equity components. The 2013 Convertible Notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2013 Convertible Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the 2013 Convertible Notes).

Total interest expense of the 2013 Convertible Notes for the year was $30,456,000 [2008 – $12,399,000].

[d] On December 17, 2009, the Company closed an offering of convertible guaranteed senior notes (the "2016 Convertible Notes") for gross proceeds of $460,000,000. The 2016 Convertible Notes will mature on December 15, 2016 and bear interest at a rate of 4.25% per annum, payable semi-annually. The 2016 Convertible Notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 47.2619 common shares per $1,000 principal amount of the 2016 Convertible Notes. If a Fundamental Change, as defined in the indenture which governs the 2016 Convertible Notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the 2016 Convertible Notes at the holder's option and the conversion rate may be adjusted. Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company and any gain or loss arising from extinguishment of the debt is recorded in the period that the extinguishment occurs.

The Company has allocated $368,893,000 of the face value of the 2016 Convertible Notes to the liability component and $91,107,000 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $460,000,000 face value using the estimated effective interest rate of 8.5%. The residual carrying value of $88,421,000, net of issue costs and attributed to the equity component of the 2016 Convertible Notes, was classified as equity component of the 2016 Convertible Notes. The total issue cost of $13,564,000 has been prorated against the liability and equity components. The 2016 Convertible Notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the 2016 Convertible Notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiary (as defined in the indenture which governs the 2016 Convertible Notes).

Total interest expense of the 2016 Convertible Notes for the year was $1,264,000.

[e] Under the terms of the above debt agreements in [a], the Company has met the financial and non-financial covenants affecting the Company and the restricted subsidiaries (as defined in the debt agreements), including limitations on dividend and other payment restrictions, short-term borrowings and letters of credit or similar instruments not to exceed the lesser of $400,000,000 and 10% of the total consolidated assets of the Company.

11. SHARE CAPITAL

The Company's share capital consists of the following:

	2009		2008	
	Number of Common Shares	**Common Share Capital $**	Number of Common Shares	Common Share Capital $
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of year	**183,119,072**	**539,315**	182,592,961	537,141
Issue of shares	**59,009,990**	**674,180**	-	-
Exercise of options	**-**	**-**	526,111	1,591
Transfer from contributed surplus [note 12]	**-**	**-**	-	583
Balance, end of year	**242,129,062**	**1,213,495**	183,119,072	539,315

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2009 is Cdn.$1,434,952,367 [2008 – Cdn.$661,772,467].

During the years ended December 31, 2008 and 2009, the movements in share capital were as follows:

[a] During the year ended December 31, 2008, 526,111 common shares were issued upon the exercise of stock options for proceeds of $1,591,000.

[b] In February 2009, the Company completed the issuance of 2,659,990 common shares to acquire approximately $21,706,000 (equivalent to approximately HK$167,631,000) 4% secured convertible bonds of Omnicorp.

[c] In June 2009, the Company completed a public offering and international private placement of 34,500,000 common shares (including 4,500,000 common shares issued upon the exercise of the underwriters' over-allotment option) at Cdn.$11.00 per share for gross proceeds of Cdn.$379,500,000 (equivalent to approximately $339,810,000 as at June 8, 2009) less share issue costs of approximately $15,864,000.

[d] In December 2009, the Company completed a public offering of 21,850,000 common shares (including 2,850,000 common shares issued upon the exercise of the underwriters' over-allotment option) at Cdn.$16.80 per share for gross proceeds of Cdn.$367,080,000 (equivalent to approximately $345,318,000 as at December 17, 2009) less share issue costs of approximately $16,791,000.

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 closing market price of the Company's common shares on the day prior to 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, 2009, options to purchase 8,992,959 common shares have been granted and options to purchase 1,007,041 common shares remain available to be granted under the Stock Option Plan.

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

In 2008, options to acquire 33,334 common shares granted on June 4, 2007 were cancelled.

During the year ended December 31, 2009, options to acquire up to 654,618 [2008 – 75,000] common shares were granted to executives and employees at exercise prices ranging from Cdn.$8.01 to Cdn.$10.12. The options granted will vest over three years and expire in five years. The total fair value of the stock options granted was estimated to be $2,219,000 [2008 – $638,000] on the respective dates of grant using the Black Scholes option-pricing model with the following assumptions:

	January 5, 2009	**March 10, 2009**	**March 31, 2009**
Number of options (in number)	**75,000**	**75,000**	**504,618**
Exercise price (in Cdn.$)	**$10.12**	**$8.20**	**$8.01**
Date of expiry	**January 5, 2014**	**March 10, 2014**	**March 31, 2014**
Dividend Yield	**0.0%**	**0.0%**	**0.0%**
Volatility	**60.2%**	**60.8%**	**58.7%**
Risk-free interest rate	**1.61%**	**1.85%**	**1.69%**
Option's expected life (in years)	**5.0**	**5.0**	**5.0**
Weighted average fair value of each option (in U.S. dollars)	**$4.41**	**$3.35**	**$3.24**

	August 14, 2008
Number of options (in number)	75,000
Exercise price (in Cdn.$)	$17.70
Date of expiry	August 14, 2013
Dividend Yield	0.0%
Volatility	55.9%
Risk-free interest rate	3.33%
Option's expected life (in years)	5.0
Weighted average fair value of each option (in U.S. dollars)	$8.50

The compensation expense recorded for the year ended December 31, 2009 with respect to the above options granted amounted to $4,601,000 [2008 – $4,276,000].

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2009 and 2008:

	2009		2008	
	Number of options	**Weighted average exercise price Cdn.$**	Number of options	Weighted average exercise price Cdn.$
Balance, beginning of year	**3,464,008**	**8.65**	3,948,453	7.78
Granted	**654,618**	**8.27**	75,000	17.70
Cancelled	**-**	**-**	(33,334)	13.15
Exercised	**-**	**-**	(526,111)	3.10
Balance, end of year	**4,118,626**	**8.59**	3,464,008	8.65
Exercisable at year-end	**2,945,676**	**7.62**	2,142,340	6.23

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, 2009:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price of options outstanding	Options Exercisable	Options Non-exercisable	Weighted average exercise price of options exercisable
Cdn.$2.00 – Cdn.$2.99 (1)	**205,000**	**0.80 years**	**Cdn.$2.71**	**205,000**	**-**	**Cdn.$2.71**
Cdn.$3.00 – Cdn.$3.99 (1)	**871,000**	**0.26 years**	**Cdn.$3.70**	**871,000**	**-**	**Cdn.$3.70**
Cdn.$4.00 – Cdn.$4.99	**145,925**	**1.65 years**	**Cdn.$4.36**	**145,925**	**-**	**Cdn.$4.36**
Cdn.$5.00 – Cdn.$5.99	**750,000**	**1.62 years**	**Cdn.$5.50**	**750,000**	**-**	**Cdn.$5.50**
Cdn.$8.00 – Cdn.$8.99	**579,618**	**4.24 years**	**Cdn.$8.03**	**-**	**579,618**	**-**
Cdn.$10.00 – Cdn.$10.99	**75,000**	**4.02 years**	**Cdn.$10.12**	**-**	**75,000**	**-**
Cdn.$13.00 – Cdn.$13.99	**1,165,002**	**2.43 years**	**Cdn.$13.15**	**780,003**	**384,999**	**Cdn.$13.15**
Cdn.$14.00 – Cdn.$14.99	**2,081**	**2.64 years**	**Cdn.$14.01**	**2,081**	**-**	**Cdn.$14.01**
Cdn.$17.00 – Cdn.$17.99	**75,000**	**3.62 years**	**Cdn.$17.70**	**25,000**	**50,000**	**Cdn.$17.70**
Cdn.$19.00 – Cdn.$19.99	**250,000**	**2.90 years**	**Cdn.$19.00**	**166,667**	**83,333**	**Cdn.$19.00**

(1) In accordance with the rules and policies of the Toronto Stock Exchange and the terms of the Company's stock option plan, options to purchase 226,000 common shares scheduled to expire on September 9, 2009 and May 11, 2009 were extended to the date which is eight business days after the end of the blackout period which commenced on December 21, 2009.

Deferred stock unit plan

On March 10, 2009, the Company approved a non-executive directors' DSU Plan, which became effective on March 31, 2009. Under the DSU Plan, non-executive directors of the Company shall receive an amount equal to their annual retainer (but not in substitution for) in the form of DSUs and may also elect to receive all or a part of their annual retainer in the form of DSUs. On the last business day of each quarter of the Company's fiscal year, such number of DSUs that is equal to: (a) 25% of the aggregate of: (i) the annual awarded amount as determined by the Compensation and Nominating Committee (which shall initially be equal to the amount of annual retainer fees earned by the respective non-executive director); and (ii) the amount of annual retainer fees, if any, that such non-executive director has elected to receive in the form of DSUs; divided by (b) the Fair Market Value (defined in the DSU Plan as the closing price of the Company's common shares on the Toronto Stock Exchange), shall be credited to the participants' deferred stock unit account. The DSUs can be redeemed for cash or, at the election of the non-executive director, in the form of common shares of the Company acquired by the Company on the open market on such director's behalf through an independent broker, when the holder ceases to be a director of the Company.

The DSUs are recognized as a compensation expense over the vesting period. Vested DSUs are re-measured at each reporting period until settlement, based on the Fair Market Value as described above. For the year ended December 31, 2009, $151,000 was recorded in selling, general and administration as compensation expense (including $29,000 related to the revaluation to the market value of the underlying shares as at December 31, 2009). At December 31, 2009, there were 8,378 DSUs with a market value of $154,000 issued and outstanding.

12. CONTRIBUTED SURPLUS

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

	2009 $	2008 $
Balance, beginning of year	**7,599**	3,906
Stock-based compensation	**4,601**	4,276
Transfer to share capital [note 11]	**-**	(583)
Balance, end of year	**12,200**	7,599

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

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2009	2008
	$	$
Balance, beginning of year	**211,831**	105,287
Other comprehensive income	**12,317**	106,544
Balance, end of year	**224,148**	211,831

As at December 31, 2009, accumulated other comprehensive income comprises the following amounts:

	2009	2008
	$	$
Unrealized gains on translation of financial statements of self-sustaining foreign operations	**217,882**	214,063
Unrealized gains (losses) on financial assets designated as available-for-sale, net of tax of $1,403 (2008: $Nil)	**6,266**	(2,232)
Balance, end of year	**224,148**	211,831

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. For the year ended December 31, 2009, the Company incurred unrealized foreign currency translation gains of $3,819,000 [2008 – $108,038,000], primarily from the strengthening of Renminbi against U.S. dollars.

14. STATUTORY RESERVE

Pursuant to PRC regulations, the Company's subsidiaries in the PRC are required to make appropriation to the reserve fund based on after-tax net income determined in accordance with PRC generally accepted accounting principles ("PRC GAAP"). Appropriation to the reserve must be at least 10% of after-tax net income determined in accordance with PRC GAAP until the accumulative total of the reserve is equal to 50% of the subsidiaries' registered capital. The allocation of the reserve must be made before the distribution of dividends to shareholders. The reserve is not available for distribution to shareholders other than in liquidation and is recorded as a component of shareholders' equity.

	2009	2008
	$	$
Balance, beginning of year	**-**	-
Transfer from retained earnings	**1,670**	-
Balance, end of year	**1,670**	-

15. PROVISION FOR TAX RELATED LIABILITIES

[a] Temporary differences

	2009	2008
	Future Income Tax Assets (Liabilities)	Future Income Tax Assets (Liabilities)
	$	$
Tax losses carried forward	**30,847**	27,959
Unrealized foreign exchange on external debt	**(3,961)**	13,138
Unrealized foreign exchange on receivables	**6,715**	(12,796)
Unrealized gain on Omnicorp shares	**(1,403)**	-
Financing costs	**7,779**	-
Before valuation allowance	**39,977**	28,301
Valuation allowance	**(39,977)**	(28,301)
Total	**-**	-

[b] Canadian and foreign income taxes

	2009 **$**	2008 $
Provision for income taxes		
Current tax provision		
Foreign	**29,267**	24,105
	29,267	24,105
Future tax recovery		
Canadian	**(1,403)**	-
	(1,403)	-
Total	**27,864**	24,105

The Canadian and foreign components of the provision for income taxes are based on the jurisdiction in which income is taxed. Foreign taxes mainly relate to the PRC.

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

	2009 **$**	2008 $
Income before income taxes	**306,651**	265,427
Expected statutory tax rate of Canada	**33.0%**	33.5%
Expected income tax expense	**101,195**	88,918
Recovery related to tax loss carryforwards	**(5,154)**	-
Unrecognized income tax benefit arising from losses of the Company and its subsidiaries	**5,134**	32,439
Losses for which there is no tax benefit	**26,400**	-
Income tax at lower rates in foreign jurisdiction [c] and [d]	**(99,711)**	(93,361)
Income not currently subject to PRC enterprise income tax	**-**	(3,891)
Income tax expense	**27,864**	24,105
Effective rate	**9.1%**	9.1%

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

PRC wholly foreign owned enterprises ("WFOE") are governed by the Income Tax Law of the PRC and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Enterprise Income Tax Law effective January 1, 2008 ("New EIT Law"), WFOE and Sino-Foreign Equity and Co-operative Joint Venture Enterprises ("CJV") are subject to PRC enterprise income tax at an effective rate of 25% [2008 – 25%] on taxable income as reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOE and CJV engaged in agriculture and manufacturing could be eligible for an exemption from PRC enterprise 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 had not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New EIT Law, the PRC WFOE and CJV engaged in forestry plantation if eligible could apply for an exemption from PRC enterprise income tax.

Hong Kong profits tax has been provided at the rate of 16.5% [2008 – 16.5%] on the estimated assessable profits arising in and sourced to Hong Kong during the year.

[d] Provision for tax related liabilities

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax on a deemed profit basis. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

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

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 remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. 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, 2009 is the balance of the tax provision for the tax related contingency amounting to $98,863,000 [2008 – $89,909,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

[e] Losses carryforward

As at December 31, 2009, the Company has income tax losses of approximately of $78,789,000 based on U.S. dollar tax reporting for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada.

The losses will expire as follows:

	$
Year of Expiry	
2009	496
2010	1,031
2014	14,406
2015	21,907
2026	16,743
2028	2,372
2029	21,834
	78,789

In addition, as at December 31, 2009, the Company's PRC WFOE and CJV have incurred tax losses on a legal entity basis in aggregate of approximately $36,576,000 [2008 – $36,659,000]. Losses incurred by PRC WFOE and CJV can be carried forward to a maximum of five years. 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 in the Company's PRC WFOE and CJV.

[f] Other

The Company adopted U.S. dollars functional tax reporting for Canadian tax reporting purposes and elected to do so effective January 1, 2008. These rules are set out in section 261 of the Income Tax Act (Canada) and the rules allow the Company to prepare its corporate tax return using U.S. dollars instead of translating annual activities into Canadian dollars. Canadian income tax expenses for 2009 and 2008 as reflected in paragraphs [a] and [b] above are calculated based on U.S. dollar functional tax reporting.

16. EARNINGS PER SHARE

The Company's earnings per share from continuing operations are calculated as follows:

	2009 Earnings $'000	**2009** Weighted average no. of shares '000	**2009** Earnings per share $	2008 Earnings $'000	2008 Weighted average no. of shares '000	2008 Earnings per share $
Net income from continuing operations	**278,787**			241,322		
Weighted average number of shares outstanding		**205,980**			182,804	
Basic earnings per share from continuing operations	**278,787**	**205,980**	**1.35**	241,322	182,804	1.32
Effect of dilutive securities:						
- stock options	**-**	**1,435**		-	1,396	
- 2013 Convertible Notes	**30,456**	**17,008**		12,399	7,528	
- 2016 Convertible Notes	**1,264**	**893**		-	-	
	310,507	**225,316**		253,721	191,728	
Deduct anti-dilutive impact:						
- 2013 Convertible Notes	**(30,456)**	**(17,008)**		(12,399)	(7,528)	
- 2016 Convertible Notes	**(1,264)**	**(893)**		-	-	
Diluted earnings per share from continuing operations	**278,787**	**207,415**	**1.34**	241,322	184,200	1.31

17. STATEMENTS OF CASH FLOWS

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

	Years ended December 31, **2009** $	Years ended December 31, 2008 $
Cash used for by:		
Accounts receivable	**(59,351)**	(111,092)
Inventories	**(3,682)**	2,262
Prepaid expenses and other	**(31,358)**	2,621
Accounts payable and accrued liabilities [a]	**53,639**	41,492
Income taxes payable	**(444)**	4,677
	(41,196)	(60,040)

[a] As at December 31, 2009, the Company had an aggregate amount of $39,273,000 [2008 – $27,948,000] payable in respect of timber holdings during the year which was included in accounts payable and accrued liabilities. In addition, certain additions of capital assets and plantation investments of approximately $11,385,000 were transferred from other assets during the year ended December 31, 2009.

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

18. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	2009	2008
	$	$
Held for trading [a]	**1,172,753**	486,955
Loans and receivables [b]	**334,454**	258,875
Available for sale assets [c]	**17,059**	2,874
Other financial liabilities [d]	**1,168,025**	897,175
Derivative (foreign currency swap) [e]	**-**	5,214
Embedded derivative [f]	**8,459**	249

[a] Cash and cash equivalents and short-term deposits, measured at fair value.

[b] Accounts receivable in continuing and discontinued operations, subordinated loans and interest receivable, convertible bonds receivable, and deposit for the purchase of logs are measured at amortized cost.

[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.

[d] Bank indebtedness, accounts payable and accrued liabilities in continuing and discontinued operations, excluding provision for tax related liabilities, and long-term debts are measured at amortized cost.

[e] Foreign currency swap contract is measured at fair value.

[f] Conversion option embedded in convertible bonds is measured at fair value.

Fair value of financial instruments

The Company's financial instruments as at December 31, 2009 are cash and cash equivalents, short term deposits, accounts receivable, subordinated loans and interest receivable, convertible bonds receivable, deposit for the purchase of logs, available for sale assets, bank indebtedness, accounts payable and accrued liabilities, long-term debt, and the embedded derivative.

The financial instruments recorded at fair value on balance sheet are cash and cash equivalents, short-term deposits, investment in Omnicorp (included in available for sale assets) and embedded derivative. These have been categorized into one of three categories, based on a fair value hierarchy, in accordance with CICA Handbook Section 3862. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are either directly or indirectly observable. Level 3 valuations are based on significant inputs that are unobservable (not based on observable market data). All of the Company's financial assets and liabilities recorded at fair value are included in Level 1 except the embedded derivative that was designated within Level 2. The Company did not move any instruments between levels of the fair value hierarchy during the year ended December 31, 2009.

The fair value of cash and cash equivalents and short-term deposits are determined using quoted market prices in active markets for foreign denominated cash and cash equivalents and short-term deposits.

The fair values of the embedded derivative instrument of $8,459,000 [2008 – $249,000] are determined using the Black-Scholes pricing model.

The investment in Omnicorp, included in available for sale assets, is recorded at fair value based on quoted prices.

The carrying value of accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximates their fair value due to the short-term maturity of these investments.

The fair values of the 2011 Senior Notes, 2014 Senior Notes, 2013 Convertible Notes and 2016 Convertible Notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts, excluding deferred financing costs, of the 2011 Senior Notes as at December 31, 2009 were $92,054,000 and $87,670,000, respectively [2008 – $195,000,000 and $300,000,000, respectively]. The fair value and carrying amounts, excluding deferred financing costs, of the 2014 Senior Notes as at December 31, 2009 were $231,334,000 and $212,330,000, respectively. The fair value and carrying amounts, excluding deferred financing costs, of the 2013 Convertible Notes as at December 31, 2009 were $407,747,000 and $289,560,000, respectively. The fair value of the 2013 Convertible Notes approximated their carrying amounts, excluding deferred financing costs, as at December 31, 2008. The fair value and carrying amounts, excluding deferred financing costs, of the 2016 Convertible Notes as at December 31, 2009 were $502,838,000 and $369,306,000, respectively.

Foreign currency swap contract and convertible bonds

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 2011 Senior Notes, the Company previously entered into a currency swap agreement to meet interest payments at $27.4 million per annum. The agreement matured on August 16, 2009. The Company does not otherwise engage in other hedging transactions with respect to its foreign exchange risk or interest rate risk.

The Company has convertible bonds issued by Omnicorp which will mature on November 8, 2010. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The change in fair value of these financial instruments in 2009 was an unrealized loss of $3,332,000 [2008 – $2,917,000] which has been recorded in the statements of income and retained earnings.

Risks arising from financial instruments and risk management

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates and the prices of wood-based products and standing timber, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes.

Exchange rate risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In 2009 and 2008, 83.9% and 86.1% of the revenue from continuing operations were received in Renminbi, respectively and 16.1% and 13.9% of the sales were received in U.S. dollars and Euro, respectively. 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. The Company translates its results of self-sustaining foreign operations into U.S. dollars using the current rate method. 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. Foreign currency based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to the overall earnings or financial position of the Company. A fluctuation of +/-1%, provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything else being equal, have an effect on net income after tax and other comprehensive income in 2009 of approximately $8.6 million and $3.1 million, respectively.

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, 2009, the Company had Renminbi denominated bank accounts of RMB621.2 million (equivalent to $91.0 million) [2008 – RMB531.5 million, equivalent to $77.8 million], U.S. dollar denominated bank accounts of

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

$1,071.8 million [2008 – $403.1 million], Canadian dollar denominated bank accounts of Cdn.$9.8 million (equivalent to $9.3 million) [2008 – Cdn.$5.4 million, equivalent to $4.4 million], Hong Kong dollar denominated bank accounts of HK$4.1 million (equivalent to $0.5 million) [2008 – HK$0.8 million, equivalent to $0.1 million] and Euro denominated bank accounts of €113,000 (equivalent to $161,000) [2008 – €1.1 million, equivalent to $1.6 million]. The Company also had U.S. dollar denominated accounts receivable of $58.2 million [2008 – $15.2 million] and Renminbi denominated accounts receivable of RMB1,530.1 million (equivalent to $224.1 million) [2008 – RMB1,439.2 million, equivalent to $210.6 million].

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. Accounts receivable from continuing operations as at December 31, 2009 included $108,327,000 due from three customers [2008 – $79,058,000 due from three customers] representing 38.4% [2008 – 35.0%] of outstanding receivables. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle accounts payable by purchasing additional standing timber on behalf of the Company. As at December 31, 2009, $9,351,000 [2008 – $27,261,000] or 3.3% [2008 – 12.1%] of accounts receivable from continuing operations, were aged more than 90 days. The Company has no significant allowance for doubtful accounts in 2009.

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. The Company has deposited the cash equivalents in banks 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.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at December 31, 2009, the Company was holding cash and cash equivalents of $1,102,366,000. The Company expects that continued cash flow from operations in 2010 together with the cash and cash equivalents from previous financings will be more than sufficient to fund its requirements for investments in working capital, timber holdings and capital assets.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2009:

	Payment Due by Period				
	Within one year $	In the second and third year $	In the fourth and fifth year $	After the fifth year $	Total $
Bank indebtedness	**103,991**	-	-	-	**103,991**
Accounts payable and accrued liabilities (1)(2)	**138,568**	-	-	-	**138,568**
Long-term debt	-	**86,684**	**480,312**	**358,470**	**925,466**
Interest obligations of long-term debt	**66,564**	**125,128**	**99,878**	**39,100**	**330,670**
	309,123	**211,812**	**580,190**	**397,570**	**1,498,695**

(1) Including continuing and discontinued operations.
(2) Excluding the tax provision for tax related contingency.

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. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at December 31, 2009, $47.0 million or 4.6% of the Company's total debt is subject to variable interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the period of approximately $0.5 million. 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 minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

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 or purchases of standing timber and wood-based products.

19. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital and to safeguard the Company's ability to continue to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes bank indebtedness of $103,991,000, long-term debt of $925,466,000 and shareholders' equity of $2,664,653,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the year.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities and senior notes and exceeds the minimum requirements during the year. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As of December 31, 2009, the Company has retained earnings of approximately $1,054 million in the PRC which may be restricted.

20. 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.

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. Summary details of the industry segments are as follows:

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

[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 operations' 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.

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

By Industry Segment

			2009		
	Plantation Fibre $	Other Fibre $	Manufac-turing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	**954,194**	**-**	**-**	**-**	**954,194**
Sale of imported wood products	**-**	**233,540**	**-**	**-**	**233,540**
Sale of wood logs	**-**	**4,381**	**-**	**-**	**4,381**
Sale of manufacturing operations' products and other	**-**	**-**	**46,070**	**-**	**46,070**
	954,194	**237,921**	**46,070**	**-**	**1,238,185**
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	**412,410**	**6,611**	**(10,328)**	**(36,981)**	**371,712**
Net income (loss) from discontinued operations	**-**	**13,227**	**(5,644)**	**-**	**7,583**
Interest income	**166**	**543**	**960**	**8,022**	**9,691**
Interest expense	**841**	**1,654**	**763**	**67,719**	**70,977**
Depreciation and amortization	**390**	**221**	**3,655**	**427**	**4,693**
Provision for (recovery of) income taxes	**26,087**	**1,945**	**695**	**(863)**	**27,864**
Identifiable assets	**2,477,598**	**215,059**	**196,726**	**1,074,516**	**3,963,899**
Depletion of timber holdings included in cost of sales	**521,889**	**-**	**-**	**-**	**521,889**
Additions to timber holdings and capital assets	**1,053,191**	**472**	**17,145**	**1,026**	**1,071,834**

			2008		
	Plantation Fibre $	Other Fibre $	Manufac-turing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	685,404	-	-	-	685,404
Sale of imported wood products	-	139,700	-	-	139,700
Sale of wood logs	-	13,817	-	-	13,817
Sale of manufacturing operations' products and other	-	-	57,124	-	57,124
	685,404	153,517	57,124	-	896,045
Income (loss) from continuing operations before interest, other income, exchange losses and changes in fair value of financial instruments	343,433	6,542	(15,747)	(24,844)	309,384
Net income (loss) from discontinued operations	-	12,200	(24,929)	-	(12,729)
Interest income	912	3,460	1,784	6,448	12,604
Interest expense	904	1,996	559	48,474	51,933
Depreciation and amortization	305	47	2,662	192	3,206
Provision for income taxes	19,293	3,613	1,199	-	24,105
Identifiable assets	1,913,957	385,295	251,045	53,627	2,603,924
Depletion of timber holdings included in cost of sales	281,948	-	2,584	-	284,532
Additions to timber holdings and capital assets	672,943	68	28,263	270	701,544

Revenue from continuing operations from the Company's largest customer for the year amounted to approximately 16% [2008 – 14%] of total revenue. During the year, there were five [2008 – three] customers who each individually accounted for more than 10% of the Company's total revenue from continuing operations and these customers in aggregate accounted for approximately 72% [2008 – 36%] of total revenue.

Purchases from continuing operations from the Company's largest vendor for the year amounted to approximately 15% [2008 – 17%] of total purchases. During the year, three [2008 – one] vendors accounted for more than 10% of the Company's total purchases from continuing operations and these vendors accounted for approximately 42% [2008 – 17%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the year, sales to customers, including discontinued operations, in the PRC amounted to approximately $1,229,842,000 [2008 – $894,943,000].

During the year, sales to customers in other countries, including discontinued operations, amounted to approximately $9,454,000 [2008 – $6,352,000].

As at December 31, 2009, all of the Company's timber holdings and approximately $76,472,000 [2008 – $90,525,000] of the Company's capital assets were located in the PRC.

21. 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, 2009, the Company has capital commitments in respect of capital contributions to its WFOEs of $15,450,000 [2008 – $75,000,000].

[b] Capital commitments

As at December 31, 2009, the Company has capital commitments with respect to buildings and plant and machinery of $8,703,000 [2008 – $15,020,000].

[c] Purchase commitments

As at December 31, 2009, the Company has purchase commitments mainly regarding logs of $26,687,000 [2008 – $6,400,000].

[d] Operating leases

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

	$
Within 1 year	3,739
In the second year	3,298
In the third year	2,885
In the fourth year	2,348
In the fifth year	2,184
Thereafter	71,848
	86,302

[e] Wood fibre

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 178,000 m^3 of wood fibre as at December 31, 2009.

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 183,441 hectares of plantation trees for $696,211,000 as at December 31, 2009.

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 109,124 hectares of plantation trees for $515,549,000 as at December 31, 2009.

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 103,896 hectares of plantation trees for $515,093,000 as at December 31, 2009.

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, 2009.

Under the master agreement entered in June 2009 to acquire between 150,000 to 300,000 hectares of plantation trees over a 3-year period in Jiangxi, the Company has acquired 15,140 hectares of plantation trees for $39,884,000 as at December 31, 2009.

22. 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 impact 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 and 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 and administrative practice 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 four to six years in practice (including the current year). 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.

The Company's BVI subsidiaries deriving income from sources in the PRC are subject to PRC enterprise income tax on a deemed profit basis. The deemed profit percentage applied by the Company to plantation fibre sales is 10% for 2009 and prior years. The PRC tax authorities issued a Circular in February 2010 which states that the deemed profit percentage for certain activities should be a minimum of 15%. The activities described that would be subject to the minimum 15% deemed profit percentage appear to include sales of plantation fibre. The scope of the application of this provision is uncertain.

Management evaluates the provision for tax related liabilities on quarterly basis or as necessary and believes that adequate provision for tax related liabilities has been recognized in the financial statements.

23. 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 $7,569,000 [2008 – $5,960,000] and were recorded at an exchange amount as agreed by the related parties.

[b] In addition, as at December 31, 2009, the Company had an aggregate amount of $6,958,000 [2008 – $4,900,000] accrued for consultancy fees payable to these related companies. The amount was included in accounts payable and accrued liabilities in the financial statements.

[c] On February 6, 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21,706,000 (equivalent to approximately HK$167,631,000) 4% secured convertible bonds of Omnicorp from various vendors. Total consideration was approximately $25,775,000 (equivalent to approximately HK$200,631,000). 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.

24. SUBSEQUENT EVENT

[a] On January 4, 2010, the Company acquired all of the issued and outstanding shares of Homix Limited, which is engaged in research & development and in manufacturing engineered-wood products, for aggregate cash consideration of $7.1 million.

[b] On February 5, 2010, the Company completed the acquisition of substantially all of the outstanding common shares of Mandra Holdings. Pursuant to the terms of a contingency payment agreement dated February 5, 2010 between the Company, Mandra Forestry Limited and Sino-Forest Investments Limited, the Company paid initial cash consideration of $2 million, and will pay an additional $2 million on August 5, 2010. Additional contingent consideration amounts of up to $5.0 million and $5.0 million will be payable within ten days of June 30, 2010 and December 31, 2010 respectively, based on achieving certain agreed milestones. Each amount will be paid by the issuance of common shares of the Company at an issuance price based on the volume-weighted average price for the preceding ten trading days, subject to a minimum per-share price of Cdn.$7.00. These amounts may be reduced by negotiation if any of the milestones are not met, subject to a maximum reduction of 50%.

Concurrently with this acquisition, the Company completed an exchange with holders of 99.7% of the $195 million of 12% guaranteed senior notes due in 2013 issued by Mandra Forestry Finance Limited and 96.7% of the warrants issued by Mandra Holdings, for an aggregate principal amount of $187,177,375 of new guaranteed senior notes issued by the Company (the "New 2014 Senior Notes"), bearing interest at a rate of 10.25% per annum, with a maturity date of July 28, 2014. On February 11, 2010, the holders of the New 2014 Senior Notes exchanged their notes with the Company in consideration of the issuance by the Company of additional 2014 Senior Notes with an aggregate principal amount of $187,187,000.

25. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2009 consolidated financial statements.

DIRECTORS AND EXECUTIVE OFFICERS

INDEPENDENT DIRECTORS

WILLIAM (BILL) E. ARDELL

Toronto | 1, 2, 3

Director since 2010; Former Chairman of the Board of Somerset Entertainment Income Fund, Apollo Gas Inc, and Nelvana International; previously President & CEO and Director, Southam Inc., Director of Torstar Inc., experience with capital markets, acquisitions & divestures and strategy development; began career with the Touche group in Montreal.

JAMES (JAMIE) M.E. HYDE CA

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

Director since 2004; previously Executive Vice President & Chief Financial Officer, Resolve Business Outsourcing Income Fund, 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; Associate Broker, Royal Pacific Realty Corporation; previously worked over thirty years with public, multi-national and private corporations in North America and Hong Kong, in the real estate, computer and high technology equipment, transportation, construction, oil & gas, textile and China trade industries.

W. JUDSON MARTIN

Lead Director, Toronto | 1, 2, 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 Communications Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance, Trizec Corporation Ltd.

SIMON MURRAY CBE

Hong Kong | 3

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

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.

DIRECTOR AND EXECUTIVE OFFICER

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.

EXECUTIVE OFFICERS

KAI KIT (K. K.) POON

President, Hong Kong

Co-founded Sino-Forest in 1992; previously worked fifteen years with Guangdong Forestry Bureau as an engineer engaged in forest product trading and manufacturing.

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

EXECUTIVE OFFICERS

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 in 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.

GEORGE HO

Vice President, Finance, China

Joined Sino-Forest in 2007; previously worked extensively in the auditing, accounting and consulting field for more than 13 years with several years of experience as CFO of a merchant bank's China operations.

ALFRED C. T. HUNG CFA, FRM, MSc Finance

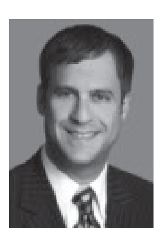
Vice President, Corporate Planning & Banking, Hong Kong

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

[US$ MILLION, EXCEPT EARNINGS PER SHARE AND SHARE PRICE]	**2009** **$**	2008 $	2007 $	2006 $	2005 $	2004 $	2003 $	2002 $	2001 $	2000 $
Consolidated Statement of Income										
Revenue	**1238.2**	896.0	713.9	555.5	341.3	330.9	265.7	200.7	137.3	126.7
Gross profit	**440.9**	366.0	243.0	175.0	104.0	101.5	64.9	42.7	30.2	38.6
Gross profit margin	**35.6%**	40.8%	34.0%	31.5%	30.5%	30.7%	24.4%	21.3%	22.0%	30.5%
Net income	**286.4**	228.6	152.3	113.5	76.2	52.8	30.2	20.6	18.6	28.6
Diluted earnings per share	**1.38**	1.24	0.90	0.81	0.55	0.43	0.32	0.27	0.21	0.31
Cash flow from operating activities	**784.5**	487.2	482.5	264.2	152.9	119.4	69.6	12.6	12.9	26.6
Capital Expenditures	**1,071.8**	702.6	659.6	416.8	299.7	178.6	96.6	44.2	45.3	54.4
Consolidated Balance Sheets										
Total assets	**3,963.9**	2,603.9	1,837.5	1,207.3	895.3	756.0	418.9	336.9	281.6	220.2
Cash and cash equivalents	**1,102.4**	441.2	328.7	152.9	108.4	201.2	6.9	1.2	1.7	18.2
Working capital	**1,213.0**	520.8	330.0	154.6	122.0	236.9	(2.3)	26.1	5.5	13.3
Timber holdings	**2,183.5**	1,653.3	1,174.2	752.8	513.4	359.6	232.5	172.4	156.1	118.5
Long-term debt	**925.5**	714.5	442.0	450.0	300.0	300.0	56.0	82.3	47.2	28.7
Shareholders' equity	**2,664.7**	1,598.8	1,187.3	578.2	439.9	372.3	245.0	180.1	172.8	154.2
Shares										
Shares outstanding at year-end	**242.1**	183.1	182.6	138.0	137.8	136.6	96.2	80.3	80.3	80.3
- Common shares	**242.1**	183.1	182.6	138.0	137.8	136.6	-	-	-	-
- Class A Subordinate - Voting Shares	**-**	-	-	-	-	-	96.2	74.3	74.3	74.3
- Class B Multiple-Voting Shares	**-**	-	-	-	-	-	-	6.0	6.0	6.0
Share Price at year end C$	**19.38**	9.87	21.44	7.83	4.94	3.43	5.16	1.17	1.19	0.99
Market Capitalization C$	**4,692**	1,807	3,915	1,081	681	469	496	94	96	79

(1) For comparison purpose, the results of 2005 and 2006 have been restated to exclude wood chips and commission operations but include the tax provision for tax contingency. The result of the wood chips and commission operations has been reclassified as discontinued operations in the Consolidated Financial Statements.

(2) For comparison purpose, the result of 2008 has been restated to exclude the discontinued operation in Gaoyao. The result of the discontinued operation in Gaoyao has been reclassified as discontinued operations in the Consolidated Financial Statements.

(3) 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.

2009 QUARTERLY HIGHLIGHTS

		1st Q	2nd Q	3rd Q	4th Q	**Total**
Revenue	US$'M	177	224	367	470	**1,238**
Gross profit	US$'M	67	82	144	148	**441**
Gross profit margin		38%	37%	39%	31%	**36%**
EBITDA	US$'M	115	145	282	356	**898**
Net income	US$'M	23	45	106	112	**286**
Diluted earnings per share	US$	0.12	0.23	0.47	0.49	**1.38**
Cash flow from operating activities	US$'M	168	157	234	226	**785**
Wood Fibre Operations						
Plantation fibre						
Hectares purchased		75,977	41,114	61,981	76,431	**255,503**
Acquisition cost	US$'M	246	152	280	338	**1,016**
Hectares sold		15,478	18,538	29,452	45,721	**109,189**
Revenue	US$'M	128	159	296	371	**954**
Gross profit margin		50%	50%	47%	38%	**44%**
Other fibre - Wood Logs						
Revenue	US$'M	-	1	2	1	**4**
Gross profit margin		-	17%	21%	10%	**16%**
Other fibre - Imported Wood Products						
Revenue	US$'M	38	56	59	81	**234**
Gross profit margin		4%	5%	7%	6%	**6%**
Manufacturing & Other Operations						
Revenue	US$'M	11	9	11	15	**46**
Gross profit margin		14%	7%	9%	2%	**7%**
Common Shares						
High	C$	11.38	14.86	18.97	20.01	**20.01**
Low	C$	6.52	8.60	11.04	14.50	**6.52**
Close	C$	8.79	12.40	16.91	19.38	**19.38**
Average daily trading volume		441,908	831,208	754,817	864,518	**724,233**

CORPORATE AND SHAREHOLDER INFORMATION

AUDITORS

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Canada V7Y 1C7

LEGAL COUNSEL

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Brookfield Place, Suite 1800
181 Bay Street
P.O. Box 754
Toronto, Ontario
Canada M5J 2T9

EXCHANGE LISTING

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

INVESTOR RELATIONS

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ANNUAL SHAREHOLDERS MEETING

Monday, May 31, 2010 at 4:00 p.m.
The Fairmont Royal York Hotel
Territories Room, Main Mezzanine
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

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

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