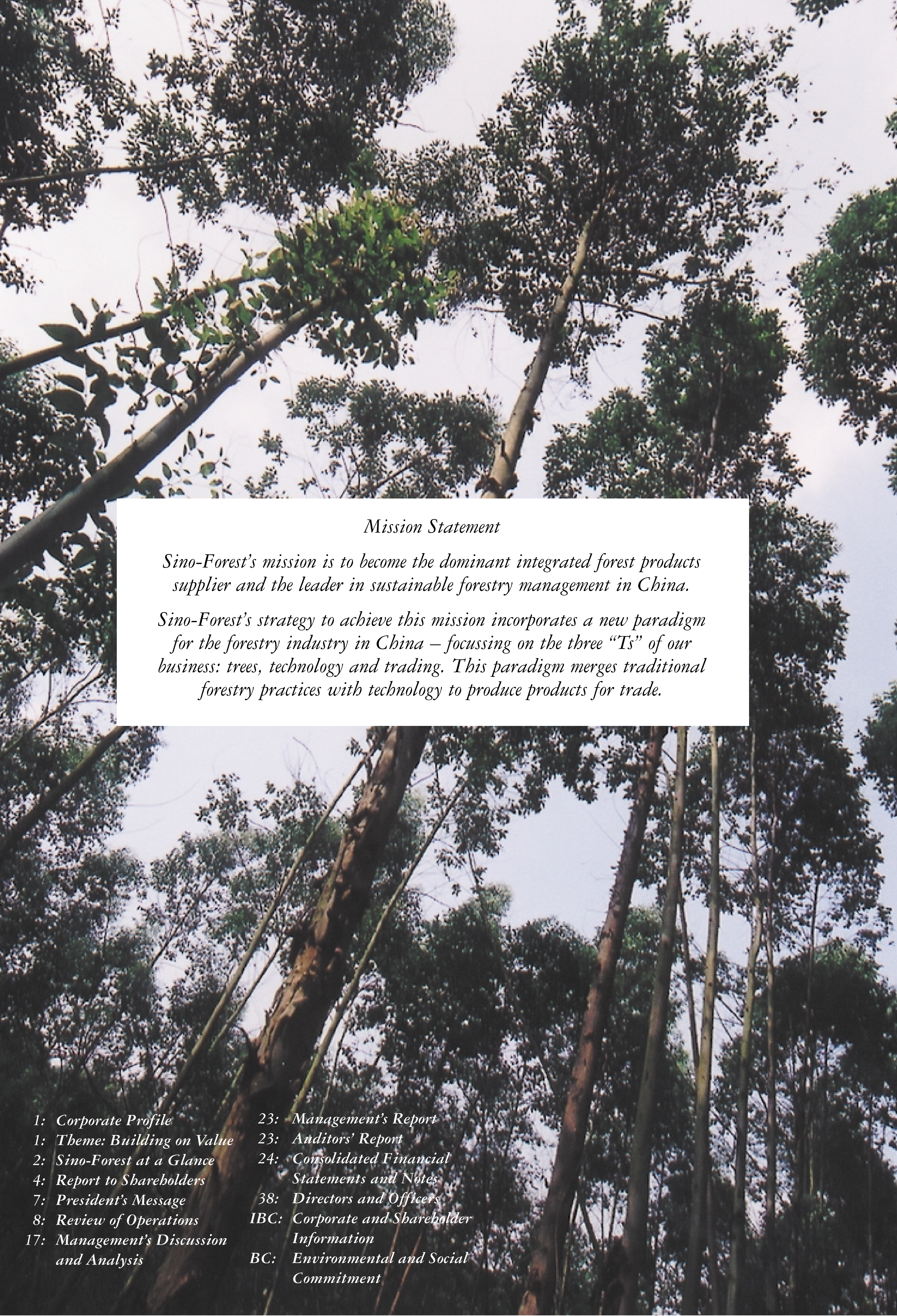
Building *on* Value

SINO-FOREST CORPORATION

2001 ANNUAL REPORT



Mission Statement

Sino-Forest's mission is to become the dominant integrated forest products supplier and the leader in sustainable forestry management in China.

Sino-Forest's strategy to achieve this mission incorporates a new paradigm for the forestry industry in China – focussing on the three "Ts" of our business: trees, technology and trading. This paradigm merges traditional forestry practices with technology to produce products for trade.

Corporate Profile

Sino-Forest Corporation is the first foreign-owned, integrated forest products company in the People's Republic of China. Sino-Forest's growing participation in the commercialization of China's vast forestry resources will create sustained growth and value for Sino-Forest as well as for China. The Company is well positioned to become a forestry industry leader in both the Asian and global markets. Sino-Forest is a Canadian corporation with its executive head office in Hong Kong. Sino-Forest's Class A Subordinate-Voting Shares are listed on the Toronto Stock Exchange under the symbol TRE.A.

Building on Value

In 2001, Sino-Forest made substantial progress in building our high-margin, wood-based product ***trading*** *business with the support of Sino-Forest's growing* ***tree*** *plantation business and our leading-edge* ***technological*** *capabilities.*

Going forward, Sino-Forest will continue to deliver sustained and profitable growth by:
Expanding our reach (see ***Markets*** *on page 8);*
Diversifying our assets (see ***Trading*** *on page 10); and*
Growing our plantations (see ***Trees*** *on page 14).*

Our 2001 annual report theme, "building on value," reflects Sino-Forest's substantial progress in 2001 to expand our business through ***diversification*** *and* ***sustainability****.*

Sino-Forest at a Glance

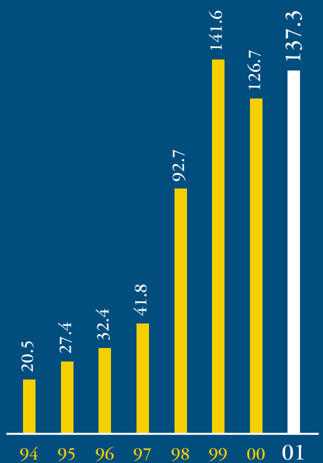
In 2001, Sino-Forest's eight-year record of profitability extended to 32 consecutive quarters.

Employee at work in Sino-Forest's new particleboard mill.

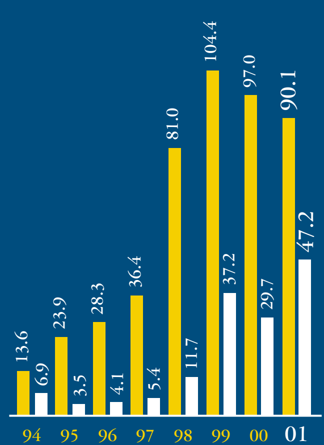
2001 Highlights

(All amounts are expressed in U.S. dollars, unless otherwise indicated.)

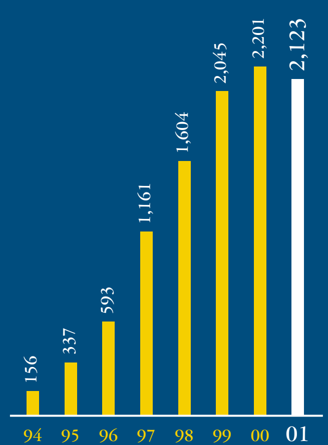
- Sino-Forest's diversification into the value-added, wood-based product business continued in 2001. Revenue from this segment increased 59 per cent to $47.2 million in 2001. This segment represented 34 per cent of total revenue, an increase from 23 per cent of total revenue in 2000.
- In 2001, Sino-Forest received a total funding commitment of US$47.5 million from the International Finance Corporation (IFC), a member of the World Bank Group, and from lenders Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and DEG-Deutsche Investitions-Und Entwicklungsgesellschaft Mbh (DEG). These funds are being used to finance construction of Sino-Forest's wood-based product manufacturing plants and to purchase tree plantations.



Revenue
(US$ millions)



Revenue by Segment
(US$ millions)
Wood chips Wood-based



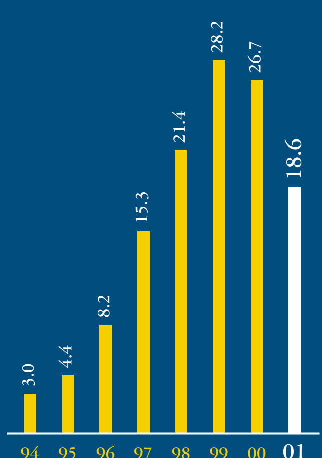
Wood Chip Shipments and Production
(BDMT/thousands)

Sino-Forest's Plantation, Mill and Office Locations in China

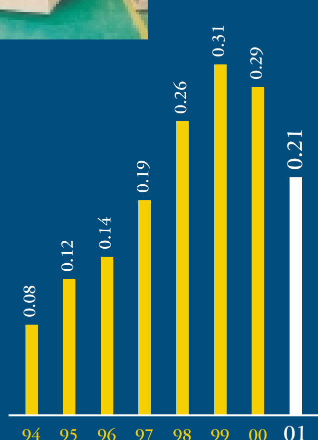
- Sino-Forest made substantial investments in 2001 to build 10 mills in its two main areas of business, Guangdong Province and the Greater Shanghai Region.

- Sino-Forest's plantation business continued to grow in 2001, as 35,878 hectares of plantation lands were phased in to bring the total of Sino-Forest's phased-in plantation lands to 213,000 hectares.

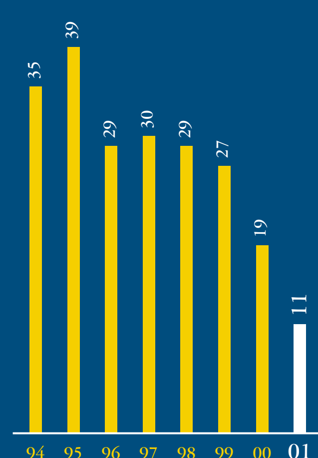
- Despite the tough economic environment in 2001, Sino-Forest was able to ship more than two million Bone Dry Metric Tonnes (BDMT) of wood chips and increase wood chip exports by 23 per cent.



Net Income
(US$ millions)



Diluted Earnings per Class A and B Share
(US$ millions)



Average Return on Equity
(Percentage)

Report to Shareholders

Sino-Forest invested considerable resources in 2001 to develop our high-margin, wood-based product business.

Building on Value

Sino-Forest diversified our core business in 2001 beyond the operation of tree plantations into the manufacture and trading of value-added, wood-based products.

We were able to make this expansion with a funding commitment of US$47.5 million from the International Finance Corporation (IFC), a member of the World Bank Group, and lenders Nederlandse Financierings-Maatschappij Voor Ontwikke-lingslanden N.V. (FMO) and DEG-Deutsche Investitions-Und Entwicklungsgesellschaft Mbh (DEG).

We are now accelerating our strategy to become a major vertically integrated forestry company. Specifically, Sino-Forest is constructing or expanding 10 wood-based product mills in Guangdong Province (China's largest furniture manufacturing region), and in the Greater Shanghai Region (China's largest domestic furniture market).

These new facilities, which will be completed by the end of 2002 and operational in 2003, will manufacture laminated particleboard, blockboard, finger-joint board, doors, and cabinets for use in China's rapidly growing interior decoration and furniture manufacturing industries. (see table on page 12)

In 2001, Sino-Forest also continued to expand its tree plantation holdings by purchasing and replanting plantations in Guangxi, Jiangxi and Guangdong provinces. These lands increase Sino-Forest's total plantation land holdings to 213,000 hectares as of December 31, 2001.

Financial Performance

Sino-Forest has sustained an impressive record of profitability for all of the 32 quarters since the Company was formed in 1994.

In 2001, this record was challenged as we faced weak wood chip prices and decreasing margins, but Sino-Forest's effective cost control measures enabled us to remain profitable in 2001.

In 2001, Sino-Forest earned revenue of $137.3 million and net income of $18.6 million. Comparing these results to 2000, we experienced an

Allen T.Y. Chan
Chairman and Chief Executive Officer

eight per cent increase in revenue from $126.7 million, and a 35 per cent decrease in net income from $28.6 million. Diluted earnings per share decreased 32 per cent to $0.21 in 2001, from $0.31 per share in 2000.

Comparing our 2001 results to 1994, when the Company was formed, we have delivered increases of more than 569 per cent in revenue and 519 per cent in net income. In turn, diluted earnings per share of $0.21 in 2001 represents a 162 per cent increase over diluted earnings per share of $0.08 in 1994.

Comparing revenue from our two business segments for 2001, revenue from Sino-Forest's wood-based product business increased in 2001, while revenue from our wood chip business decreased over 2000 results.

Both businesses experienced a decrease in profitability due to declining wood chip prices and initial operating losses incurred in our new wood-based manufacturing facilities.

Profitability of the wood-based product business was also affected by the additional costs incurred to establish and expand our 10 new mills.

We are confident, however, that improved profitability will be realized in the near future as our mills become operational in 2003. This will enable Sino-Forest to supply our customers with products manufactured at our facilities, utilizing wood from our sustainable plantation operations.

Taking Care of the Future

As an early entrant to the Chinese forestry sector, and with mills and plantations strategically located near major population and transportation centres (see map on page 3), Sino-Forest is uniquely positioned to profit from the opportunities offered by China's rapidly growing economy and fast-growing demand for wood products in Asia.

Despite recent difficult market conditions, the economy in China remains strong. We continue to be optimistic that our plan to diversify from the wood chip business into the more profitable business of producing and trading value-added, wood-based products will ultimately sustain long-term growth and profitability for Sino-Forest.

At Sino-Forest, we have all the elements in place for long-term sustainable growth – of our trees, our people and our business.

For many years, Sino-Forest has consistently proven that it can successfully partner with China to combine considerable plantation management expertise; an understanding of the Chinese business culture and society; and the application of Western business practices into a co-operative and profitable business.

Sino-Forest also recognizes that the continuing profitability and prosperity of our Company, employees and community is dependent upon long-term environmental health, sustained by sound economic development.

We are committed to sustainable management of our plantations and to achieving continuous improvement in our environmental, health and safety practices. (To read more about Sino-Forest's environmental and social commitments, turn to the back cover of this report.)

At Sino-Forest, I am proud to be part of an exceptional team of more than 600 employees, executive officers and corporate directors. I would like to express appreciation to this entire Sino-Forest team, who are dedicated to ensuring the continuity and excellence necessary to maintain a viable long-term business.

Sino-Forest's management team would also like to thank our fellow shareholders for their continued support and patience as we continue to build and diversify the substantial value of our assets.

At Sino-Forest, we have all the elements in place for long-term sustainable growth – of our trees, our people and our business. We remain committed to sustaining growth of these elements for the community, for the environment, and for our investors.

Allen T.Y. Chan
Chairman and
Chief Executive Officer

President's Message

The dramatic changes that are taking place in China as this 21st century gets underway provide significant market opportunities for Sino-Forest.

Sino-Forest's highly productive tree plantations, state of the art technological infrastructure, and rapidly developing wood-based product trading business will allow the Company to meet China's steady growth in demand for wood and wood products.

Kai Kit (K.K.) Poon
President

踏進廿一世紀的中國，經濟持續增長，除盡力穩定發展，再加上政府大力推行的城市群計劃，為基建的木材產品提供了一個大有發展的市場空間，而我們的建廠計劃，正好大有作為。

總裁
潘家傑
二〇〇二

{Markets}

Expanding *our reach*

Sino-Forest is well positioned to profit from the opportunities offered by the increasing demand for wood and wood-based products in China and around the world.

Eucalyptus logs

Boosted by a projected annual GDP growth of seven per cent over the next 10 years, a growing population of 1.2 billion, and government housing improvement and infrastructure reforms, China is experiencing a boom in residential and industrial construction.

Already, China has the largest domestic consumption of engineered wood products in the Asia-Pacific region. In the past 10 years, per capita spending on interior decoration in China has increased at an average annual rate of more than 30 per cent; and this trend is expected to continue this decade with average annual growth of eight to 10 per cent for both domestic and export markets.

China is also rapidly becoming one of the world's leading exporters of furniture and interior fittings. The United States is currently importing approximately 50 per cent of China's furniture exports. China is expected to become the principal supplier of value-added furniture, flooring, doors, and finger-joint board in the Asia-Pacific region.

The resulting clamour for wood fibre by the forestry industry has greatly accelerated a change in the sector from a state-planned to a market-driven industry. China's recent membership in the World Trade Organization (WTO), has further enhanced China's increasingly market-based economy.

The Chinese furniture industry has also been quickly transformed from a small-scale labour intensive industry, using little or no mechanization, to one employing modern equipment and construction techniques.

This growing demand for wood and wood-based products in China, however, far exceeds the timber supply. Timber supply in China has been limited by the government's Natural Forest Protection Program. This program, introduced in 1998 after extensive floods damaged large regions of China, strictly prohibits the logging of natural forests in critical watersheds.

As the supply-demand gap for wood in China increases – to an estimated deficit level of 50 per cent by 2010, there are significant opportunities for Sino-Forest to provide the plantation-grown timber and the end-use engineered wood products needed to meet the ever expanding market demand.

As the first entrant into China's forestry sector, Sino-Forest has put down roots in some of the most valuable plantation and mill locations – with low labour and transportation costs and easy access to major markets. (see map on page 3)

Our wood-based product manufacturing facilities are located right in the marketplace where the demand for wood products has been strong and is expected to grow significantly in the future.

One market for Sino-Forest products is the **Shanghai Timber Market** in eastern China. The Market consists of suppliers offering wood and wood products for the wholesale domestic market.

Another market for Sino-Forest products is our B2B e-commerce site, **Sino-Forest Online** (www.sinoforestonline.com). The site expands our global market reach by facilitating trade of quality Chinese wood products between international buyers.

{Trading}

Diversifying *our assets*

Sino-Forest is poised to achieve greater profitability in the near future as we build our high-margin, wood-based product trading business to meet the demands of the Chinese and broader Asian marketplaces.

Quality control department at the Gaoyao particleboard mill

Sino-Forest's wood-based product business generated revenue of $47.2 million in 2001. This represents an increase of 59 per cent over the $29.7 million in revenue generated in 2000.

In 2001, revenue from this segment represented 34 per cent of total revenue, an increase from 23 per cent in 2000.

By 2003, Sino-Forest expects further growth as we complete our diversification from the plantation business into the more profitable business of producing and trading value-added, wood-based products and as our mills reach planned production capacity.

The most dynamic growth in the forest industry sector in China is in the production of engineered wood products, particularly engineered wood panels such as particleboard, oriented strand board (OSB) and medium density fibreboard (MDF). These panels are used mainly for furniture, tables and chairs, built-in kitchens and office furniture. Other products, including joinery for interior decoration, doors, mouldings, flooring and permanent construction, are also in strong demand.

Global production of these engineered wood products has increased 80 per cent over the past decade, with this production replacing traditional solid wood products.

In 2001, Sino-Forest began to build 10 mills in China. This expanding network of mills is ideally situated close to our plantations for supply and close to cities and ports for easy market access. (see map on page 3)

By the end of 2002, Sino-Forest expects to have six mills (including the particleboard lamination plant) in Guangdong Province, the largest furniture producing province in China, and four mills in the Greater Shanghai Region, China's largest domestic furniture market.

The following provides details of our 10 mills:

- **Particleboard Mill** – Located in Guangdong Province, this 21-hectare mill is outfitted with state-of-the-art Finnish equipment and is one of the most modern and largest engineered wood products processing facilities in China. With a production capacity of 100,000 cubic metres per year, the mill will serve as Sino-Forest's base for wood panel production and expand our capabilities in the growing wood processing market. The particleboard mill commenced commercial production in May 2001.

Sino-Forest's new particleboard mill in Guangdong Province

- **Oriented Strand Board (OSB) Mill** – Located in the Greater Shanghai Region, this mill is currently on trial production and is expected to commence commercial production in the second quarter of 2002. This OSB mill is the first and only one in the Greater Shanghai Region and one of only two in China. The mill has a production capacity of 10,000 cubic metres per year.
- **Eight new mills** – The following mills are to be constructed: a particleboard lamination plant, two sawmills, two finger-joint mills, a blockboard mill, a door plant, and a cabinet manufacturing plant. The Company expects all of these mills to be completed by the end of 2002.

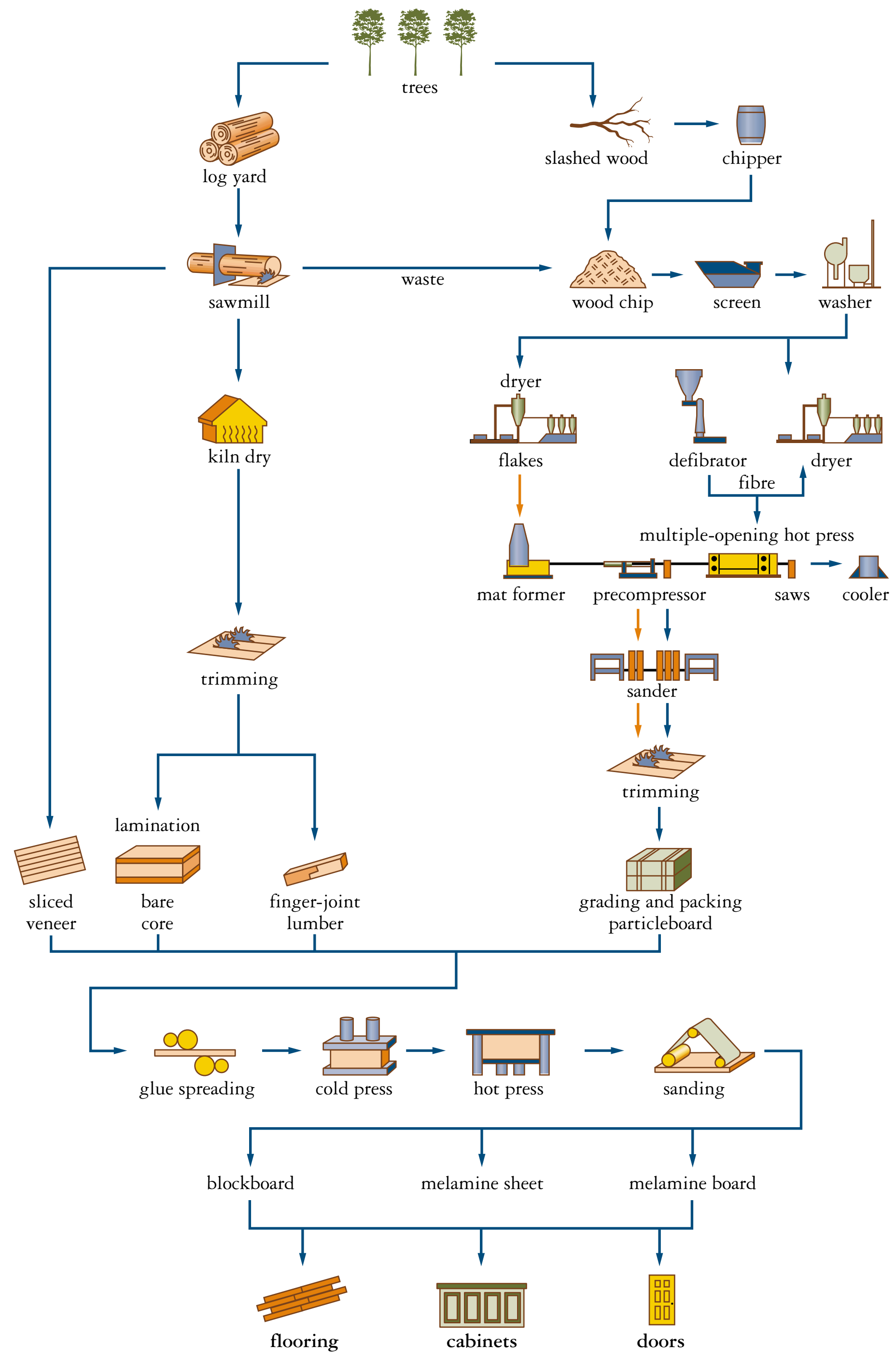
Diversification of Sino-Forest's operations will have significant benefits and positions the Company to become the dominant supplier of 'green' wood products in China.

Engineered wood products are significantly more environmentally efficient than solid wood products (largely a product of over-mature, or old-growth timber). Typically, solid wood is over logged and more difficult to harvest. Smaller diameter plantation wood is an excellent substitute and can be transformed into a product with similar strength properties for use in similar applications.

Sino-Forest's advanced manufacturing facilities are supported by our **technological** expertise in information and logistics. Through our advanced supply chain management, we are able to source products from our own facilities and from other suppliers (both domestic and international).

The following table sets out Sino-Forest's new eight mills to be constructed.

Mill	Location	Capacity	Expected Completion Date
Gaoyao particleboard lamination plant	Guangdong	6,000,000 m^2	March 2003
Gaoyao sawmill	Guangdong	32,000 m^3	December 2002
Suzhou sawmill	Greater Shanghai	68,000 m^3	December 2002
Gaoyao finger-joint board mill	Guangdong	20,000 m^3	December 2002
Suzhou finger-joint board mill	Greater Shanghai	20,000 m^3	December 2002
Suzhou blockboard mill	Greater Shanghai	20,000 m^3	December 2002
Gaoyao door plant	Guangdong	100,000 pieces	December 2002
Gaoyao cabinet plant	Guangdong	150,000 pieces	December 2002



Sino-Forest Production Flow Chart

The above chart illustrates the process by which Sino-Forest's plantation trees are turned into wood chips and value-added wood products for sale.

{Trees}

Growing *our plantations*

Sino-Forest's successful transition into the manufacture of value-added, wood-based products would not be possible without our well-established and efficient plantation program.

Planting of eucalyptus seedling at Sino-Forest's Gaoyao plantation

Sino-Forest's plantation program includes timber harvesting, replanting, maintenance, and wood chip processing and marketing, as well as export operations. Plantation timber is processed into wood chips for sale to the pulp industry with about 90 per cent of the plantation output destined for sale in China and the remaining 10 per cent destined for export. In 2001, Sino-Forest increased our wood chip exports by 23 per cent to 151,900 BDMT, from 123,000 BDMT in 2000.

2001 was a challenging year for Sino-Forest's plantation business as the market for wood chips experienced lower than usual prices.

Sino-Forest's domestic wood chip shipments totalled 1,971,100 BDMT in 2001, a decrease of five per cent over production of 2,078,000 BDMT in 2000.

As a result, revenue from the sale of wood chips in 2001 totalled $90 million, a seven per cent decrease over the $97 million in revenue earned in 2000.

Sino-Forest expanded its plantation land holdings in 2001 to 213,000 hectares, a 20 per cent increase over the 177,000 hectares of plantation lands held in 2000. Our plantation land holdings have now increased by 965 per cent over the 20,000 hectares that the Company held when it was formed in 1994.

Sino-Forest's present plantation land holdings are sufficient to provide the Company with a dependable supply of timber and wood chips for our expanding mill operations and for sale to customers. As well, if market conditions warrant, additional plantation timber can be easily accessed to supply timber and wood chips to our mills.

Sino-Forest plantations have been established in some of China's prime plantation locations within the three southern Chinese provinces of Guangxi, Jiangxi, and Guangdong. (see map on page 3)

Most of these plantations are strategically located close to rivers, roads and the coast for ease of transportation to market. As a result, we have captured the largest market share of privately owned, fast-growing hardwood plantation trees in China.

Sino-Forest manages these plantations through long-term, co-operative joint ventures (CJVs), which enable us to combine the local forestry bureau's expertise and Sino-Forest's equipment, money and modern techniques with impressive results. Sino-Forest's ISO 9002 Quality Management System certification

Sino-Forest's eucalyptus nursery in Zhanjiang

for its Guangxi CJV plantation operation confirms our high standards.

Our eucalyptus, aspen and pine plantations are at varying stages of growth, depending on each tree species' harvesting cycle: five years for eucalyptus, seven years for aspen and 12 years for pine.

Plantation fibre is a renewable, lower cost, energy-efficient resource that is replacing the historically unsustainable sources of natural forest timber. The success of any plantation forest, however, depends upon the genetic properties of the seeds and the ability to match seedlings to the ecological conditions of a site for regeneration.

Sino-Forest's plantation program includes fast-growing eucalyptus, aspen and pine trees, which have several advantages over natural forests, primarily due to the use of **biotechnology** techniques. These advantages include: much shorter growing seasons, more uniform timber, lower access and harvesting costs, better environmental performance, and improved resistance to disease and fire.

Sino-Forest also uses biological and non-chemical disease control measures and organic fertilizers on our plantations. Our use of high quality seedlings, proper planting density, and consistent monitoring has kept our plantations free from disease.

Sino-Forest's biotechnology expertise ensures that the plantation trees developed in laboratories and nurseries grow with improved quality, reduced cost, increased yield, and environmentally positive results. More uniform plantations increase harvesting efficiency; reduce waste; and provide higher quality, more profitable timber for market.

Also, less land is required to produce a given volume of timber. This permits the growth of sufficient timber supplies closer to our mills, reducing the cost of log transportation, which represents a significant proportion of the cost of timber.

In short, biotechnology can produce larger, higher quality trees more quickly and consistently. By growing more timber per hectare, the cost of production is reduced and profit increased.

Management's Discussion and Analysis

[All amounts are expressed in U.S. dollars, unless otherwise indicated.]

REVIEW OF OPERATING RESULTS

A summary of the results of operations of the Company by segment for the years ended December 31, 2001 and 2000 is as follows:

	Year Ended December 31, 2001			Year Ended December 31, 2000		
[thousands of U.S. dollars]	Wood Chips $	Wood-Based $	Total $	Wood Chips $	Wood-Based $	Total $
Revenue						
Sales	76,816	44,635	121,451	79,984	28,210	108,194
Commission income	13,262	2,600	15,862	16,968	1,539	18,507
	90,078	47,235	137,313	96,952	29,749	126,701
Income from operations	20,614	831	21,445	29,384	3,102	32,486

Income from operations for the year ended December 31, 2001 was $21.4 million, a decrease of 34% compared to income from operations of $32.5 million for 2000. Earnings per share on a diluted basis decreased 32% to $0.21 per share compared to $0.31 per share attained in 2000. Income from wood chip operations decreased by 30% from $29.4 million in 2000 to $20.6 million in 2001 as a result of lower wood chip prices and lower volume of shipments. Income from the wood-based business decreased by 73% to $0.8 million compared to $3.1 million in 2000 as a result of lower margins earned on wood-based sales and additional costs and losses incurred in establishing the wood-based manufacturing facilities. Sales from principal wood chip shipments decreased 4% from $80 million in 2000 to $76.8 million in 2001. Commission income from wood chip sales also decreased 22% from $17 million in 2000 to $13.3 million in 2001. The decrease in revenue for wood chip sales was largely attributable to the decline in wood chip prices of approximately 10% in 2001, the decrease in commission income from agency shipments of $3.7 million, and a 3.5% decline in wood chip shipments. Revenue from the wood-based business has increased 59% to $47.2 million in 2001 primarily due to an improvement in the market for lumber and wood-based products in China and sales to new customers in the fourth quarter of 2001.

In 2001, wood chip shipments totalled 2,123,000 bone dry metric tonnes ("BDMT") compared to 2,201,000 BDMT shipped in 2000, a decrease of 3.5%. In 2001, of the total wood chips shipped, 151,900 BDMT were exported to Japan and Taiwan and 1,971,100 BDMT were sold in China. Export and domestic shipments for 2000 were 123,000 BDMT and 2,078,000 BDMT, respectively. For the year ended December 31, 2001, the Company acted as principal on 1,071,800 BDMT compared to 1,030,000 BDMT in 2000, an increase of 4%. Shipments in which the Company acted as an agent decreased 10% from 1,171,000 BDMT in 2000 to 1,051,200 BDMT in 2001. Export shipments have increased 23% from 123,000 BDMT in 2000 to 151,900 BDMT in 2001.

A summary of the wood chip shipments for the year ended December 31, 2001 compared to 2000 is set out in the table below:

WOOD CHIP SHIPMENTS FOR THE YEAR ENDED DECEMBER 31

[Thousands of BDMT] Market	Principal 2001	Principal 2000	Agency 2001	Agency 2000	Total 2001	Total 2000
Export	**32.8**	64.0	**119.1**	59.0	**151.9**	123.0
PRC domestic	**1,039.0**	966.0	**932.1**	1,112.0	**1,971.1**	2,078.0
TOTAL	**1,071.8**	1,030.0	**1,051.2**	1,171.0	**2,123.0**	2,201.0

The average price of wood chips, net of value-added tax (VAT), transportation and delivery charges, in 2001 was approximately $72 per BDMT. The average price of wood chips, net of VAT, attained in 2000 was $78 per BDMT. With respect to sales in which the Company acted as an agent, the Company earned an average of $12.60 per BDMT in 2001 compared to $14.49 per BDMT earned in 2000.

QUARTERLY FINANCIAL INFORMATION

The following table is a summary of selected quarterly financial information of the Company for each of the eight quarters preceding December 31, 2001:

[Expressed in thousands of U.S. dollars, except for earnings per share information]

	Revenue	Net Income	Net Income Per Share Basic	Net Income Per Share Diluted
FISCAL 2001				
December 31	**$49,602**	**$7,378**	**$0.10**	**$0.08**
September 30	**$42,099**	**$4,151**	**$0.06**	**$0.05**
June 30	**$29,775**	**$3,588**	**$0.05**	**$0.04**
March 31	**$15,837**	**$3,456**	**$0.04**	**$0.04**
FISCAL 2000				
December 31	$41,627	$7,627	$0.10	$0.08
September 30	$35,950	$10,293	$0.14	$0.11
June 30	$27,633	$5,853	$0.08	$0.07
March 31	$21,491	$4,798	$0.06	$0.05

INVESTMENT IN WOOD-BASED PRODUCT BUSINESS

The Company is in the process of establishing a wood-based product business for the sale of value-added wood products in the PRC. These operations will be carried out through the Sino-Panel group of companies.

In November 2000, the Company completed the construction of its first particleboard mill in Gaoyao. The particleboard mill is one of the largest facilities in China and is capable of producing international quality board. The production facility is expected to have a capacity to produce 100,000 m^3 of particleboard per annum, utilizing equipment and production technology imported from Finland. Although the mill was completed in November 2000, commercial production of the mill did not commence until May 2001. As at December 31, 2001, the particleboard mill is operating at approximately 50% capacity, which is in line with our Implementation Plan. Under the Implementation Plan, the particleboard mill is expected to be operating at 70% to 80% capacity by the end of 2002. Lamination equipment is expected to be installed in the mill by the first quarter of 2003. As the mill is still in its early stages of operation and is operating at below capacity, it has incurred operating losses before depreciation charges of approximately $0.7 million for the eight-month period to December 31, 2001. The mill is not expected to be profitable until the initial operating issues identified in the Implementation Plan are resolved by the end of 2002. At that time, the mill is expected to be operating profitably at planned production levels.

The Company also commenced construction of an oriented strand board (OSB) mill in Suzhou in 2000. The OSB mill is expected to have a production capacity of 10,000 m^3 per annum. At the end of 2001, the OSB mill was almost completed. Commercial production from the OSB mill is expected to commence in the second quarter of 2002. The OSB mill is not expected to have a significant contribution to the Company's revenue and net income in 2002.

In September 2001, two subsidiaries of the Company completed loan agreements with the International Finance Corporation (IFC), part of the World Bank Group, the Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO) and DEG-Deutsche Investitions-Und Entwicklungsgesellschaft MbH (DEG) for long-term loan facilities totalling $47.5 million. First and second disbursements of the loans of $19 million each have been received by the subsidiaries in September 2001 and February 2002. The third and final disbursement of $9.5 million is expected to be made before the end of the second quarter of 2002.

Part of the loans will be used to finance the expansion of the Company's wood-based manufacturing plants in the Guangdong Province and the Greater Shanghai Region of China. The new production facilities will manufacture laminated particleboard, blockboard, finger-joint board, doors and cabinets for use in China's interior decoration and furniture manufacturing industries. A summary of the IFC, FMO and DEG funded projects to be developed is provided in the table below.

Mill	Location	Capacity	Expected Completion Date
Gaoyao particleboard lamination plant	Guangdong	6,000,000 m^2	March 2003
Gaoyao sawmill	Guangdong	32,000 m^3	December 2002
Suzhou sawmill	Greater Shanghai	68,000 m^3	December 2002
Gaoyao finger-joint board mill	Guangdong	20,000 m^3	December 2002
Suzhou finger-joint board mill	Greater Shanghai	20,000 m^3	December 2002
Suzhou blockboard mill	Greater Shanghai	20,000 m^3	December 2002
Gaoyao door plant	Guangdong	100,000 pieces	December 2002
Gaoyao cabinet plant	Guangdong	150,000 pieces	December 2002

The total capital investment in these projects is estimated to be approximately $28 million. These projects, when completed and operational in 2003, will allow the Company to deliver sustained and profitable growth for the long term.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations in 2001 were $13.8 million, which together with the financing facilities from the IFC, FMO and DEG were sufficient to finance investment in capital assets of $45.3 million in 2001. Investment in capital assets is made up of plantation costs, acquisition of young trees, construction of plants and the purchase of land-use rights.

As at December 31, 2001, the Company had cash and short-term deposits of $30.7 million and approximately $11.4 million of unutilized bank credit facilities. As at December 31, 2001, the Company's total debt (excluding the equity component of the Exchangeable Notes) was $86.1 million, compared with $47.9 million at the end of 2000. The increase in debt was due to the increase in bank borrowings to fund working capital for the wood-based product business and the drawdown on the IFC financing of $19 million, which is included in long-term debt. On December 31, 2001, the debt-to-equity ratio was 0.50:1 compared with 0.31:1 at the end of 2000.

Cash and short-term deposits on hand at the year-end of $30.7 million, the unutilized credit facilities, and the remaining draws from the IFC, FMO and DEG will be sufficient to meet all planned capital expenditures for the year 2002. Subsequent to the year-end, a further $19 million was received by the Company in connection with the long-term loans from the IFC, FMO and DEG. The third and final disbursement of $9.5 million is expected to be received in the second quarter of 2002.

Capital Contribution Commitments

Sino-Wood's subsidiaries were committed to contribute an aggregate of $14,200,000 of capital to the five existing CJVs which was subsequently increased to $17,650,000 upon approval by the Commission of Foreign Trade and Economic Co-operation ("CFTEC") in 1999. As at December 31, 2001, total capital contributions of $16,275,000 have been made. Accordingly, the remaining capital contribution outstanding as at December 31, 2001 is $1,375,000. In 1999, the Company decided not to proceed with its investment in one of the CJVs. The Company is in the process of dissolving this CJV and accordingly, the required capital contribution of $1,375,000 to this CJV is not expected to be made.

In 1999, a subsidiary of the Company established a wholly foreign-owned enterprise (WFOE) to facilitate the establishment of the wood-based product business in the Greater Shanghai Region. The WFOE was formed for a period of 30 years and the subsidiary is required to contribute $10,000,000 for its 100% equity interest. As at December 31, 2001, the Company has made a capital contribution of $3,295,000. The remaining capital contribution of $6,705,000 is required by July 2002.

In January 2001, another WFOE was established by the same subsidiary to undertake the IFC-funded projects in Suzhou. This WFOE was formed for a period of 50 years and the subsidiary is required to contribute $15,000,000 for its 100% equity interest. As at December 31, 2001, the Company has made a total contribution of $2,630,000. Of the $12,370,000 remaining capital contribution, $8,370,000 has to be contributed by July 2003 and the balance of $4,000,000 by January 2004.

In 1999, the Leizhou equity joint venture (Leizhou EJV) was converted to a WFOE as a result of the Leizhou Forestry Bureau's ("LFB") voluntary withdrawal of its entire equity interest in Leizhou EJV. The conversion from an EJV to a WFOE was approved by the CFTEC in May 1999. Sino-Wood was required to contribute $10,000,000 for its 100% equity interest, of which $1,500,000 was required within three months from the issue of the business licence. Sino-Wood obtained approval to reduce the original total capital requirement of $10,000,000 to $1,400,000 in April 2000. As at December 31, 2001, Sino-Wood has made capital contributions of $1,000,000. The remaining capital contribution of $400,000 is required by May 2002.

Environmental Matters

Sino-Forest has established an Environmental Management System ("EMS"), with specific policies on social and environmental aspects of its operations. The Company is committed to applying sustainable management to its plantation operation and to achieving continuous improvement in its environmental performance. Sino-Forest's recent funding by the IFC, FMO and DEG is an endorsement of the Company as one of the leaders in sustainable forestry management in China. Sino-Forest is committed to upholding the high standards of the World Bank Group with respect to environmental, labour relations and workplace safety. The Company's particleboard mill in Gaoyao and all the other production facilities currently under construction are designed to meet the World Bank Group's environmental and health and safety guidelines. Some of the Company's environmental and social initiatives can be found in this 2001 Annual Report under the heading "Sino-Forest's Environmental and Social Commitment."

Outlook

The demand for wood products in China is expected to remain strong as the Chinese economy is projected to grow at an average annual rate of 7% per annum over the next 10 years. Paper and board consumption in China will continue to increase as a result of population growth, increasing literacy rates and the conversion of non-wood pulp to traditional wood pulp. It is expected that the supply of wood products in China over the next decade will lag behind the projected strong growth in demand for wood products.

The demand for wood chips in China is expected to remain weak as the global pulp market is not expected to recover in the near term. Accordingly, prices of wood chips in 2002 are expected to remain in the $72–$75 per BDMT range.

The most dynamic growth in the forestry industry sector in China is in the production of engineered wood products. The main growth in engineered wood products is in the area of reconstituted wood panels such as particleboard, OSB, and medium density fibreboard ("MDF"). Advances in the manufacture of wood products have allowed reconstituted wood products to substitute for many solid wood products. Global production of these engineered wood products has risen by 80% over the past decade, with this production replacing traditional solid wood products. These panels are used mainly for furniture, tables and chairs, built-in kitchens and office furniture. Further vertically integrated end uses include joinery for interior decoration, doors, mouldings, flooring and permanent construction.

Sino-Forest's investment in the value-added, wood-based product business will allow the Company to deliver sustained and profitable growth for the long term.

RISKS AND UNCERTAINTIES

Failure to Make Capital Contributions

The CJV Law stipulates that the first installment of the capital contribution by a joint venture party shall not be less than 15% of the portion of the registered capital subscribed to by the joint venture party and must be within three months of the issuance date of the business licence of the CJV. In the event of a breach of the statutory requirement, the CJV may automatically cease to exist and all prior approvals are automatically revoked.

Where joint venture parties have met their obligations on payment of the first installment on capital contribution, the CJV Law provides that where a joint venture party fails to meet its subsequent obligation to make capital contributions three months after it becomes due, relevant government authorities shall issue a notice to the joint venture parties demanding that the capital contribution be made within one month. Failure to comply with the demand will give government authorities the right to revoke the business licence of the CJV and all prior approvals, thereby forcing the CJV into wind-up proceedings. The risk of governmental action in the event of the Company's inability to meet its contribution commitments is a significant risk. However, the delay of capital contribution under certain conditions can be negotiated among the parties and if the reasons for delay are rational and agreed upon by the parties, the contract can be revised and approval can be obtained from the relevant authority.

Fluctuations in Selling Price of Wood Chips and Wood Products

The operating results of the Company can be significantly affected by fluctuations in the selling price of wood chips and wood products. Wood chips produced by the Company are primarily supplied to pulp manufacturers in Japan, Taiwan and China. The pulp market industry is cyclical in nature. World pulp prices are affected by a number of factors, including the world's economic growth rate and the demand for paper products. By developing wood product manufacturing facilities, the Company will be able to consume some of its own timber and increase the value of its plantation assets. Demand for wood-based products in China is driven primarily by population growth and other demographic factors. Economic growth in China has a significant effect on wood-based product demand because the strength of an economy has implications for building and construction activity and furniture production. By locking in long-term supply contracts with key customers and by differentiating its higher quality products and services from its Chinese competitors, the Company hopes to protect against temporary over-supply from, or lower prices of, other Chinese manufacturers of particleboard and other wood products.

Joint Venture Arrangements

Co-operation and agreement among the Company's joint venture partners are important factors for the operational and financial success of the joint ventures. In certain circumstances, the Company is not able, or will not be able, to control the decision-making process of the joint ventures without the concurrence of the joint venture partners. The Company does, or will, however, through contractual provisions and representatives appointed by it, have the ability to control most material decisions. Disputes among the partners over joint venture obligations or other matters, or the early termination or non-renewal of the joint venture agreements, could materially adversely affect the business of the Company. However, the Company has not experienced any significant disagreements with its partners to date.

Limited Operating History of the Wood-based Product Business

The Company's wood-based product business is in the early stages of development and has no operating history. The wood-based product business is subject to all of the risks inherent in the establishment and maintenance of a new business enterprise, such as competition and viable operations management. The expansion of the wood-based product business will also depend upon the ability of management to implement and successfully manage expansion, as well as its ability to raise any required capital. There can be no assurance that the wood-based product business will grow and be profitable.

Exchange Control

The usage, movement and conversion of foreign currency in the People's Republic of China (PRC) is subject to legislative and administrative restriction and control. The Chinese government imposes control over the conversion of its national currency, the renminbi (RMB), into foreign currencies and remittance thereof out of the PRC must be conducted through the Bank of China or other authorized financial institutions that deal in foreign currencies or, for conversion only, through the authorized banks or foreign exchange adjustment centres. No approvals are needed in order to acquire foreign exchange for a current account transaction, including profit distributions, interest payments and receipts and expenditures from trade and labour. Strict controls, primarily prior approval by the State Administration for Foreign Exchange, continue for capital account transactions in foreign exchange. Capital account items include loans, direct capital investments and investments in negotiable securities. The Company believes that the implementation of these measures will allow the PRC enterprises in which they have interests to access foreign exchange for remittance of profits without prior regulatory approval. Under the current foreign exchange control system, however, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demands of a particular enterprise in full.

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, who have full access to the Audit Committee, with and without the presence of management, to discuss the scope of their audit, the adequacy of the system of internal controls and the adequacy of financial reporting.

Allen T. Y. Chan
Chairman and Chief Executive Officer

Kee Y. Wong
Executive 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, 2001 and 2000, and the consolidated statements of income, retained earnings 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, 2001 and 2000, 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

Toronto, Canada
April 5, 2002

Consolidated Balance Sheets

[Expressed in thousands of U.S. dollars]

As at December 31	2001 $	2000 $
		[restated – note 2]
ASSETS		
Current		
Cash and cash equivalents	1,709	18,244
Short-term deposits	29,003	8,129
Accounts receivable [note 4]	19,209	15,118
Other receivables and prepaid expenses	8,936	3,467
Due from PRC CJV partners [note 7]	7,250	3,169
Inventories [note 5]	983	2,404
Total current assets	67,090	50,531
Capital assets, net [note 6]	211,243	167,194
Deferred financing costs	3,593	1,820
Other assets	624	625
	282,550	220,170
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 8]	37,927	18,228
Accounts payable and accrued liabilities	12,753	7,626
Income taxes payable	10,924	10,423
Current portion of long-term debt [note 9]	941	941
Total current liabilities	62,545	37,218
Long-term debt [note 9]	47,220	28,740
Total liabilities	109,765	65,958
Commitments [notes 3 and 15]		
Shareholders' equity		
Share capital [note 10]	46,024	46,024
Retained earnings	126,761	108,188
Total shareholders' equity	172,785	154,212
	282,550	220,170

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan
Director

William Rosenfeld
Director

Consolidated Statements of Income

[Expressed in thousands of U.S. dollars, except for earnings per share information]

Years ended December 31	2001 $	2000 $
		[restated – note 2]
Revenue		
Sales	121,451	108,194
Commission income	15,862	18,507
	137,313	126,701
Costs and expenses		
Cost of sales	107,094	88,067
Selling, general and administration	7,572	6,044
Depreciation and amortization	1,202	104
	115,868	94,215
Income from operations	21,445	32,486
Interest expense	(4,174)	(3,920)
Exchange gain on long-term debt	1,064	2,133
Interest income	916	599
Amortization of deferred financing costs	(199)	(198)
Gain on disposal of Jiangxi Investments	–	248
Equity in losses of Jiangxi Investments	–	(96)
Income before income taxes	19,052	31,252
Provision for income taxes [note 11]	479	2,681
Net income for the year	18,573	28,571
Earnings per share [notes 2 and 12]		
Basic	$0.25	$0.38
Diluted	$0.21	$0.31

See accompanying notes

Consolidated Statements of Retained Earnings

[Expressed in thousands of U.S. dollars]

Years ended December 31	2001 $	2000 $
		[restated – note 2]
Retained earnings, beginning of year	108,188	79,925
Net income for the year	18,573	28,571
Excess of repurchase price of Class A Subordinate-Voting Shares over stated value [note 10]	–	(308)
Retained earnings, end of year	126,761	108,188

See accompanying notes

Consolidated Statements of Cash Flows

[Expressed in thousands of U.S. dollars]

Years ended December 31	2001 $	2000 $
		[restated – note 2]
Cash Flows from Operating Activities		
Net income for the year	18,573	28,571
Add (deduct) items not affecting cash		
Accretion of Exchangeable Notes	1,484	1,000
Depreciation and amortization	1,202	104
Exchange gain on long-term debt	(1,064)	(2,133)
Amortization of deferred financing costs	199	198
Depletion of timber holdings included in cost of sales	–	1,058
Gain on disposal of Jiangxi Investments	–	(248)
Equity in losses of Jiangxi Investments	–	96
	20,394	28,646
Net change in non-cash working capital balances [note 13]	(6,592)	(2,075)
Cash flows from operating activities	13,802	26,571
Cash Flows from Financing Activities		
Increase in bank indebtedness	19,699	14,101
Issuance of long-term debt	19,000	795
Increase in deferred financing costs	(1,972)	(235)
Repayment of long-term debt	(940)	(941)
Repurchase of share capital	–	(557)
Cash flows from financing activities	35,787	13,163
Cash Flows used in Investing Activities		
Investment in capital assets	(45,250)	(54,448)
Increase in short-term deposits	(20,874)	(8,129)
Repayment of SJXT advances	–	796
Proceeds on disposal of Jiangxi Investments	–	700
Cash flows used in investing activities	(66,124)	(61,081)
Net decrease in cash and cash equivalents	(16,535)	(21,347)
Cash and cash equivalents, beginning of year	18,244	39,591
Cash and cash equivalents, end of year	1,709	18,244
Supplemental cash flow information		
Cash payment for interest charged to income	2,731	2,905
Cash payment for interest capitalized	156	227

See accompanying notes

Notes to Consolidated Financial Statements

[Tabular figures are expressed in thousands of U.S. dollars, unless otherwise indicated.]

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation.

The Company's investments in Sino-foreign co-operative joint ventures (each a "PRC CJV," collectively, the "PRC CJVs") are accounted for on the proportionate consolidation basis. Accordingly, the accounts reflect the Company's pro-rata share of the assets, liabilities, revenue, expenses and cash flows of the PRC CJVs.

The Company's investments in wholly foreign-owned enterprises (the "WFOEs") and Sino-foreign equity joint ventures and equity joint ventures (collectively, the "EJVs"), which are controlled by the Company, are accounted for by the consolidation basis. Investments in EJVs over which the Company exercises significant influence are accounted for by the equity method.

Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations, are translated into U.S. dollars using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the consolidated balance sheet dates. Non-monetary items are translated at the historical exchange rate. Revenue and expense items are translated at the average exchange rates prevailing during the year, except for depreciation, amortization and depletion, which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year.

Inventories

Wood products are valued at the lower of average cost and net realizable value. Raw materials are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost.

Capital assets

Timber holdings include acquisition costs for young trees and standing timber and planting, maintenance and harvesting costs, which are capitalized over a period of five to 12 years based on the growth cycle of the type of tree. Timber holdings are depleted when the trees are harvested on the basis of the volume of timber cut.

Other 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 to reduce the original cost of capital assets to estimated residual values over the following estimated useful lives:

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

Deferred financing costs

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

Revenue recognition

Revenue from the sale and trading of wood chips and other products is recognized when the products are shipped. Commission income relating to wood chip and other product sales is recognized as revenue when the products are shipped and services rendered.

Income taxes

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

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 financial statements and the reported amounts of revenue and expenses for the period reported. Actual results could differ from those estimates.

Fair value of financial instruments

The Company estimates the fair value of its financial instruments based on current interest rates, quoted market values or the current price of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, and long-term liabilities with interest rates based on LIBOR, are considered to approximate their fair values.

Stock-based compensation plan

The Company has a stock option plan, which is described in note 10. No compensation expense is recognized for this plan when stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital.

Interest rate and currency contracts

The differentials to be received or paid under interest rate and currency contracts are recognized in income as adjustments to interest expense. Premiums paid on contracts are deferred and amortized to income over the remaining term of the contracts.

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.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2001, the Company changed its method of accounting for earnings per share as required by the Canadian Institute of Chartered Accountants' (CICA) Section 3500, "Earnings Per Share." The change requires the application of the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities. The new method of accounting for earnings per share has no effect on diluted earnings per share for the current and comparative periods.

During the fourth quarter, the Company has adopted the new requirements of the CICA with respect to the elimination of the deferral of foreign exchange gains or losses relating to long-term debt. Gains or losses arising on the translation of long-term debt are included in income during the year. The change has been applied retroactively and prior periods have been restated to reflect this change. This change had the effect of increasing net income by $731,000 in 2001 and $1,888,000 in 2000. There was no impact on retained earnings at January 1, 2000.

3. CAPITAL CONTRIBUTIONS AND COMMITMENTS

The Company's principal business activities include the management and operation of tree plantations in the People's Republic of China (the "PRC") and sale and trading of logs, lumber, and wood-based products (collectively "wood-based") and wood chips in the PRC, and other Asia-Pacific markets. Apart from these activities, the Company also provides agency services for the sale of wood-based products and wood chips in the PRC and other Asia-Pacific markets from which it earns commission income. Capital contributions and commitments for the Company's principal business activities are as follows:

(a) Tree plantation and wood chip operations

In 1995, the Company, through wholly owned subsidiaries of Sino-Wood Partners, Limited ("Sino-Wood"), entered into agreements to form five PRC CJVs. Under the terms of the agreements, the CJV partners are required to provide the PRC CJVs with land-use rights for up to 603,000 hectares of land for tree plantations. The land-use rights are for a period of 50 years and will be phased in over a number of years. Sino-Wood's subsidiaries are responsible for providing funds to the PRC CJVs for all planting, maintenance and harvesting costs incurred on the phased-in land. The subsidiaries are entitled to 70% of the timber harvested on the phased-in land and the CJV partners are entitled to the balance. The CJV partners retain ownership of the land-use rights and, accordingly, no value is assigned to the land-use rights for accounting purposes.

Sino-Wood's subsidiaries were committed to contribute an aggregate of $14,200,000 of capital to the five PRC CJVs, which was subsequently increased to $17,650,000. The increase in capital contributions was approved by the Commission of Foreign Trade and Economic Co-operation ("CFTEC") in 1999. Up to December 31, 2001, the Company had made capital contributions of $16,275,000 (2000 – $16,025,000) to meet costs for planting, maintenance and harvesting of the PRC CJVs' tree plantations. Accordingly, the outstanding capital contributions required with respect to these five PRC CJVs as at December 31, 2001 are $1,375,000 (2000 – $1,625,000). In 1999, the Company decided not to proceed with its investment in one of the PRC CJVs. The Company is in the process of dissolving this PRC CJV and accordingly, the required capital contribution of $1,375,000 has not been made.

The major components of the Company's interests in these five PRC CJVs are as follows:

	2001 $	2000 $
Consolidated balance sheets		
Current assets	18,240	15,927
Long-term assets	26,624	19,178
Current liabilities	(13,278)	(11,501)
Long-term liabilities	(13,299)	(5,851)
Consolidated statements of cash flows		
Cash flows from financing activities	7,982	1,400
Cash flows from (used in) investing activities	(7,446)	2,951

In 1999, the Leizhou EJV was converted to a WFOE as a result of the Leizhou Forestry Bureau's (the "LFB") voluntary withdrawal of its entire equity interest in Leizhou EJV in April 1998. The conversion from an EJV to a WFOE (the "Leizhou WFOE") was approved by the CFTEC in May 1999. Sino-Wood was required to contribute $10,000,000 for its 100% equity interest, of which $1,500,000 was required within three months from the issue of a business licence. Sino-Wood obtained approval to reduce the original total capital requirement of $10,000,000 to $1,400,000 in April 2000. As at December 31, 2001, Sino-Wood has made capital contributions of $1,000,000. The remaining capital contribution of $400,000 is required by May 2002.

{b} Wood-based operations

In July 1999, SFR (China) Inc. ("SFR China"), a wholly owned subsidiary of the Company, established a WFOE (the "SFR WFOE"). The principal business activity of the SFR WFOE is to manufacture wood-based products. The SFR WFOE was formed for a period of 30 years and SFR China is required to contribute $10,000,000 for its 100% equity interest. As at December 31, 2001, the Company has made total contributions of $3,295,000 (2000 – $3,000,000). The remaining capital contribution of $6,705,000 has to be contributed by July 2002.

In January 2001, SFR China established another WFOE (the "Jiafeng WFOE") to undertake certain projects in Suzhou that will be funded by the International Finance Corporation ("IFC"), part of the World Bank Group, and other lenders. The Jiafeng WFOE was formed for a period of 50 years and SFR China is required to contribute $15,000,000 for its 100% equity interest. As at December 31, 2001, the Company has made total contributions of $2,630,000. Of the remaining capital contributions, $8,370,000 has to be contributed by July 2003 and the balance of $4,000,000 by January 2004.

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when accounts are determined to be uncollectable. Accounts receivable are substantially from companies located in the PRC. Accounts receivable as at December 31, 2001 included $13.4 million due from three customers (2000 – $9.1 million due from three customers).

5. INVENTORIES

Inventories consist of the following:

	2001 $	2000 $
Wood products	**718**	2,243
Raw materials	**265**	161
	983	2,404

6. CAPITAL ASSETS

Capital assets consist of the following:

	2001 Cost $	2001 Accumulated depreciation and amortization $	2000 Cost $	2000 Accumulated depreciation and amortization $
Timber holdings	**156,120**	**–**	118,521	–
Machinery and equipment	**42,135**	**959**	37,314	–
Buildings	**8,835**	**119**	7,268	–
Land-use rights	**4,614**	**109**	3,322	–
Office furniture and equipment	**882**	**481**	704	292
Vehicles	**570**	**245**	495	138
	213,156	**1,913**	167,624	430
Less accumulated depreciation and amortization	**1,913**		430	
Net book value	**211,243**		167,194	

Timber holdings include 602,289 cubic metres (2000 – 602,289 cubic metres) of standing timber valued at $10,242,000 (2000 – $10,242,000) to be provided by the LFB to Sino-Wood as part of an agreement executed in April 1998 to exchange Sino-Wood's interest in the net assets of Leizhou EJV [note 3 (a)]. The standing timber is to be provided by the LFB as required by Sino-Wood. Sino-Wood is responsible for harvesting and transportation costs. During the year, Sino-Wood did not request any standing timber from the LFB. In 2000, 62,044 cubic metres of standing timber with an attributed value of $1,063,000 were delivered to Sino-Wood by the LFB.

Land-use rights, buildings, and machinery and equipment amounting to approximately $27,978,000 (2000 – $47,904,000) are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation.

7. DUE FROM PRC CJV PARTNERS

The amounts due from PRC CJV partners relate primarily to commission income and accounts receivable related to wood chip trading and sales and for reimbursement of office expenses. The amounts are unsecured and non-interest bearing. Amounts due from PRC CJV partners are expected to be settled in the next 12 months.

8. BANK INDEBTEDNESS

Subsidiaries of the Company have established several revolving lines of credit facilities to a maximum of approximately $49,310,000 (2000 – $27,720,000). These credit facilities bear interest at the prevailing prime rate in Hong Kong of 5.125% as at December 31, 2001 (2000 – 9.5%) and are repayable on demand.

As at December 31, credit facilities for the following were utilized:

	2001 $	2000 $
Trust receipt loans	13,734	8,803
Bank overdraft	24,193	9,425
	37,927	18,228

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2001 $	2000 $
Equipment loan	1,882	2,822
Debt component of Exchangeable Notes	10,476	8,992
Plantation loan	16,803	17,867
IFC Projects loan	19,000	–
	48,161	29,681
Less: long-term debt due within one year	941	941
	47,220	28,740

Principal repayments on the long-term debt over the next five years are as follows:

	$
2002	941
2003	2,524
2004	13,643
2005	6,528
2006	6,528
Thereafter	17,997
	48,161

{a} Equipment loan

In November 1997, Sino-Wood entered into two loan agreements for credit facilities of $4,505,000 to purchase certain machinery and equipment in connection with the construction of two particleboard mills in the PRC. The loans are repayable in ten equal consecutive semi-annual installments commencing on June 15, 1999. Sino-Wood may repay the loans at any time with 30 days written notice. The loans bear interest at LIBOR plus 0.625% payable semi-annually. As at December 31, 2001, the interest rate on the Equipment loan was 2.5% (2000 – 7.6%).

Interest capitalized as part of the cost of assets under construction for the year amounted to $156,000 (2000 – $227,000).

{b} Debt component of Exchangeable Notes

In 1999, Sino-Wood entered into an agreement to issue an aggregate of $20 million Guaranteed Exchangeable Redeemable Notes ("Exchangeable Notes"). The Exchangeable Notes are for a period of five years from January 29, 1999 to January 28, 2004, and bear interest at a rate of 5% per annum payable semi-annually in arrears.

The Exchangeable Notes are exchangeable in minimum amounts of $1 million into Class A Subordinate-Voting Shares of the Company at a price of $1.11 (equivalent of CDN$1.72) per share during the period from January 29, 2000 to January 28, 2002 and at a price of $1.21 (equivalent of CDN$1.88) per share during the period from January 29, 2002 to January 28, 2004. Sino-Wood is entitled, at any time between January 29, 2000 to January 28, 2002, to require the Noteholders to exchange no more than $10 million of the Exchangeable Notes into Class A Subordinate-Voting Shares provided that the weighted average price per share of the Company on the Toronto Stock Exchange for the 60 trading days and the seven trading days immediately preceding the date of such exchange shall both exceed two times the exchangeable price then in effect. The Exchangeable Notes not exchanged into Class A Subordinate-Voting Shares of the Company that are outstanding on the maturity date are entitled to interest for the entire five-year period at a rate of 15% per annum compounded annually, less any interest already paid.

The Exchangeable Notes are being accounted for in accordance with their substance and are presented in the consolidated financial statements in their component parts, measured at their respective fair values at the time of issue. The debt component has been calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the Exchangeable Notes were issued. Interest expense is determined on the debt component, with such component being reduced by the required semi-annual interest payments. The difference between the debt component and the face value of the Exchangeable Notes is classified as equity, net of issue costs.

Interest expense for the year on the debt component of the Exchangeable Notes was $2,484,000 (2000 – $2,000,000).

Subsequent to December 31, 2001, the equity component of the Exchangeable Notes of $13,266,000 was reclassified to long-term debt since Sino-Wood's entitlement to require that the Noteholders exchange no more than $10 million of the Exchangeable Notes into Class A Subordinate-Voting Shares had expired. As a result of this reclassification, additional interest expense of approximately $1,600,000 in each of 2002 and 2003 will be charged to operations. This additional interest expense reflects the higher guaranteed interest rate of 15% per annum that was not required on the equity component of the Exchangeable Notes prior to the reclassification.

{c} Plantation loan

In 1999, Sino-Wood entered into a loan agreement for a long-term loan of Euro 18,970,710 ($20 million) to fund part of its plantation program.

The loan is for a period of ten years. Principal repayment of the loan will commence on May 15, 2005 in ten equal semi-annual installments. Sino-Wood may repay the loan at any time with 45 days written notice. The loan bears interest at the six month EUR LIBOR rate plus 3.5% per annum. As at December 31, 2001, the six-month EUR LIBOR rate was 3.3% (2000 – 4.4%). Interest expense for the year amounted to $1,345,000 (2000 – $1,346,000).

The Company pays certain of its interest expense at floating EUR LIBOR interest rate and has entered into an interest rate cap agreement to manage its interest rate risk. The cap agreement reduces the Company's exposure to EUR LIBOR movements by fixing the EUR LIBOR at a maximum of 7% per annum. The counterparty will pay to Sino-Wood the excess of EUR LIBOR over 7% on the notional amount of the debt of Euro 18,970,710 adjusted in accordance with the repayment schedule of the debt. The interest rate cap agreement expires in May 15, 2008.

As at December 31, 2001, the amount of the plantation loan outstanding was $16,803,000 (2000 – $17,867,000).

{d} IFC projects loan
During 2001, two of the Company's wholly owned subsidiaries entered into loan agreements with the IFC and other lenders for long-term loan facilities totalling $47.5 million. First and second disbursements of the loans of $19 million each were received by the subsidiaries in September 2001 and February 2002, respectively. The final disbursement of $9.5 million is expected to be made before the end of the second quarter of 2002.

Proceeds from these loans are used to invest in new plantations and wood-based product manufacturing facilities. The loans will be repaid in 12 equal semi-annual installments commencing on December 15, 2003, with the final installment due on June 15, 2009. The loans will bear interest at six-month LIBOR plus 3% per annum. As at December 31, 2001, the six-month LIBOR rate was 2%.

{e} Covenants
Under the terms of the above debt agreements, the Company and Sino-Wood must meet certain financial and non-financial covenants. These covenants include the maintenance of certain financial ratios, restrictions and limitations, including those on changing the nature of its business and payment of dividends. Management considers that meeting these covenants will not affect the normal operations of the Company.

10. SHARE CAPITAL

Share capital consists of the following:

	2001 $	2000 $
Authorized		
Unlimited Class A Subordinate-Voting Shares		
6,000,000 Class B Multiple-Voting Shares		
Unlimited Preference Shares, issuable in series		
Issued		
74,330,228 [including 4,649,000 issued under share purchase loans] Class A Subordinate-Voting Shares [2000 – 74,300,228, including 4,619,000 issued under share purchase loans]	**32,758**	32,758
6,000,000 Class B Multiple-Voting Shares [2000 – 6,000,000]	**–**	–
	32,758	32,758
Equity component of Exchangeable Notes [note 9(b)]	**13,266**	13,266
	46,024	46,024

The legal stated capital of the Company's Class A Subordinate-Voting Shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2001 is CDN$66,466,253 (2000 – CDN$66,466,253).

Authorized

Except with respect to voting, dividends and the rights of conversion described below, each Class A Subordinate-Voting Share and each Class B Multiple-Voting Share have the same rights and are equal in all respects:

- each holder of Class A Subordinate-Voting Shares is entitled to one vote per share whereas each holder of Class B Multiple-Voting Shares is entitled to five votes per share;
- the Class A Subordinate-Voting Shares rank in priority to the Class B Multiple-Voting Shares as to the payment of dividends; however, no dividends may be declared or paid on the Class B Multiple-Voting Shares in any fiscal year unless in that fiscal year dividends shall have been declared or paid on Class A Subordinate-Voting Shares in an amount per share at least equal to, or equivalent to, the amount of the dividend per share proposed to be declared or paid on Class B Multiple-Voting Shares;
- each holder of Class B Multiple-Voting Shares is entitled at any time and from time to time to have all or any part of the Class B Multiple-Voting Shares held converted into Class A Subordinate-Voting Shares on a share-for-share basis; and
- the registered holders of the Class B Multiple-Voting Shares have executed a Coattail Agreement under which the holders agree not to effect a transfer of any Class B Multiple-Voting Share unless such transfer is made in accordance with the terms thereof and is a Permitted Transfer, as defined in the provisions attached to the Class B Multiple-Voting Shares.

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 Class A Subordinate-Voting Shares and the Class B Multiple-Voting Shares.

Changes in issued share capital

During 2000, the Company purchased and cancelled 527,000 Class A Subordinate-Voting Shares at a total cost of $557,000. The premium of $308,000 on the repurchase of these shares over their stated value was charged to retained earnings.

Share purchase loans

During 2001, options to purchase 30,000 Class A Subordinate-Voting Shares were exercised under the terms of the Company's stock option plan (the "Plan"). The Company made an interest-free loan amounting to $12,000 to an employee, pursuant to the terms of the Plan, to finance the acquisition of 30,000 Class A Subordinate-Voting Shares. The average purchase price of the shares acquired subject to the share purchase loan was $0.40. In accordance with the terms of the Plan, the shares acquired under share purchase loans are pledged to the Company and the indebtedness is repayable upon the sale of the pledged shares. The Company has recorded the share purchase loans as a reduction in share capital. As at December 31, 2001, $4,295,100 (2000 – $4,719,000) of these loans remained outstanding.

Stock options

The Company's Plan provides for the issuance of up to a maximum of 10,000,000 Class A Subordinate-Voting Shares at an exercise price equal to the market price of the Company's Class A Subordinate-Voting Shares on the date of the grant. The option period for the 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. As at December 31, 2001, options to purchase 8,438,000 Class A Subordinate-Voting Shares have been granted and options to purchase 1,562,000 Class A Subordinate-Voting Shares remain available to be granted under the Plan.

The following table summarizes the changes in stock options outstanding during the year:

	2001 Shares	2001 Weighted average exercise price	2000 Shares	2000 Weighted average exercise price
Balance, beginning of year	1,279,000	CDN$1.72	479,000	CDN$1.84
Options granted	–	–	800,000	CDN$1.64
Options exercised	(30,000)	CDN$0.60	–	–
Options cancelled	(324,000)	CDN$1.54	–	–
Balance, end of year	925,000	CDN$1.77	1,279,000	CDN$1.72
Exercisable at year-end	715,000	CDN$1.83	749,000	CDN$1.77

The following table summarizes the weighted average exercise prices and the weighted average remaining contractual life of the options outstanding and exercisable at December 31, 2001:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Weighted average exercise price
CDN$1.50–CDN$1.75	700,000	3.4 years	CDN$1.57	490,000	CDN$1.57
CDN$1.93–CDN$2.79	225,000	0.6 years	CDN$2.41	225,000	CDN$2.41
	925,000	2.7 years	CDN$1.77	715,000	CDN$1.83

11. INCOME TAXES

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

	2001 $	2000 $
Income before income taxes	18,788	29,364
Expected statutory tax rate	43.95%	43.95%
Expected income tax provision	8,257	12,905
Increase (decrease) in income taxes resulting from		
Unrecognized income tax losses arising from losses of the Company and its subsidiaries	4,828	3,559
Income tax at different rates in foreign jurisdictions	(12,606)	(13,783)
	479	2,681

The PRC WFOEs and CJVs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the “Income Tax Laws”). Pursuant to the Income Tax Laws, WFOEs, Sino-foreign equity and co-operative joint venture enterprises are subject to income tax at an effective rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements. The PRC WFOEs, CJVs, Leizhou WFOE and Gaoyao EJV are eligible for an exemption from state and local income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward, followed by a 50% exemption for the next three years.

Hong Kong profits tax has been provided at the rate of 16% (2000 – 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rate of taxation prevailing in the countries in which the Company operates.

As at December 31, 2001, the Company has income tax losses of approximately $4,213,000, which can be applied against future years' taxable income in Canada, the benefit of which has not been recorded in these consolidated financial statements. Approximately $250,000 of these tax losses will expire in 2002, $217,000 in 2003, $705,000 in 2004, $905,000 in 2005, $825,000 in 2006, $631,000 in 2007, and the remainder will expire in 2008. The benefit of these losses, if realized, will be at the Canadian tax rates at the time the benefit is realized.

12. EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding during the year. The Class A Subordinate-Voting Shares pledged under the Company's share purchase loans are deducted from the weighted average number of Class A Subordinate-Voting Shares outstanding in calculating basic earnings per share. Fully diluted earnings per share is based on the weighted average number of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding, adjusted for stock options outstanding and shares acquired under share purchase loans and assumes the full conversion of the Exchangeable Notes described in note 9 [b]. The weighted average numbers of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding were as follows:

	Weighted average	
	Basic	Diluted
December 31, 2001	**75,652,000**	**97,940,000**
December 31, 2000	75,690,000	99,018,000

13. CHANGE IN NON-CASH WORKING CAPITAL

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

	2001 $	2000 $
Cash provided by (used for):		
Accounts receivable	**(4,091)**	808
Due from PRC CJV partners	**(4,081)**	106
Other receivables and prepaid expenses	**(5,469)**	(1,648)
Inventories	**1,421**	(2,404)
Accounts payable and accrued liabilities	**5,127**	(1,596)
Income taxes payable	**501**	2,659
	(6,592)	(2,075)

14. SEGMENTED INFORMATION

By Industry Segment

	Wood chips $ (2001)	Wood-based $ (2001)	Total $ (2001)	Wood chips $ (2000)	Wood-based $ (2000)	Total $ (2000)
Revenue from external customers						
Sales	76,816	44,635	121,451	79,984	28,210	108,194
Commission income	13,262	2,600	15,862	16,968	1,539	18,507
	90,078	47,235	137,313	96,952	29,749	126,701
Income from operations	20,614	831	21,445	29,384	3,102	32,486
Identifiable assets	189,880	92,670	282,550	151,104	69,066	220,170
Interest income	583	333	916	72	527	599
Interest expense	1,345	2,829	4,174	1,346	2,574	3,920
Depreciation and amortization	102	1,100	1,202	102	2	104
Additions to capital assets	37,625	7,625	45,250	27,901	26,547	54,448

Revenue from the Company's largest customer for the year amounted to approximately 29% (2000 – 38%) of total revenue. During the year, there were two (2000 – three) customers each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 57% (2000 – 63%) of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 30% (2000 – 41%) of total purchases. During the year, two (2000 – two) vendors each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 57% (2000 – 56%) of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in one geographic area, East Asia. During the year, sales in the PRC and to other Asian countries amounted to approximately $118,673,000 (2000 – $102,929,000) and $2,778,000 (2000 – $5,265,000), respectively.

At December 31, 2001, approximately $825,000 (2000 – $3,629,000) of the Company's cash and cash equivalents and $121,000 (2000 – $1,812,000) of its short-term deposits were denominated in Chinese renminbi.

15. COMMITMENTS

As at December 31, 2001, the Company has various commitments to make capital contributions to the PRC CJVs and WFOEs, the details of which are disclosed in note 3. During the year, the Company entered into an agreement to lease the land-use rights for 6,667 hectares of plantation lands for 50 years. The total fee payable under this agreement is $8,665,000 of which $108,700 is payable annually in the first five years commencing from the date the land is used.

16. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2001 consolidated financial statements.

Directors and Officers

DIRECTORS

Allen T.Y. Chan
Chairman and
Chief Executive Officer,
Sino-Forest
Hong Kong

Committees: Audit, Compensation

Director Since: 1994

John (Jack) Lawrence
Chairman,
Lawrence & Company
Toronto

Committees: Compensation (Chair)

Director Since: 1997

Edmund Mak
Real Estate Marketing,
Re/Max Select Properties
Vancouver

Committees: Audit, Corporate Governance

Director Since: 1994

Simon Murray
Chairman,
GEMS (General Enterprise
Management Services Limited)
Hong Kong

Director Since: 1999

Kai Kit (K.K.) Poon
President,
Sino-Forest
Hong Kong

Director Since: 1994

William Rosenfeld
Partner,
Goodmans LLP
Toronto

Committees: Audit (Chair), Compensation, Corporate Governance (Chair)

Director Since: 1997

Kee Y. Wong, F.C.A.
Executive Vice-President and
Chief Financial Officer,
Sino-Forest
Toronto

Committees: Corporate Governance

Director Since: 1997

OFFICERS

Allen T.Y. Chan
Chairman and
Chief Executive Officer,
Sino-Forest

Kai Kit (K.K.) Poon
President,
Sino-Forest

Kee Y. Wong, F.C.A.
Executive Vice-President and
Chief Financial Officer,
Sino-Forest

Leslie Chan
Executive Vice-President,
Sino-Forest

Jay Lefton
Corporate Secretary,
Sino-Forest

Corporate and Shareholder Information

Corporate Head Office

Sino-Forest Corporation
1208-90 Burnhamthorpe Road West
Mississauga, Ontario, Canada L5B 3C3
Tel: 905.281.8889
Fax: 905.281.3338
E-mail: info@sinoforest.com
Web site: www.sinoforest.com

Executive Head Office

Sino-Forest Corporation
3129-40, 31/F Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong
Tel: 852.2877.0078
Fax: 852.2877.0062

Auditors

Ernst & Young LLP
Ernst & Young Tower
P.O. Box 251, 222 Bay Street
Toronto-Dominion Centre
Toronto, Ontario, Canada M5K 1J7

Legal Counsel

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

Registrar and Transfer Agent

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

Exchange Listing

The Class A Subordinate-Voting Shares of the Company are listed on the Toronto Stock Exchange under the symbol TRE.A

Investor Relations

Kee Y. Wong, F.C.A.
Executive Vice-President and
Chief Financial Officer
Tel: 905.281.8889
Fax: 905.281.3338

Allen T.Y. Chan
Chairman and Chief Executive Officer
Tel: 852.2877.0078
Fax: 852.2877.0062

Web Sites

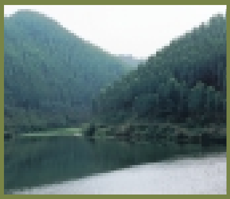
www.sinoforest.com
www.sinoforestonline.com

Annual Shareholder Meeting

4 p.m., Monday, June 17, 2002
The Royal York Hotel,
Upper Canada Room, 18th Floor
100 Front Street West, Toronto, Ontario,
Canada M5J 1E3

Editorial and Production Co-ordination by Story Communications and MultiTask Corporate Communications   Design by Rave! Design Inc.

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.



Sino-Forest's Environmental and Social Commitment

Sino-Forest is committed to sustainable management – the use of resources in a manner that allows economic growth while protecting the environment.

Sino-Forest's recent funding by the World Bank Group, and by lenders FMO and DEG, is an endorsement of Sino-Forest as one of the leaders in sustainable forestry management in China. As such, Sino-Forest is committed to upholding the high standards of the World Bank with respect to environmental, labour relations, and workplace safety.

As practitioners of sustainable development, Sino-Forest strives to minimize the impact of our operations while we add economic and social value to the community in which we operate. Some of our environmental and social initiatives include:

- The establishment of an **Environmental Management System (EMS)**, which includes clear policies and operating procedures that incorporate environmental and social best practices for all of our operations. The objective of Sino-Forest's EMS is to foster excellence, leadership, sustainability, and continuous improvement in environmental performance.
- The commission of an **independent environmental audit** of Sino-Forest's plantations. This audit ranked us favourably in the areas of forest planning, social issues and environmental protection. For example:

  1) Sino-Forest's particleboard mill in Gaoyao in Guangdong Province, has modern pollution control equipment that meets the World Bank Group's environmental and health and safety guidelines.

  2) Sino-Forest is in the process of developing an integrated pest management strategy. Biological and other non-chemical disease control measures, along with the use of organic fertilizers, are promoted on all plantations.
- The establishment of the **Sustainable Development Leadership Program (SDLP)**. The SDLP is a partnership between Yale University's School of Forestry and Environmental Studies and China's Nanjing Forestry University. This is the first program of its kind in China to recognize the importance of sustainable resource management. The program's goal is to foster sustainable development among China's key corporations and institutions by teaching business leaders and professionals about sustainable development.

At Sino-Forest, we have adopted integrated sustainable forestry management as our fundamental philosophy. We are committed to developing a long-term perspective of a 'green' economy in China. We are leading by example and hope to teach more Chinese foresters to understand that what is good for our environment is also good for business.