SINO-FOREST CORPORATION 2003 ANNUAL REPORT

The Past

The Present

The Future

Our Next 10 Years

Sino-Forest Corporation
2003 Annual Report

Mission

Sino-Forest's mission is to become the leading plantation operator and preferred supplier of wood fibre to downstream customers in the pulp & paper, wood panel, furniture, construction and interior decoration industries in the Asia-Pacific region.

Market Potential

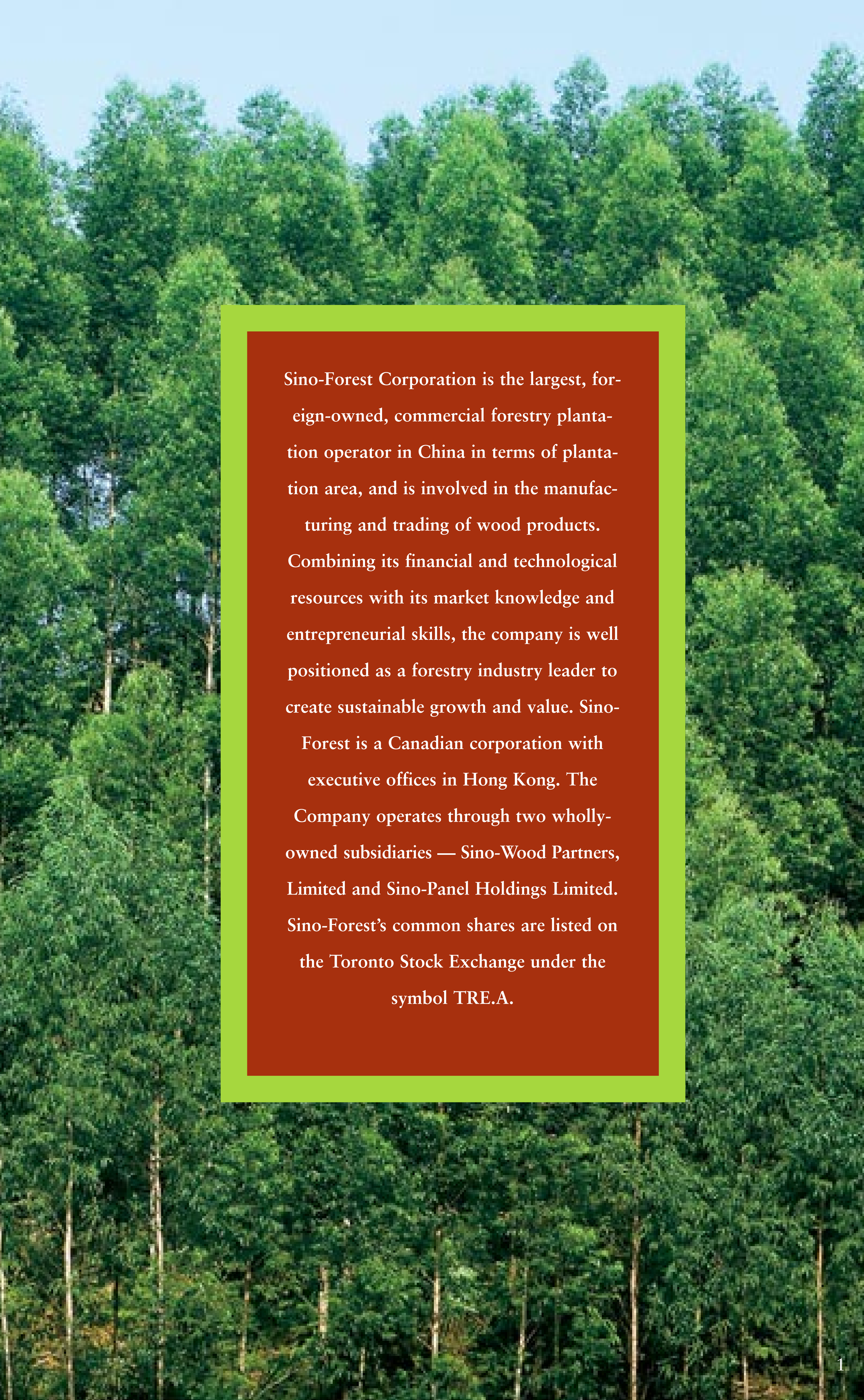
The massive populations of China and nearby countries are creating strong demand for industrial and consumer wood-based products. Independent forestry consultants have projected double-digit annual growth in demand for timber and wood-based products in China this decade. To protect their natural environments, governments throughout Asia have restricted logging of natural forests, causing huge shortages of harvested wood. Renewable plantations have become a long-term, sustainable solution, and Sino-Forest is uniquely positioned to reap value from this huge market potential.

Strategy

Sino-Forest's strategy is to satisfy China's strong demand for wood fibre and wood-based products by cultivating short-rotation tree plantations, and manufacturing and trading high-quality wood chips, engineered wood, logs and standing timber. The company combines sustainable forestry practices, new investment and technology, to increase plantation yields and manufacture higher-quality, value-added products for trade with domestic and international customers. This strategy allows Sino-Forest to deliver sustainable and profitable growth, and increase market penetration and shareholder value.

Contents

1 Profile 2 The Past 6 The Present 10 The Future 20 Message from the Chairman and CEO
23 Management's Discussion and Analysis 33 Management's and Auditors' Reports
34 Consolidated Balance Sheets 35 Consolidated Statements of Income and Retained Earnings
36 Consolidated Statements of Cash Flows 37 Notes to Consolidated Financial Statements
50 Directors and Officers IBC Corporate and Shareholder Information



Sino-Forest Corporation is the largest, foreign-owned, commercial forestry plantation operator in China in terms of plantation area, and is involved in the manufacturing and trading of wood products. Combining its financial and technological resources with its market knowledge and entrepreneurial skills, the company is well positioned as a forestry industry leader to create sustainable growth and value. Sino-Forest is a Canadian corporation with executive offices in Hong Kong. The Company operates through two wholly-owned subsidiaries — Sino-Wood Partners, Limited and Sino-Panel Holdings Limited. Sino-Forest's common shares are listed on the Toronto Stock Exchange under the symbol TRE.A.

After our first 10 years, we now have a strong base of plantation trees and operating expertise.

The Past

a history of continued growth >>>

1994 → 2002

A SOLID TRACK RECORD OF GROWTH

All amounts in this report are in United States dollars

1996

- Raised Cdn.$30 million in equity financing to fund plantation development

$200 million

IN TOTAL ASSETS BY 2000

2001

- Plantation land under management reached 200,000 hectares
- Sino-Forest obtained $48 million of funding for growth
- ISO 14001 certification for Environmental Management System at Guangxi CJV plantations

1994 1995 1996 1997 1998 1999 2000 2001 2002

1994

- Sino-Forest formed as Ontario corporation
- Began plantation operations in China
- Entered into equity joint venture covering 20,000 hectares
- Revenues were approximately $20 million; net income was $3 million; diluted EPS was $0.08; total assets were $31 million

1995

- Entered into five co-operative joint ventures covering 603,000 hectares
- TRE.A shares began trading on the Toronto Stock Exchange

SINO-FOREST CORPORATION BEGAN TRADING ON THE TORONTO STOCK EXCHANGE IN 1995 UNDER THE SYMBOL

TRE.A

1997

- Wood chip shipments reached one million bone-dry metric tons
- Total assets surpassed $70 million

1998

- Plantation land under management reached 100,000 hectares
- Obtained ISO 9002 certification for Quality Management System at Guangxi Co-operative Joint Venture (CJV) plantations

1999

- Sino-Forest decided to become an integrated forest-product supplier — begins construction of particleboard mill in Gaoyao, Guangdong
- Wood chip shipments reached two million bone-dry metric tons

2000

- Total assets surpassed $200 million

- Launched Sustainable Development Leadership Program — bridging academic institutions in North America and China

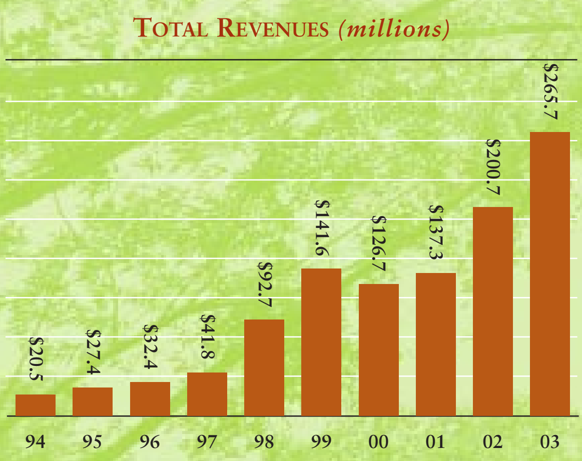
2002

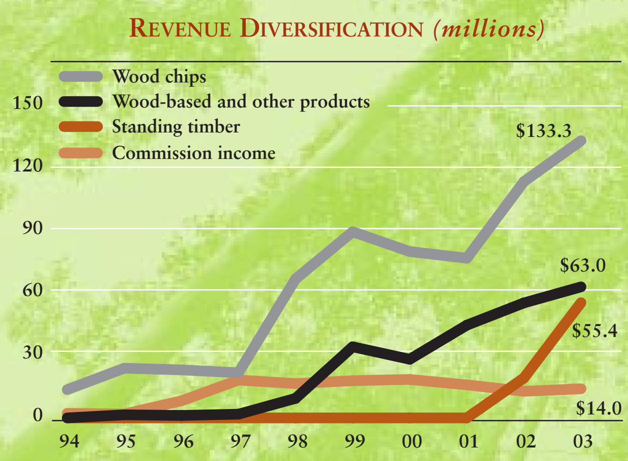
- Sales of standing timber made first significant contribution to total revenues, which reached $200 million

$200 million

IN REVENUES BY 2002

YEAR ➔ YEAR GROWTH





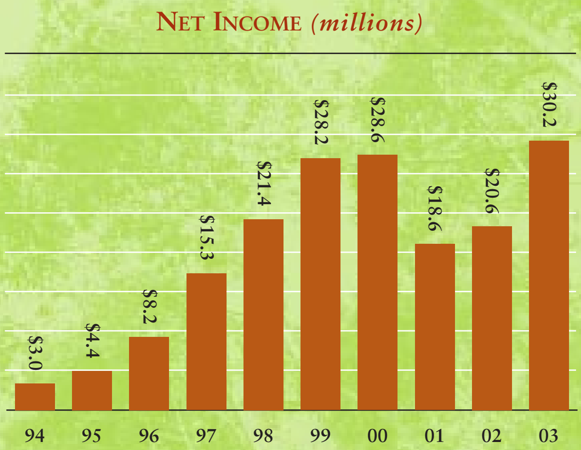
- Rising demand for wood products and expansion of our operations drove Sino-Forest's top-line revenues to increase at a remarkable compound average growth rate of 33% per annum from 1994 to 2003.

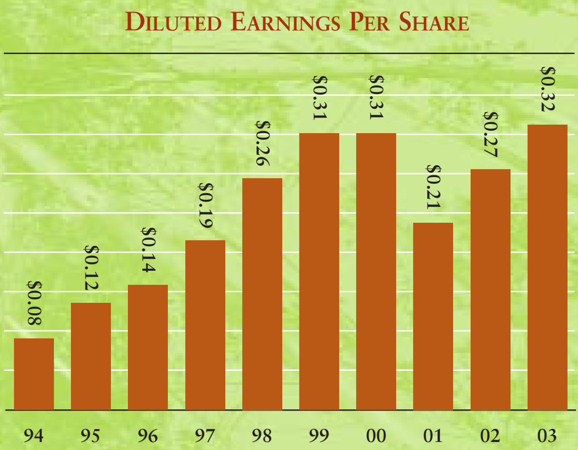
- While we have increased sales of our core product line — wood chips — we have also created new revenue streams from the sale of manufactured wood-based products, and most recently, standing timber.

33%

PER ANNUM COMPOUND AVERAGE GROWTH RATE FROM 1994 TO 2003

Our product line and our prosperity have grown with market demand and our business experience in China.



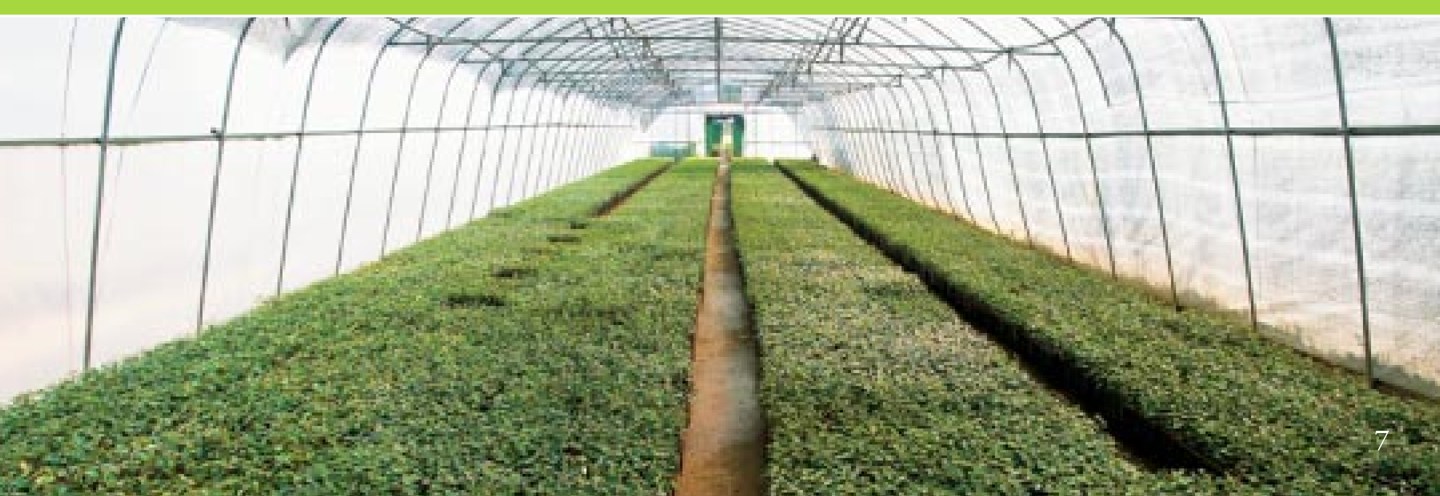


- Sino-Forest's net income and earnings per share have rebounded over the past two years, due to rising wood chip shipments and substantial increases in their price per metric ton, and to the high-margin sales of standing timber.

Our eucalyptus hardwood trees take only five years to mature to a point where they can be harvested.

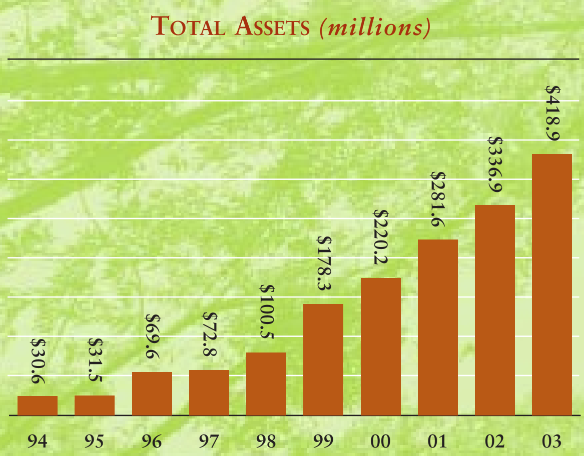
The Present

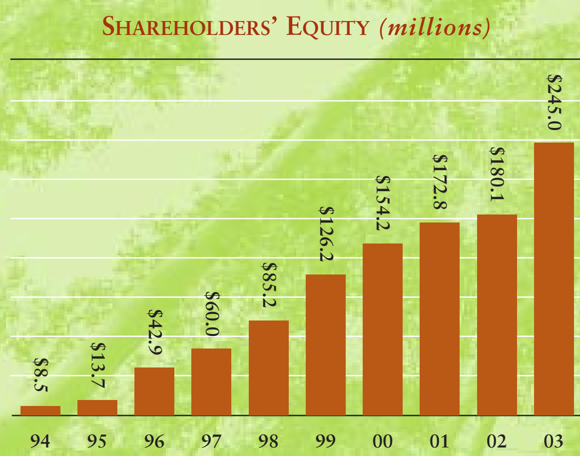
a year of many successes >>>



2003

MEETING OUR COMMITMENTS AND REACHING OUR GOALS



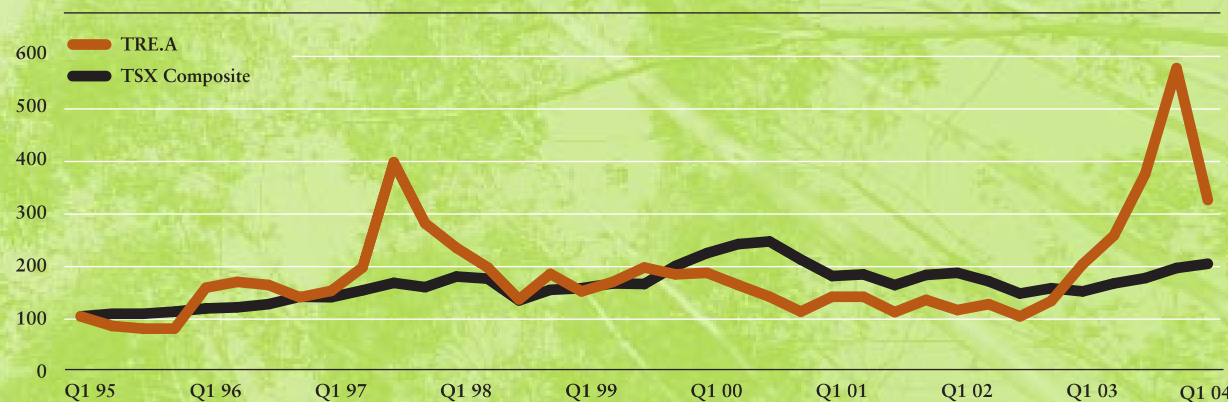


Summary of Financial Data

(Expressed in thousands of United States dollars, except per share amounts)	2003 $	2002 $
Revenue	**265,739**	200,748
Income from operations	**49,917**	31,287
EBITDA	**81,388**	43,194
Net income	**30,180**	20,592
Diluted earnings per share	**0.32**	0.27
Cash flow from operating activities	**73,513**	12,593
Cash and cash equivalents	**6,929**	1,178
Total assets	**418,854**	336,895
Total liabilities	**173,882**	156,784
Shareholders' equity	**244,972**	180,111
Return on equity	**12%**	11%

By year end, Sino-Forest's total assets had surpassed $400 million.

SINO-FOREST'S 10 YEAR STOCK PRICE PERFORMANCE



2003 Highlights

- Total forestry plantation land with planted trees was 176,000 hectares at year end
- Sold 8% more wood chips, at an average price increase of 8% from 2002
- Sold 20,630 hectares of standing timber, at an average price increase of 13%
- Further diversified and increased revenues 32%
- Increased net income 47%, diluted earnings per share 19%
- Raised $31 million to fund future growth and higher plantation yields
- Converted six million multiple-voting shares into common shares
- Maintained sustainable forest management leadership

20,630 hectares

OF STANDING TIMBER SOLD AT AN AVERAGE PRICE INCREASE OF 13%

Among our goals is to have one of the highest recoverable plantation yields in China.

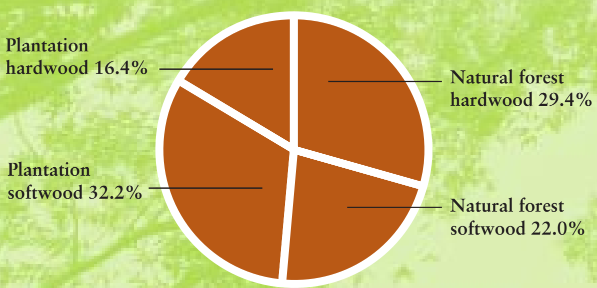
The Future

the next decade of opportunity >>>

2004

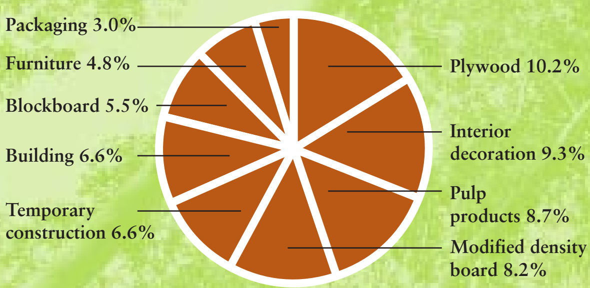
OUR NEXT TEN YEARS

Sources of Industrial Logs, 2002
(millions of cubic metres)



Wood from plantations constitutes approximately half of the supply of industrial logs in China.

Industrial Roundwood Demand, 2002
(millions of cubic metres)



The production of plywood, MDF and blockboard drive approximately one quarter of the demand for industrial roundwood in China.

Enormous Market Potential

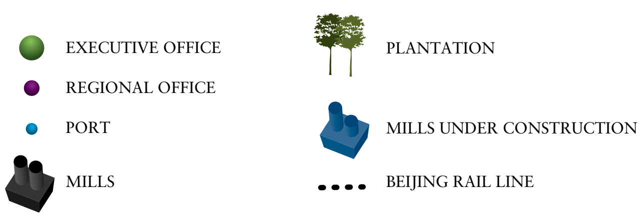
The primary drivers of future growth in our South-East Asian markets will be demographic, economic and political:

- Sino-Forest operates in proximity to several of the world's most populated economies: China (1.3 billion), Japan (127 million), Indonesia (238 million) and Philippines (86 million).
- After joining the World Trade Organization and the Asia Pacific Economic Cooperation, China is experiencing increased trade deregulation, foreign direct investment, imports and exports.
- Asia Pacific Consensus Forecasts call for China's economy to grow by an average 7% to 8% per annum until 2010.
- Double-digit annual growth in China's industrial capacity, along with low labour costs, are helping to keep the inflation rate under 2% per annum.
- Disposable income is increasing 10% annually; a growing middle class is bolstering domestic demand; living standards are improving with rising consumer expectations.
- An important part of the continuing transformation from a centralized economy to a market economy is the privatization of housing, which encourages citizens to own and renovate their homes.

We know that these important factors will accelerate the demand for pulp & paper and wood-based products.

The primary drivers of future growth in our Asian markets will be demographic, economic and political.

Sino-Forest's Plantation, Mill and Office Locations



Surging Demand

The demand for our wood chips, logs and finished products will far outweigh the supply due to numerous factors:

- To reduce deforestation, land erosion and loss of natural habitats, the government of China (GOC) imposes its Natural Forest Protection Program, which has reduced domestic round-wood logging by 20% and caused a chronic shortage of large-diameter, high-grade timber. Since domestic supply of this type of timber is half of what is needed, demand is increasing for small-diameter-timber paper and wood-based boards, particularly for industrial use such as the construction of the Three-Gorges Dam, the 2008 Olympic facilities, the World Expo in 2010, and for housing construction, renovation and decoration.
- Based on projected demand for paper and board, according to independent, forestry and engineering consultants Jaakko Pöyry, China's wood consumption is expected to increase a compound average 4% annually to 2015. Many new pulp mills and MDF plants are under construction to

meet this demand, and much of it will be supplied by commercial tree plantations.

- Due to the harmful pollution emitted when making clay bricks, the GOC has banned the use of bricks for construction in large cities, which increases demand for wood-based products. The GOC also encourages the use of laminated, solid-wood flooring, which utilizes small-diameter wood from fast growing species, and laminated composite flooring, which utilizes fibreboard or particleboard.
- The GOC housing reform is driving a 10% annual growth in demand for timber, 15% to 20% for wood flooring, 10% to 15% for wood-based wall panels and furniture, as well as higher needs for staircases, molding, doors and window sashes.

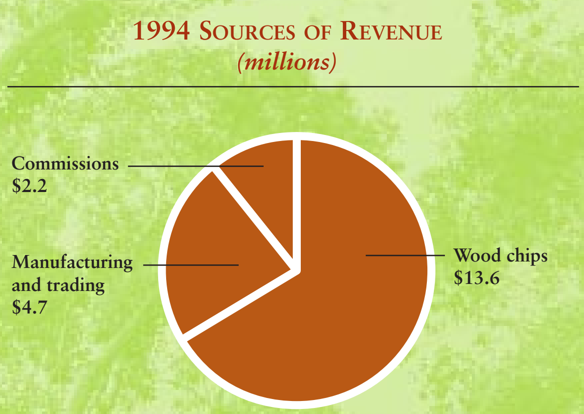
We believe that these trends will firmly establish renewable plantation wood as a sustainable solution to China's wood deficit, and Sino-Forest has the leading position in the commercial forest product industry.

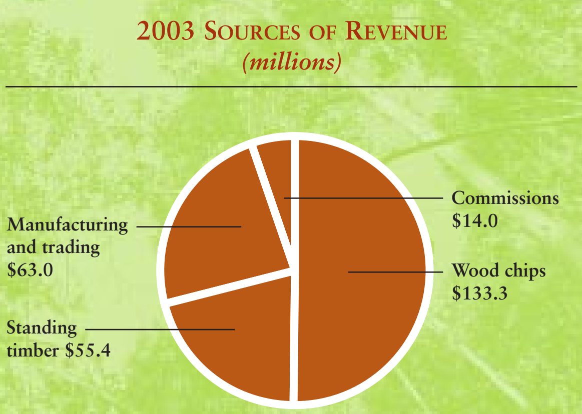
Competitive Advantages

We do not expect to face significant competition in our next ten years, due to the strong leadership position we have established with the following competitive advantages:

- **Secure supply of raw material** Sino-Forest has access to 41,000 hectares of planted plantations in which it owns a 70% interest in the trees through long-term CJVs with local government forestry bureaus. The company also has full rights to the trees on 135,000 hectares of purchased tree plantations. By committing to continuous replanting, we produce a predictable and sustainable supply of wood.
- **Strategically located operations** Sino-Forest operates plantations and manufacturing plants near major transportation arteries, a growing number of pulp, paper and panel mills, and highly populated markets such as Greater Guangzhou and Greater Shanghai.
- **Technical expertise**
Learning from research & development, our experts know how to systematically apply advanced bioscientific and silvicultural methods to maximize harvesting yields. We also consult with knowledgeable foreign experts to optimize our plantation operational practices, logistics, manufacturing productivity and cost efficiency.
- **Strong management and business relationships**
Our executive team has a strong track record with an average 20 years' experience working as entrepreneurs in China; we know the markets and local business practices; we have regulatory support and have strong, established business relationships.
- **Scale of operations**
Sino-Forest is the largest, vertically integrated, wood producer in the country, so we can leverage our partnerships, economies of scale and scope of operations to supply a broad range of products, more reliably and cost-effectively.

Already one of the largest suppliers of wood chips, we are also becoming a major provider of standing timber. This is further diversifying the Company's sources of revenue and income.





Grounds for Sustainable Growth

Sino-Forest's success in our next ten years is already well grounded, thanks to our reliable and plentiful supply of quality wood in the form of wood chips, standing timber and logs.

We have long-term CJVs in place whereby Sino-Forest is in charge of paying for plantation establishment and maintenance costs, logistics, quality assurance and marketing, while local government forestry bureaus and outsourced contractors provide the plantation land, planting rights, land preparation and planting, maintenance and harvesting.

With these CJV arrangements, the application of research and development to cultivation techniques, and the supportive policies of the GOC, we will further strengthen our leadership position as the largest, foreign-owned, commercial forestry plantation operator in the country:

- Sino-Forest has certified rights to 176,000 hectares of hardwood and softwood trees in the provinces of Guangdong, Guangxi, Jiangxi and Fujian in southern China. 135,000 hectares of these lands are purchased tree plantations (where we hold the right to sell mature timber and pre-emptive rights to lease available plantation land). Through our CJVs and wholly foreign-owned enterprise (WFOE), we have rights to increase our plantation operations to a total area of 616,000 hectares.
- In 2003, we invested $89 million in our forestry plantations, and we intend to increase the Company's tree profile — purchasing plantations with trees at various stages of maturity in order to stabilize our annual output. To accomplish this, we will acquire other plantations from

independent operators — effectively becoming an aggregator of commercial plantations. After harvest, we will lease the land to plant fast-growing (short rotation) eucalyptus trees.

MODEL FOR POTENTIAL EXPANSION

Perpetual rotation, base case model

147,000 Hectares

347,000 Hectares

Model for potential expansion with recent undertaking (excluding proceeds from recent equity offering)

- Cooperating with other research centres, we will continue to use R&D for selection of suitable species and hybrids, propagating genetic diversity, cloning, tissue culturing, and optimizing non-chemical fertilizer, tree spacing and resistance to disease, cold and fire. This will ultimately improve tree quality, growth rates, survival and output. Sino-Forest has an R&D team of bio-scientists who develop scientific techniques in bioengineering. As a result, we obtain an average recoverable yield per cycle of over 90 cubic metres of standing timber per hectare, compared to China's average 60 cubic metres. But knowing that yields in some other countries are much higher, we are aiming to increase the yield of our plantations by 15% to 20% with improved planting materials and advanced plantation management techniques, in order to reach our goal of 120 cubic metres per six-year cycle over the next two rotations. We therefore have significant opportunities to enhance our profit margins by systematically applying advanced planting and silvicultural techniques to our short-rotation plantations.

- Complementing our efforts, the States Forestry Administration of the GOC is implementing a plan to increase forest coverage of the country from the current 16.6%, to 23% by 2020, through ecological protection and restoration of natural forests, construction of infrastructure for development of the forestry industry, the return of farmland to forest, the increased use of science and technology, and a shift from logging natural forests to harvesting fast-growing, high-yielding plantations. Plantations produce more trees per hectare than natural forests, and are environmentally friendly.

With good access to plantation wood, Sino-Forest was able to sell 8% more wood chips in 2003 than in the previous year. And we increased by over 150% our sales of standing timber, which generates a gross margin that is more than double that for wood chips. Since over 90% of our total sales are within China, where demand will increase, we expect the prices of our wood products to remain stable or rise in the near term.

The table below lists our current product manufacturing lines, and those under construction with the estimated times of completion.

City, Province	Product Line	Annual Capacity	Start of Production
Gaoyao, Guangdong	Particleboard	100,000 m^3	Second quarter 2001
	Melamine faced chipboard	1,000,000 m^2	Third quarter 2003
	Sawn mill	40,000 m^3	*Second half 2004**
	Finger-joint board	20,000 m^3	*Second half 2004**
	Veneer lamination	1,000,000 m^2	*Second half 2004**
	Melamine lamination	5,000,000 m^2	*First half 2005**
	Kitchen cabinet	300,000 pieces	*First half 2005**
	Composite door	100,000 pieces	*First half 2005**
Suzhou, Jiangsu	Sawn mill	68,000 m^3	Second quarter 2002
	Finger-joint board	20,000 m^3	*Second half 2004**
	Blockboard	20,000 m^3	*Second half 2004**

** estimated time of completion*

Valuable Plantations

In 2003, we commissioned JP Management Consultants (Asia-Pacific) Pte. Ltd. ("Jaakko Pöyry") to conduct an independent, technical and operating review of Sino-Forest's operations, including a valuation of the forest assets of the company's subsidiary, Sino-Wood Partners Ltd. Jaakko Pöyry is one of the world's largest forestry and engineering consulting firms.

The review was done at an appropriate time, when Sino-Forest received an undertaking from a joint-venture partner to expand our plantation area by 200,000 hectares. Subject to raising the appropriate financing, this expansion would allow us to nearly double our current wood profile and give us a much stronger market position over the next ten years.

Jaakko Pöyry assumed in its perpetual valuation model that Sino-Forest has the capabilities to expand significantly and further improve the stability of its annual output. Using a discounted cash flow analysis, applying a discount rate of 13% to pre-tax cash flow projections, Jaakko Pöyry estimated the value of Sino-Wood's forest current assets to be over $430 million, and over $600 million with the potential expansion as of October 31, 2003.

Plans for Expanded Manufacturing

We plan to build eight manufacturing mills that complement our existing operations so that we can produce, sell and distribute more, high-value, wood products to customers further down the supply stream.

Our particleboard plant in Gaoyao is one of China's largest, using plantation wood. It is located in Guangdong Province, where over half of the country's furniture is produced.

Knowing that engineered and reconstituted wood is increasingly replacing solid wood in China, we are sourcing the financing and technical resources to broaden our product line. We intend to use state-of-the-art technology and logistics to spread our penetration into new markets, improve supply dependability and product quality and increase operating margins.

In addition to expanding our core business of plantation operation, we plan to have vertically integrated operations, whereby an upstream product serves to supply a mill operating further downstream, i.e. sawn timber will be used to produce various boards, which in turn will be used to fabricate veneer and melamine laminated boards, cabinets and doors. Our manufacturing operations will ultimately target the distributors and large end-users in the markets of office and residential furniture and wood fixtures.

Sustaining and Enriching Lives

We have always believed that sustainable development — using, developing and protecting resources in a manner that meets the environmental, economic and community needs of current and future generations — is an integral part of our operations and expansion. We think that our sustainable business practices:

- reduce our operating risks and costs;
- strengthen our bonds with local communities;
- help maintain our customers' loyalty;
- improve our employees' satisfaction;
- provide better access to capital, and
- enhance our reputation as an industry leader and corporate citizen.

The following are a few of the many examples of how our operating best practices have helped our business grow and demonstrate leadership:

- Our sustainable forestry management integrates reforestation and harvesting with soil conservation, wildlife biodiversity and preservation of habitats, air and water quality and aesthetics of nature. We use every part of a tree in the creation of our products.
- We obtained in 2002 the International Standards Organization (ISO) 9001 and 9002 certifications of our Quality Management System, and ISO 14001 certification of our Environmental Management System (EMS) for 17,000 hectares of plantations at our Guangxi Province CJV plantations. The EMS stipulates policies regarding ecological and social aspects of plantation operations and detailed procedures for environmental compliance.

We believe in developing our forestry business in harmony with the natural environment and local communities.

- We also received Forest Stewardship Council (FSC) certification from SmartWood — a program of the Rainforest Alliance, an international non-profit environmental group — for 5,300 hectares of plantations in Guangdong Province. We intend to have all our plantations ISO and FSC certified in the future.
- Our overall operating objective is to harvest from our plantations, in any given year, a volume of timber that does not exceed the volume that grows incrementally to maturity.

Bringing together the resources and expertise of investors, academia and local governments, Sino-Forest is playing a leading role at the forefront of China's advancement toward sustainable forestry.

A Message from the Chairman and CEO

Since becoming the first, foreign-owned, private company to enter China's forest product sector a decade ago, Sino-Forest has faced many challenges but achieved extraordinary growth. This year, we are celebrating our tenth year of profitability as the country's largest, fully integrated commercial forestry plantation operator and wood product manufacturer. And we plan to strengthen our leadership position in the next ten years, based on a solid business model and sound strategies.

Well Grounded Strategies

A decade ago, we saw an opportunity to build a company that would respond to the insatiable demand for wood-based products in a huge, growing market. The robust demand was not a new challenge, but our approach would be different and innovative. We would acquire, cultivate and harvest plantations with short rotations of 5 to 12 years, in a sustainable manner. We would leverage technology to increase plantation yield and the market value of our trees. Over the years, we have developed an expertise in sustainable forestry management, and it is now the engine that drives our growth.

In order to establish a strong leadership position and to achieve our corporate objectives, we pursue the following key strategies:

1. **Satisfy enormous and growing demand**
   by cultivating fast-growing species, expanding our forestry plantations, and delivering high-quality wood products.

2. **Improve productivity**
   by increasing the recoverable yield of our plantations through the application of forestry best practices and research & development.

3. **Continue profitable and sustainable growth**
   by selling valuable products and services, while using sustainable development practices in our harvesting and manufacturing.

4. **Increase market penetration**
   by broadening our manufacturing capabilities and product line, and acting as a trading agent for domestic and international customers.

Long-term success and reputation, however, are built on more than corporate strategies — they also depend on competitive advantages and on harmony with nature and its inhabitants.

19%

INCREASE IN DILUTED EARNINGS PER SHARE IN 2003

Allen Chan
Chairman & CEO

Strong Financial Performance

Our strategies are working — the numbers in 2003 were telling. Higher sales of wood chips and standing timber accelerated the growth of our revenues, which increased 32% to $266 million, and net income, which rose over 47% to $30 million, or diluted earnings per share of 32 cents. As a result, shareholder return on equity increased to 12% in 2003 compared to 11% in 2002, and we expect it to increase in 2004.

Underlying this success are carefully considered investments in our plantations and mills, financed by astute transactions. We raised $14 million in convertible instruments from primarily Asian investors in the first quarter 2003, and in August, we completed a private placement of 7.2 million Class A shares to institutional investors in Canada raising $17 million.

Responding to the preferences of shareholders, we converted the Company's six million Class B multiple-voting shares into Class A common shares, and it was non-dilutive to earnings per share. The transaction increased the number of Sino-Forest's outstanding shares to 96 million, and the percentage of voting control in the market, and it improved trading liquidity.

Last year, the theme of our annual report was Positioned To Unlock Shareholder Value, and as we have seen, the market capitalization of Sino-Forest increased substantially by year end. This has led to the recent addition of Sino-Forest to the S&P/TSX Composite Index, increasing the likelihood of our shares being included among the many and increasingly popular index funds.

We fully intend to unlock additional value by continuing to build awareness among a larger base of investors, particularly in Asia, and by raising new capital to further expand our forestry plantation resources from our existing base.

Plantation Growth

Sino-Forest received in February 2004 an undertaking from one of its joint-venture partners in China whereby we may purchase mature pine trees on an additional 200,000 hectares of plantation land. Subject to completing a definitive agreement, we would:

1. acquire the existing standing timber, which has an average diameter of 14 centimetres, over the next 24 months at a price range of $18 to $24 per cubic metre,
2. harvest and/or sell maturing trees over a three-year period, starting in the fourth quarter this year — thereby boosting our bottom line in 2005, and
3. lease the underlying plantation land at a price range of $22 to $33 per hectare per year, for a period of up to 50 years, and replant it with short-rotation eucalyptus trees.

Our usable plantation area could increase, therefore, from 147,000 hectares with its perpetual rotation value of $430 million (as estimated by independent forestry consultants Jaakko Pöyry as of October 31, 2003) to 347,000 hectares with an estimated value of $606 million. This will raise Sino-Forest's rank among the largest commercial forestry companies in the Asia-Pacific region from seventh to first.

A Bright Future

What will the future hold for our next ten years? Tremendous opportunity for Sino-Forest Corporation — our trees and profitability will continue to flourish. We believe the factors that caused our growth in the first ten years of operation will also drive our success in the future. We will expand our plantations and apply our expertise in cultivating them to satisfy burgeoning demand for wood chips from the recovering pulp & paper industry, and for standing timber and manufactured products from the fast-growing construction, furniture and interior decoration sectors.

We expect the gap between supply and demand to widen further so the market prices of our products should remain stable or rise in the short-to-medium term. And as our yields improve and our higher productivity lowers our incremental costs, we anticipate that operating margins and profitability will rise.

Our priorities in the short term will be to raise the capital, in markets worldwide, which will allow us to acquire additional maturing plantations and to complete the commissioning of our new mills. As we increase revenues, operating margins and net income, our stakeholders will reap the rewards of our investments and corporate social responsibility.

We are fortunate to have an experienced and visionary management team and Board of Directors, loyal and supportive investors, and committed and knowledgeable employees. I am confident that our sustainable business model will allow us to further strengthen our leadership position as the most reliable and prominent supplier of plantation wood products in China. We have started to unlock the value that was, for years, not reflected in the stock price of Sino-Forest, and we are on the verge of another breakthrough in value creation.

Allen Chan,
Chairman and CEO

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with the 2003 audited consolidated financial statements and the related notes thereto, which are included in the 2003 Annual Report.

Results of Operations

Revenue

Our revenue increased 32.4%, from $200.7 million in 2002 to $265.7 million in 2003. The increase in revenue was due primarily to the increase in the sales of standing timber in 2003, and to a lesser extent, to an increase in sales of wood chips and wood-based products.

Revenue From Standing Timber. Revenue from sales of standing timber increased 188.5%, from $19.2 million in 2002 to $55.4 million in 2003. In 2003, we sold 20,630 hectares at an average selling price of $2,687 per hectare, compared to 8,100 hectares at an average selling price of $2,369 per hectare in 2002. All of the standing timber was sold in the PRC. In addition, most of the standing timber sold in 2003 was from our purchased tree plantations, while in 2002, approximately 40% of the standing timber sold was from our purchased tree plantations and approximately 60% of the standing timber sold was from our planted tree plantations. The higher volume of standing timber sales in 2003 reflected additional trees reaching maturity on our forestry plantations and strong demand for plantation logs and timber in the PRC. The standing timber sold from our purchased tree plantations in 2002 and 2003 were of older eucalyptus trees (over five years of age) that commanded higher prices per hectare. The increase in the average selling price in 2003 reflected the greater number of older eucalyptus trees that commanded higher prices per hectare sold from our purchased tree plantations in 2003. Standing timber sales comprised 20.9% of total revenue in 2003, compared to 9.6% in 2002.

Revenue From Wood Chips. Revenue from sales of wood chips increased 17.3%, from $113.6 million in 2002 to $133.3 million in 2003. The increase in revenue from wood chips sales was due to an increase in average selling prices and sales volumes. The increase in average selling prices of wood chips reflected strong demand in the wood panel market in the PRC and the continued improvement in the global market for pulp and paperboard. Average selling prices of wood chips increased from $85 per bone dry metric ton in 2002 to $92 per bone dry metric ton in 2003. In addition, sales volumes increased from 1.3 million bone dry metric tons in 2002 to 1.4 million bone dry metric tons in 2003. Wood chips sales comprised 50.1% of total revenue in 2003, compared to 56.5% of total revenue in 2002.

Revenue From Wood-Based Products. Revenue from sales of wood-based products increased 13.9%, from $55.3 million in 2002 to $63.0 million in 2003. The increase in revenue from wood-based products sales was due primarily to an increase in the average selling prices of wood-based products in 2003 compared to 2002, reflecting an increase in the price of imported logs. Wood-based products sales comprised 23.7% of total revenue in 2003, compared to 27.5% in 2002.

Commission Income. Revenue from commission income increased 9.4%, from $12.8 million in 2002 to $14.0 million in 2003. The increase in revenue from commission income was due primarily to increased prices of wood logs in the PRC during the period, which were reflected in higher commissions received.

Cost of Sales

Our cost of sales increased 27.0%, from $158.1 million in 2002 to $200.8 million in 2003. The increase in cost of sales was due primarily to an increase in sales volumes and an increase in prices for wood chips and imported logs.

Cost of Sales of Standing Timber. Standing timber cost of sales increased 182.2%, from $10.1 million in 2002 to $28.5 million in 2003. The increase in costs of sales reflected primarily the increase in the area of trees sold. The unit cost of standing timber sold also increased reflecting the greater number of old eucalyptus trees sold in 2003. These older eucalyptus trees have a higher capitalized cost. Costs of sales per hectare of standing timber increased 11.4%, from $1,242 per hectare in 2002 to $1,383 per hectare in 2003.

Cost of Sales of Wood Chips. Wood chips cost of sales increased 16.2%, from $94.2 million in 2002 to $109.5 million in 2003. The increase in cost of sales reflected primarily an increase in sales volumes and prices of logs.

Cost of Sales of Wood-Based Products. Wood-based products cost of sales increased 16.5%, from $53.9 million in 2002 to $62.8 million in 2003, primarily reflecting an increase in sales volumes. Cost of sales in 2003 also reflected the write-off of pre-operating expenses that had been capitalized of approximately $0.9 million for our OSB production line currently under construction.

Gross Profit

Our gross profit increased 52.0%, from $42.7 million in 2002 to $64.9 million in 2003. Gross profit margin, or gross profit as a percentage of total revenue, increased from 21.3% in 2002 to 24.4% in 2003.

Standing Timber. Gross profit margin from sales of standing timber increased from 47.4% in 2002 to 48.6% in 2003.

Wood Chips. Gross profit margin from sales of wood chips increased from 17.1% in 2002 to 17.9% in 2003.

Wood-Based Products. Gross profit margin from sales of wood-based products decreased from 2.5% in 2002 to 0.3% in 2003. The decrease in gross profit margin from sales of wood-based products was due primarily to operating losses incurred in the particleboard production lines and the write-off of pre-operating expenses that had been capitalized for our OSB production line currently under construction of approximately $0.9 million.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses increased 29.9%, from $9.7 million in 2002 to $12.6 million in 2003, due primarily to an increase in staff salaries, bonuses and administrative expenses for our CJVs in 2003. In the event that a listing of the ordinary shares of Sino-Wood Partners, Limited does not occur in 2004, we anticipate taking a write-off for certain fees and expenses for the professional services in the amount of approximately $2.0 million. This would be reflected in selling, general and administrative expenses in 2004.

Depreciation and Amortization

Depreciation and amortization increased 43.8%, from $1.6 million in 2002 to $2.3 million in 2003, reflecting primarily increased depreciation charges for our manufacturing plants.

Income from Operations

Our income from operations increased 59.4%, from $31.3 million in 2002 to $49.9 million in 2003, due to the factors discussed above. Our income from operations as a percentage of revenue increased from 15.6% in 2002 to 18.8% in 2003.

Interest Expense

Our interest expense increased 41.9%, from $8.6 million in 2002 to $12.2 million in 2003, due primarily to (1) higher average debt balances as a result of the issuance in March 2003 of $14.0 million aggregate principal amount of Convertible Instruments; (2) an increase in U.S. dollar terms of the Euro-denominated Plantation Loan; and (3) the reclassification of the equity component of the Exchangeable Notes to long-term debt in 2002, which resulted in additional interest expense in 2003. See note 8[b] to the audited consolidated financial statements for the year ended December 31, 2003.

Exchange Loss on Long-Term Debt

Our exchange loss on long-term debt increased 22.6%, from $3.1 million in 2002 to $3.8 million in 2003, due to the continued strengthening of the Euro against the U.S. dollar in 2003. We have a Euro 19.0 million forestry plantation loan which exposes us to fluctuations in the exchange rate between the Euro and the U.S. dollar.

Provision for Income Taxes

In 2003, provision for income taxes was $3.1 million, compared to a recovery of income taxes of $0.5 million in 2002. The provision for income taxes in 2003 was due primarily to the higher income and the lower amount of tax recovery generated in 2003.

Interest Income

Our interest income decreased 75.0%, from $0.8 million in 2002 to $0.2 million in 2003, due primarily to a decrease in short-term deposits and lower interest rate.

Net Income

As a result of the foregoing, our net income for 2003 increased 46.6%, from $20.6 million in 2002 to $30.2 million in 2003. Our net profit margin increased from 10.3% in 2002 to 11.4% in 2003.

Quarterly Financial Information

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2003

			Net Income Per Share	
(in thousands, except per share amounts)	Revenue $	Net Income $	Basic $	Diluted $
2003				
December 31	82,336	8,036	0.09	0.07
September 30	79,066	12,105	0.15	0.11
June 30	66,000	7,292	0.09	0.06
March 31	38,337	2,747	0.04	0.04
2002				
December 31	66,044	8,566	0.11	0.10
September 30	57,587	7,076	0.09	0.09
June 30	43,962	2,944	0.04	0.04
March 31	33,155	2,006	0.03	0.02

Liquidity and Capital Resources

Our primary sources of funding have been short-term and long-term borrowings and cash provided by operating activities. Our primary uses of funding have been to obtain new forestry plantations, to develop our existing forestry plantations, for working capital requirements, to service our short-term and long-term borrowings and to invest in manufacturing plants.

Cash Flows

The following table sets forth, for the periods indicated, a condensed summary of our statement of cash flows.

Year Ended December 31, (in millions)	2003 $	2002 $
Cash flows from operating activities		
Net Cash provided by operations(1)	73.3	40.5
Net change in working capital(2)	0.2	(27.9)
Total	73.5	12.6
Cash flows used in investing activities	(91.6)	(41.8)
Cash flows from financing activities	23.9	28.7
Net increase (decrease) in cash and cash equivalents	5.8	(0.5)

(1) Represents net income as adjusted for depletion of timber holdings, accretion of Exchangeable Notes, exchange gain/loss on long-term debt, depreciation and amortization, amortization of deferred financing costs, amortization of redemption premium on long-term debt and write-off of other assets.
(2) Represents decreases/(increases) in accounts receivable, inventories, due from PRC CJV partners, other receivables and prepaid expenses, other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

Cash Flows from Operating Activities

Cash flows from operating activities increased 483.3%, from $12.6 million in 2002 to $73.5 million in 2003. The increase was the result of an increase in cash provided by operations and an improvement in net cash used in working capital. The improvement in working capital was due primarily to an increase in accounts payable and accrued liabilities as well as a substantial decrease in amounts due from the Leizhou Forestry Bureau. The amounts due from Leizhou Forestry Bureau were settled by delivery of logs in 2003. See note 5 to the 2003 financial statements. These factors were partially offset by an increase in accounts receivable, reflecting primarily increased sales of standing timber.

Cash Flows Used in Investing Activities

In 2002 and 2003, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing plants. Our cash outlays for our forestry plantations amounted to $36.9 million in 2002 and $89.3 million in 2003. Our cash outlays for our manufacturing plants amounted to $7.3 million for each of 2002 and 2003.

Cash Flows From Financing Activities

In 2003, cash flows from financing activities consisted primarily of $14.0 million from the issuance of the Convertible Instruments, $12.4 million from the issuance of 7,220,000 Class A Subordinate-Voting Shares, $5.0 million from the repayment of loans for share purchases by our officers and directors and $5.0 million from a term loan. These cash flows were partially offset by a decrease in bank indebtedness of $9.0 million. In 2002, cash flows from financing activities were $28.7 million, which primarily reflected the second drawdown on the Manufacturing Loans of $19.0 million for investment in the manufacturing plants and an increase in bank indebtedness of $10.1 million.

Financing Arrangements and Contractual Obligations

As of December 31, 2003, we had secured and unsecured short-term liabilities of $82.4 million, comprising $27.0 million of short-term bank loans, $12.0 million of trust receipt loans and $43.4 million of long-term debt due within one year. We had long-term debt, net of current portion, of $56.0 million. Long-term debt, including the current portion of long-term debt, is composed of: (1) $23.7 million outstanding under the Plantation Loan; (2) $38.0 million outstanding under the Manufacturing Loans; (3) $31.9 million outstanding under the Convertible Instruments; (4) $0.3 million of Exchangeable Notes; (5) a term loan of $5.0 million; and (6) an equipment loan of $0.5 million. Our borrowings are denominated in a number of currencies, comprising U.S. dollars, Hong Kong dollars, Renminbi and Euro.

Short-Term Borrowings. As of December 31, 2003, we had short-term revolving uncommitted line of credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. As of December 31, 2003, we had $60.7 million of funding available under the short-term revolving uncommitted line of credit facilities, of which $39.0 million is being utilized. Interest is payable on these short-term borrowings at rates ranging from 3.2% to 7%, and the borrowings are either repayable on demand or due within one year. As of December 31, 2003, 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 $9.2 million, certain bank deposits of $8.5 million and 1,703 hectares of forestry plantations. As of April 2004, we have renewed certain of these short-term line of credit facilities with banks in the PRC. These facilities, which are for the working capital of our CJVs in the PRC, are each for a period of no longer than one year. These short-term credit facilities are secured by certain of our land-use rights and forestry plantations comprising 6,338 hectares of forestry plantations.

Plantation Loan. Our subsidiary company, Sino-Wood Partners, Limited, is a party to a plantation loan (the "Plantation Loan") that it entered into on September 28, 1999 for a long-term loan of Euro 19.0 million to develop our forestry plantations in the PRC. The Plantation Loan is for a period of 10 years. Principal repayment of the Plantation Loan will commence on May 15, 2005 in 10 equal semi-annual installments. Sino-Wood Partners, Limited may repay the Plantation Loan at any time upon 45 days' prior written notice. The Plantation Loan bears interest at a rate that is equal to a margin of 3.5% over the six-month European London Interbank Offering Rate ("EURO-LIBOR"). As of December 31, 2003, EURO-LIBOR was 2.16% and the amount of the Plantation Loan outstanding was $23.7 million. The Plantation Loan is secured by the corporate guarantee of Sino-Forest Corporation.

Exchangeable Notes. In 1999, Sino-Wood Partners, Limited issued the exchangeable notes (the "Exchangeable Notes") in an aggregate principal amount of $20 million to an investor which was subsequently granted a seat on our Board of Directors. The Exchangeable Notes bear interest at a rate of 5.0% per annum payable semi-annually. The Exchangeable Notes are exchangeable for our Class A Subordinate-Voting Shares and are guaranteed by us and certain of our subsidiaries. On March 5, 2003, pursuant to an exchange agreement entered into with Sino-Wood Partners, Limited and us, the holder exchanged Exchangeable Notes of approximately $9.8 million (having an accrued value of approximately

$15.5 million) for Convertible Notes having an equivalent aggregate principal amount. Pursuant to arrangements under the exchange agreement and a variation deed to the Exchangeable Notes dated March 10, 2003, the holder is entitled to receive either: (1) approximately $2.3 million in lieu of foregone interest if Sino-Wood Partners, Limited does complete an initial public offering prior to the maturity date; or (2) approximately $2.5 million as an additional redemption premium if Sino-Wood Partners, Limited does not complete an initial public offering prior to the maturity date of the Convertible Notes. Under the exchange agreement, the holder may elect to receive 1,880,245 Class A Subordinate-Voting Shares in lieu of the $2.3 million cash payment in the event of an initial public offering of Sino-Wood Partners, Limited. As part of the terms and conditions of the Convertible Instruments, Sino-Wood Partners, Limited also issued to the holder of the Exchangeable Notes 66,325 Class B shares of Sino-Wood Partners, Limited. In the event that a listing of the ordinary shares of Sino-Wood Partners, Limited does not occur by September 10, 2004, we have the right to purchase all outstanding Class B shares held by such holder at a price of HK$1.00 per Class B share. On May 16, 2003, pursuant to a supplementary agreement entered into between Sino-Wood Partners, Limited and the holder of the Exchangeable Notes, the maturity date of the Exchangeable Notes was extended to September 1, 2004. As of December 31, 2003, approximately $156,000 in aggregate principal value of Exchangeable Notes were outstanding.

Convertible Instruments. On March 10, 2003, Sino-Wood Partners, Limited issued $12.0 million and, as discussed above under – "Exchangeable Notes", $15.5 million of convertible notes (the "Convertible Notes"), and $2.0 million of preference shares (the "Preference Shares", and, collectively with the Convertible Notes, the "Convertible Instruments"). The Convertible Instruments mature on September 9, 2004 and bear interest or dividends at a rate of 4.0% per annum, payable on February 1 and August 1 of each year. The Convertible Instruments are convertible into the ordinary shares of Sino-Wood Partners, Limited. As part of the terms and conditions of the Convertible Instruments, Sino-Wood Partners, Limited also issued to the subscribers of the Convertible Instruments 59,906 Class B shares of Sino-Wood Partners, Limited. In the event that a listing of the ordinary shares of Sino-Wood Partners, Limited does not occur by September 10, 2004, we have the right to purchase all outstanding Class B shares held by such persons at a price of HK$1.00 per Class B share. On September 9, 2004, the maturity date, Sino-Wood Partners, Limited is obligated to redeem the Convertible Instruments, unless they have been earlier converted or redeemed, at 106.24% of the principal amount, together with accrued interest. The Convertible Instruments are guaranteed by Sino-Forest Corporation. One of the holders of the Convertible Instruments also has a put option pursuant to which it may exercise an option to sell to us its 17,116 Class B shares in Sino-Wood Partners, Limited at the par value of HK$1.00 per share and its Convertible Instruments at the principal amount plus a premium of 6.24%, in the event that it ceases to act as the sponsor and global coordinator of an initial public offering and listing of Sino-Wood Partners, Limited in Hong Kong. On December 31, 2003, an aggregate amount of $31.9 million was outstanding under the Convertible Instruments.

Manufacturing Loans. In 2001, two of our wholly foreign-owned subsidiary companies entered into certain manufacturing loans (the "Manufacturing Loans") with lenders for long-term loan facilities totaling $47.5 million. First and second disbursements of the loans of $19.0 million each were made in September 2001 and January 2002, respectively. The proceeds of the loans were used to invest in manufacturing plants. 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 a margin of 3% over the six-month London Interbank Offering Rate ("LIBOR"), which was 1.22% as of December 31, 2003. The loans are secured by pledges over the land-use rights, buildings, machinery and equipment and insurance contracts. In addition, we have guaranteed the debts and monetary liabilities of our subsidiary companies under the Manufacturing Loans.

Equipment Loans. In November 1997, Sino-Wood Partners, Limited entered into two loan agreements for credit facilities of $4.5 million, which were used to purchase machinery and equipment in connection with the construction of two particleboard production lines in the PRC. The loans are repayable in 10 equal consecutive semi-annual installments commencing from June 15, 1999. Sino-Wood Partners, Limited may repay the loans at any time with 30 days' prior written notice. The loans bear interest at a margin of 0.625% over LIBOR payable semi-annually. As of December 31, 2003, the interest rate on the loans was 1.8%. The loans are guaranteed by us. As of December 31, 2003, an aggregate principal amount of $470,000 was outstanding under the loans.

Term Loan. In May 2003, Sino-Wood Partners, Limited entered into a loan agreement for a three-year term loan facility of $5.0 million as well as short-term letters of credit and trust receipt loans. The term loan is repayable in eight equal quarterly installments commencing 15 months from May 30, 2003. Sino-Wood Partners, Limited may repay the term loan at any time with three business days' prior written notice. The term loan bears interest at a margin of 2.5% per annum over LIBOR payable quarterly. The term loan is guaranteed by us. As of December 31, 2003, an aggregate principal amount of $5.0 million was outstanding under the term loan.

Other Contractual Obligations. As of December 31, 2003, we had other contractual obligations relating to: (1) approximately $18.4 million in respect of capital contributions to our WFOEs; (2) $15.9 million of capital commitments in respect of buildings, timber holdings, and plant and machinery; and (3) operating leases of approximately $23.1 million.

Scheduled Maturity of Contractual Obligations. The following table presents the scheduled maturities of our contractual obligations as of December 31, 2003.

	Actual Anticipated Payment Dates						
Contractual Obligations (in thousands)	Total $	2004 $	2005 $	2006 $	2007 $	2008 $	Thereafter $
Long-term debt[1]	99,341	43,388	13,574	12,324	11,074	11,074	7,907
Capital contributions	18,442	8,842	9,600	–	–	–	–
Capital commitments[2]	15,887	15,887	–	–	–	–	–
Operating leases[3]	23,140	487	433	380	303	300	21,237
Total contractual cash obligations	156,810	68,604	23,607	12,704	11,377	11,374	29,144

(1) Represents the U.S. dollar equivalent of foreign currency denominated debt, and includes current portion of long-term debt.
(2) Represents commitments to invest in buildings, timber holdings and plant and machinery, of which approximately $7.0 million is for investments in forestry plantations and approximately $8.9 million is for completing the manufacturing plants in Gaoyao, Guangdong Province and Suzhou, Jiangsu Province.
(3) These represent mainly leases of certain office premises and long-term leases of plantation land for the plantation operations and associated forestry plantations for the manufacturing plants, consisting of approximately 14,000 hectares of leased plantation land.

Guarantees. We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2003, we had provided guarantees of approximately $42.3 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 to 10 years, unless the underlying debt is renewed.

Historical and Planned Capital Expenditures

The following table sets forth our capital expenditures for the two years ended December 31, 2003.

(in thousands)	2003 $	2002 $
Forestry plantations	89,256	36,888
Manufacturing plants	7,303	7,299
Total	96,559	44,187

Capital expenditures incurred in relation to the forestry plantations were for obtaining additional purchased tree plantations and planted tree plantations, and a variety of plantation management costs, including the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures in relation to the manufacturing plants were for investing in manufacturing plants, including the costs of constructing the facilities and purchasing and installing production line equipment.

Aging of Accounts Receivable

We recognize revenue from sales of standing timber when the buyer has signed the sales contract. The buyer is generally responsible for logging and hauling the timber from the plantations. After the buyer has entered into the sales contract, we generally give the buyers of our standing timber up to 18 months to log and haul the timber from the plantations, and generally grant buyers a credit period of up to nine months from the date of the sales contract. We generally require a partial payment of approximately 20% of the purchase price within 60 days of the sales contract, and payment of 40% of the purchase price within 150 days of the sales contract and the remaining 40% within nine months of the sales contract. In addition to instituting these installment payments, we also seek to control our credit risk from sales of standing timber by not releasing the logging permits to the buyer until we have received substantially the amount outstanding under the sales contract. We believe these measures mitigate our credit risks in our sales of standing timber. We generally grant our customers in our trading activities credit terms of 60 days for domestic sales of wood chips through authorized intermediaries, and 45 to 90 days with respect to domestic sales of imported logs and export sales of wood-based products. As a result, we may have large outstanding balances of accounts receivable with respect to sales of wood chips, wood-based products and standing timber.

The following table sets forth an aging analysis of our accounts receivable for 2002 and 2003.

	Aging Analysis						
(in thousands)	Total Accounts Receivable $	0–30 days $	31–60 days $	61–90 days $	91–180 days $	181–360 days $	Over One Year $
At December 31, 2002	40,190	19,046	5,012	3,116	10,699	2,052	265
At December 31, 2003	67,345	12,800	18,192	4,144	26,687	5,446	76

Seasonality

Our business is seasonal. Generally, the third and fourth quarters together account for approximately 60.0% of annual revenue, while the first and second quarters together account for approximately 40.0% of annual revenue. This reflects the desire of timber companies to take advantage of the peak growing seasons in the spring and summer before harvesting the trees, as well as the difficulty in the logging and hauling of timber during the rainy season in the first half of the year.

Inflation

Inflation in the PRC has not had a significant impact on our results of operations in recent years. According to the National Bureau of Statistics in the PRC, the change in the Consumer Price Index in the PRC was 0.4%, 0.7% and (0.8%) in 2000, 2001 and 2002, respectively.

Taxation

Taxes on profits assessable in the PRC have been calculated at the applicable rates of tax prevailing in the PRC, based on the then applicable legislation, interpretations and practices in respect thereof.

Taxes are imposed in the PRC on an entity-by-entity basis. In this regard, we have subsidiary companies that are WFOEs and CJVs under PRC law. The WFOEs and CJVs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises (the “Income Tax Laws”). Under the Income Tax Laws, a CJV or WFOE is subject to an effective tax rate of 33%. The WFOEs and CJVs are eligible for an exemption from state and/or local income taxes for two years starting from the first profit-making year of the WFOEs and CJVs, after offsetting losses carried forward, and a 50% exemption during the subsequent three years (such time periods during which taxes are exempt or reduced being referred to herein as “tax holidays”). Subject to the approval of the relevant authorities, foreign invested enterprises categorized as forestry projects may be allowed a 15% to 30% reduction of the amount of income tax payable for a further period of 10 years after tax holidays.

In accordance with the Detailed Rules of the Implementation of the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises, foreign companies deriving income from sources in the PRC are subject to corporate income tax. Accordingly, corporate income tax has been provided for the income earned by certain of our non-PRC subsidiary companies, namely Sino-Forest Resources Inc. and Suri-Wood Inc., which are our principal operating subsidiaries engaged in the sale of wood chips, wood-based products and standing timber in the PRC through authorized intermediaries, based on the current practices of the PRC tax bureaus.

We are also subject to a 5% business tax rate in the PRC on the commission income earned from our referral business.

Our tax charge/(credit) for the years ended December 31, 2002 and 2003 were ($478,000) and $3,052,000, which represent effective tax rates of (2.4%) and 9.2% respectively. Such effective tax rates are significantly lower than the applicable corporate income tax rates due to unutilized tax provisions in the prior years and the tax relief provided to the CJVs. We believe we have made adequate tax provisions to meet our tax liabilities as they become due.

Off-Balance Sheet Arrangements

Other than an interest rate cap agreement with respect to the Plantation Loan, we do 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, 2003. 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.

Rights Acquired Upon Completion of the Recently Announced Equity Offering

In connection with our intention to effect an initial public offering and listing of our subsidiary, Sino-Wood Partners, Limited on the Hong Kong Stock Exchange, in March 2003, we granted rights to certain members of our management, conditional upon completion of the initial public offering and Hong Kong Stock Exchange listing, to acquire 5% of the equity of Sino-Wood Partners, Limited for nominal consideration (the “Rights”). This grant of the Rights was made in order to provide appropriate incentive (in the form of securities of the proposed Hong Kong public entity) for management to create value for shareholders. We last granted to management options to acquire Class A Subordinate-Voting Shares in 1996.

Although as of the date of this Annual Report, Sino-Wood Partners, Limited has not completed an initial public offering and the listing of its shares on the Hong Kong Stock Exchange, our independent directors have determined, in view of this offering at the parent company level and the substantial contributions made by management in developing our business, that it is appropriate to restructure the Rights. In making their determination, and in line with the executive compensation policy of the Board of Directors, the independent directors considered the historical performance of management in enhancing shareholder value and positioning our company for continued strategic growth. The independent directors also sought to create additional incentive to management for future value creation through an implementation of our new growth initiatives.

Accordingly, conditional upon completion of the recently announced equity offering, we will purchase the Rights from management for an aggregate purchase price not to exceed approximately Cdn.$12 million ($9.4 million), which will be paid by the issuance of up to a maximum of 2.4 million Class A Subordinate-Voting Shares. The Class A Subordinate-Voting Shares to be issued will be valued at a price per share determined at the completion of the equity offering and equal to the offering price. If the value of such Class A Subordinate-Voting Shares issued to management is less than Cdn.$12 million, management shall not be entitled to any additional consideration. We have received conditional approval from the Toronto Stock Exchange in connection with the issuance of the Class A Subordinate-Voting Shares in relation to the purchase of the Rights. The Class A Subordinate-Voting Shares are subject to a vesting schedule. One-half of the shares issuable in connection with such purchase will vest 90 days following completion of the equity offering, and the remaining one-half of the shares will vest on the first anniversary of the completion of this offering. In arriving at the proposed purchase price for the Rights, the independent directors considered various factors, including an independent valuation of Sino-Wood Partners, Limited and an independent valuation of our forestry assets.

In consideration of our intention to purchase the Rights, and in recognition of this offering at the parent company level, management has also agreed to the cancellation of existing options originally granted to them in November 1997, to acquire up to 10% of the equity of a predecessor to Sino-Panel Holdings, Limited (which was subsequently changed to 10% of the equity of Sino-Panel Holdings, Limited) for nominal consideration, including any shares issuable as a result of a public offering of Sino-Panel Holdings, Limited (the "Sino-Panel Options"). Management's agreement to sell the Rights to us and to the cancellation of the Sino-Panel Options as described above is subject to, and conditional upon, completion of the equity offering.

As a result of our purchase of the Rights, we will, in accordance with Canadian GAAP, record a compensation expense of approximately $7.8 million in the quarter in which the equity offering is completed and the Rights are purchased.

In the future, and subject to the discretion of our Board of Directors, we plan to compensate our directors and executive officers through salary, bonuses and stock options.

Market Risks

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

We use financial instruments, including variable rate debt, to finance our operations and to manage risks associated with our interest rate risks. With respect to the Plantation Loan, we have entered into an interest rate cap agreement to fix LIBOR at 7.0%. We do not otherwise engage in hedging transactions with respect to our foreign exchange risks or interest rate risks.

Exchange Rate Risk

We conduct our business primarily in Renminbi, and partly in U.S. dollars. In 2002 and 2003, 72.6% and 77.1% of our sales were received in Renminbi and 27.4% and 22.9% of our sales were received in U.S. dollars. We record our results of operations in U.S. dollars. We expect in the future substantially all of our sales will be received in Renminbi. The majority of our operating expenses are denominated in Renminbi.

A portion of our revenue in Renminbi is converted into other currencies to meet foreign currency financial instrument obligations. We have a substantial amount of indebtedness denominated in foreign currencies, including the Euro, U.S. dollars and Canadian dollars. We cannot predict the effect that currency exchange rate fluctuations may have on our U.S. dollar operating results or cash flows.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under our 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. Although the Renminbi to U.S. dollar exchange rate has been relatively stable since 1994, we cannot predict nor give any assurance of its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of our net assets, net profits and any declared dividends. We 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 our results of operations, financial condition and cash flows.

As of December 31, 2003, we had Renminbi denominated bank accounts of RMB5.7 million, U.S. dollar denominated bank accounts of $22.2 million, Canadian dollar denominated bank accounts of Cdn.$6.5 million, Euro denominated bank accounts of Euro 1,000 and Hong Kong dollar denominated bank accounts of H.K.$5.1 million. We also had U.S. dollar denominated accounts receivable of $14.7 million.

We incurred foreign currency denominated debt for capital expenditures primarily relating to the development and acquisition of our forestry plantations and investment in our manufacturing plants. To the extent that the Renminbi (which has moved within a stable range in relation to the U.S. dollar since 1994), or the U.S. dollar devalues against any of these currencies, it would correspondingly increase our repayment costs on these loans. In this regard, we recorded significant foreign exchange losses in 2002 and 2003 with respect to our Euro denominated Plantation Loan due to the increase in the Euro against the U.S. dollar.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our long-term debt obligations. Our debt consists of fixed and variable rate debt obligations with original maturities ranging from less than one to 10 years. We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. Other than an interest rate cap agreement with respect to the Plantation Loan, we do not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

Commodity Price Risk

We are exposed to fluctuations in the prices of standing timber, wood chips and wood-based products. We import wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all our sales of standing timber, wood chips and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber, wood chips and wood-based products have a significant effect on our business, results of operations and financial condition.

We do not enter into any futures contracts to hedge our sales of standing timber, wood chips and wood-based products.

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

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, 2003 and 2002 and the consolidated statements of income and 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, 2003 and 2002 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 8, 2004

Consolidated Balance Sheets

[Expressed in thousands of United States dollars] As at December 31,	2003 $	2002 $
ASSETS		
Current		
Cash and cash equivalents	6,929	1,178
Short-term deposits [note 7]	21,674	26,606
Accounts receivable [note 3]	67,345	40,190
Due from PRC CJV partners [note 6]	6,688	9,072
Deposit for the purchase of logs	6,041	6,041
Other receivables and prepaid expenses	5,818	6,412
Inventories [note 4]	1,170	878
Due from Leizhou Forestry Bureau [note 5]	–	10,202
Total current assets	115,665	100,579
Capital assets, net [note 5]	298,410	233,321
Deferred financing costs, net	4,230	2,445
Other assets	549	550
	418,854	336,895
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 7]	39,025	48,064
Accounts payable and accrued liabilities	22,051	10,635
Income taxes payable	13,465	10,426
Current portion of long-term debt [note 8]	43,388	5,370
Total current liabilities	117,929	74,495
Long-term debt [note 8]	55,953	82,289
Total liabilities	173,882	156,784
Commitments [notes 2 and 14]		
Shareholders' equity		
Share capital [note 9]	67,439	32,758
Retained earnings [note 8(f)]	177,533	147,353
Total shareholders' equity	244,972	180,111
	418,854	336,895

See accompanying notes

On behalf of the Board:

Allen T. Y. Chan
Director

Edmund Mak
Director

Consolidated Statements of Income and Retained Earnings

[Expressed in thousands of United States dollars, except for earnings per share information] Years ended December 31,	2003 $	2002 $
Revenue		
Sales	251,757	187,996
Commission income	13,982	12,752
	265,739	200,748
Costs and expenses		
Cost of sales	200,835	158,089
Selling, general and administration	12,642	9,747
Depreciation and amortization	2,345	1,625
	215,822	169,461
Income from operations	49,917	31,287
Interest expense	(12,243)	(8,632)
Exchange loss on long-term debt	(3,840)	(3,060)
Amortization of deferred financing costs	(842)	(199)
Interest income	240	792
Write-off of other assets	–	(74)
Income before income taxes	33,232	20,114
Recovery of (provision for) income taxes [note 10]	(3,052)	478
Net income for the year	30,180	20,592
Retained earnings, beginning of year	147,353	126,761
Retained earnings, end of year	177,533	147,353
Earnings per share [note 11]		
Basic	0.38	0.27
Diluted	0.32	0.27

See accompanying notes

Consolidated Statements of Cash Flows

[Expressed in thousands of United States dollars] Years ended December 31,	2003 $	2002 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	30,180	20,592
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	29,126	10,282
Accretion of Exchangeable Notes	4,616	4,643
Exchange loss on long-term debt	3,840	3,060
Amortization of redemption premium on long-term debt	2,376	–
Depreciation and amortization	2,345	1,625
Amortization of deferred financing costs	842	199
Write-off of other assets	–	74
	73,325	40,475
Net change in non-cash working capital balances [note 12]	188	(27,882)
Cash flows from operating activities	73,513	12,593
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares, net of issue costs	17,455	–
Issuance of Convertible Instruments	14,017	–
Increase (decrease) in bank indebtedness	(9,039)	10,137
Increase in deferred financing costs	(2,627)	–
Increase in long-term debt	5,000	19,000
Repayment of long-term debt	(941)	(471)
Cash flows from financing activities	23,865	28,666
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to capital assets	(96,559)	(44,187)
Decrease in short-term deposits	4,932	2,397
Cash flows used in investing activities	(91,627)	(41,790)
Net increase (decrease) in cash and cash equivalents	5,751	(531)
Cash and cash equivalents, beginning of year	1,178	1,709
Cash and cash equivalents, end of year	6,929	1,178
Supplemental cash flow information		
Cash payment for interest charged to income	4,095	3,885
Cash payment for interest capitalized	1,167	2,735

See accompanying notes

Notes to Consolidated Financial Statements

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

1. Significant Accounting Policies

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

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. 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”] are accounted for on the consolidation basis.

Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations, are translated into United States 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 higher 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 5 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 area of timber cut. Timber holdings from standing timber sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, which occurs when the contract for sale is entered into.

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. Revenue from the sale of standing timber is recognized when the significant risks and rewards of ownership have been transferred to the buyer. 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 substantively 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 consolidated financial statements and the reported amounts of revenue and expenses for the periods 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, short-term deposits, accounts receivable, other receivables and prepaid expenses 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 9. 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 contracts

The differentials to be received or paid under interest rate 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 at the date of acquisition.

2. 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 sales 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.

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

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. During these years, the Company had made capital contributions of $16,275,000 [2002 – $16,275,000] to meet costs for planting, maintenance and harvesting of the PRC CJVs' tree plantations. In 1999, the Company decided not to proceed with its investment in one of the PRC CJVs. On November 3, 2003, the PRC CJV was dissolved and accordingly, the outstanding capital contribution of $1,375,000 was not made. The dissolution of the PRC CJV had no impact on these consolidated financial statements.

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

	2003 $	2002 $
Consolidated balance sheets		
Current assets	2,142	5,601
Long-term assets	48,474	41,811
Current liabilities	(7,980)	(13,335)
Long-term liabilities	(22,190)	(12,582)
Consolidated statements of income		
Revenue	500	11,071
Net income (loss) for the year	(881)	4,531
Consolidated statements of cash flows		
Cash flows from (used in) financing activities	719	(11,633)
Cash flows from (used in) investing activities	348	(4,289)

In 1999, Leizhou Equity Joint Venture [the "Leizhou EJV"] was converted to a WFOE as a result of the Leizhou Forestry Bureau's [the "LFB"] voluntary withdrawal of its entire interest in Leizhou EJV in April 1998 [note 5]. The conversion from an equity joint venture 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 to be made within three months from the issue of the business licence. Sino-Wood obtained approval to reduce the original total capital contribution of $10,000,000 to $1,400,000 in April 2000. As at December 31, 2003, Sino-Wood has made capital contributions of $1,000,000. The remaining capital contribution of $400,000 was to be contributed by May 2002. On November 14, 2003, the Leizhou WFOE was dissolved and accordingly, the required capital contribution of $400,000 was not made. The dissolution of the Leizhou WFOE had no impact on these consolidated financial statements.

In September 2001, Sino-Wood, through its wholly-owned subsidiary, established a WFOE ["Jiamin WFOE"]. The principal business activity of the Jiamin WFOE is tree plantation. The Jiamin WFOE was formed for a period of 50 years and Sino-Wood is required to contribute $1,500,000 for its 100% equity interest. As at December 31, 2003, Sino-Wood had made total contributions of $750,000 [2002 – $225,000]. The remaining capital contribution of $750,000 has to be made by September 2004.

[b] Wood-based operations

In July 1999, SFR (China) Inc. ["SFR China"], a wholly-owned subsidiary of the Company, established a WFOE [the "Jiasu WFOE"]. The principal business activity of the Jiasu WFOE was to manufacture wood-based products. The Jiasu WFOE was formed for a period of 30 years and SFR China was required to contribute $10,000,000 for its 100% equity interest. Up to December 31, 2002, the Company had made total contributions of $1,500,000. The remaining capital contribution of $8,500,000 was to be contributed by July 2002. On October 27, 2003, the Jiasu WFOE was dissolved and the assets were distributed to SFR China.

In March 2000, SFR China 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 50 years and SFR China is required to contribute $10,000,000 for its 100% equity interest. As at December 31, 2003, the Company has made total contributions of $1,908,000 [2002 – $1,908,000]. The remaining capital contribution of $8,092,000 was to be contributed by March 2003. During the year, the Company has applied to the government authority to extend the contribution period to June 2004.

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

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, 2003, the Company has made total contributions of $5,400,000 [2002 – $2,630,000]. Of the remaining capital contributions, $5,600,000 was to be contributed by July 2003 and the balance of $4,000,000 by January 2004. On December 1, 2003, the Company applied to the government authority to extend the contribution period to January 2005 and July 2005, respectively. On February 10, 2004, the Company made an additional contribution of $500,000.

3. 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, 2003 included $37,926,000 due from three customers [2002 – $28,466,000 due from three customers].

4. Inventories

Inventories consist of the following:

	2003 $	2002 $
Wood products	403	344
Raw materials	767	534
	1,170	878

5. Capital Assets

Capital assets consist of the following:

	2003		2002	
	Cost $	Accumulated depreciation and amortization $	Cost $	Accumulated depreciation and amortization $
Timber holdings	232,516	–	172,448	–
Machinery and equipment	57,426	4,245	50,678	2,425
Buildings	7,529	547	7,272	301
Land-use rights	5,277	358	5,277	249
Office furniture and equipment	775	529	740	497
Vehicles	964	398	684	306
	304,487	6,077	237,099	3,778
Less accumulated depreciation and amortization	6,077		3,778	
Net book value	298,410		233,321	

In 2001, timber holdings included the rights to 602,289 cubic meters of standing timber valued at $10,202,000 acquired from the LFB as part of an agreement executed in April 1998 to exchange Sino-Wood's interest in the net assets of Leizhou EJV [note 2(a)]. In 2002, Sino-Wood entered into an agreement with the LFB whereby it exchanged its right in the standing timber for $10,202,000. This amount was settled by the delivery of logs to Sino-Wood in 2003 at the prevailing current market price.

Buildings, machinery and equipment amounting to approximately $29,986,000 [2002 – $24,566,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation.

6. Due from PRC CJV Partners

The amounts due from PRC CJV partners relate primarily to commission income and accounts receivable related to wood chips 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 twelve months.

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

7. Bank Indebtedness

Subsidiaries of the Company have established several revolving lines of credit facilities to a maximum of approximately $60,681,000 [2002 – $51,561,000]. These credit facilities bear interest at 3.2% to 7.0% as at December 31, 2003 [2002 – 4.20% to 6.44%] and are repayable on demand or due within one year. Interest capitalized as part of the cost of assets under construction and planting for the year amounted to $230,000 [2002 – $923,000].

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

	2003 $	2002 $
Trust receipt loans	12,004	16,355
Bank loans	27,021	31,709
	39,025	48,064

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 the consolidated balance sheet date of $9,161,000 [2002 – $9,049,000];

[b] certain short-term deposits at the consolidated balance sheet date of $8,540,000 [2002 – $6,469,000]; and

[c] timber holdings of 1,703 hectares provided by an independent third party.

In respect of the timber holdings pledged in [a] above, the PRC CJV partners have undertaken to counter-indemnify the Company from their 30% share of the harvested timber.

8. Long-term Debt

Long-term debt consists of the following:

	2003 $	2002 $
Equipment loan [a]	470	1,411
Exchangeable Notes [b]	275	28,385
Plantation loan [c]	23,703	19,863
IFC projects loans [d]	38,000	38,000
Convertible Instruments [e]	31,893	–
Term loan	5,000	–
	99,341	87,659
Less: long-term debt due within one year	(43,388)	(5,370)
	55,953	82,289

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

	$
2004	43,388
2005	13,574
2006	12,324
2007	11,074
2008	11,074
Thereafter	7,907
	99,341

[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, 2003, the interest rate on the equipment loan was 1.845% [2002 – 2.5%].

Interest capitalized as part of the cost of assets under construction for the year amounted to $30,000 [2002 – $56,000].

[b] Exchangeable Notes

In 1999, Sino-Wood entered into an agreement to issue an aggregate of $20,000,000 Guaranteed Exchangeable Redeemable Notes ["Exchangeable Notes"]. The Exchangeable Notes were 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. On May 16, 2003, the maturity date of the Exchangeable Notes was extended to September 1, 2004. A director of the Company is an officer and shareholder in a management company that provides certain advisory, management and general administrative services to the entity that ultimately holds the Exchangeable Notes.

The Exchangeable Notes are exchangeable in minimum amounts of $1,000,000 into Class A Subordinate-Voting Shares of the Company at a price of $1.21 [equivalent of Cdn. $1.88] during the period from January 29, 2002 to September 1, 2004. 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.

On March 5, 2003, Sino-Wood entered into an exchange agreement whereby the holder of the Exchangeable Notes exchanged approximately $9,844,000 in principal amount of the Exchangeable Notes [having an accrued value which comprised of principal and accrued interest of approximately $15,500,000] for approximately $15,500,000 of convertible notes on substantially the same terms and conditions as the Convertible Instruments described in note 8(e). If no listing of the shares of Sino-Wood on the Hong Kong Stock Exchange ["HKSE"] takes place prior to the maturity date, the convertible notes will be redeemed on the maturity date at 106.24% of their subscription price plus unpaid interest and Sino-Wood shall pay the holders of the convertible notes an additional premium of approximately $2,547,000 on the maturity date. As part of the terms and conditions of the Convertible Instruments, the holder of the Exchangeable Notes was also issued 66,325 Class B shares of Sino-Wood [note 8(e)]. In the event of a listing of the shares of Sino-Wood on the HKSE before the maturity date of the Exchangeable Notes, the Company agreed to pay the holders of the Exchangeable Notes an amount in lieu of foregone interest of approximately $2,330,000. In lieu of this $2,330,000 amount, the holders of the Exchangeable Notes may elect to receive 1,880,245 Class A Subordinate-Voting Shares of the Company. There was no gain or loss recognized as a result of this transaction.

During the year, the noteholders of the remaining $10,156,000 in principal amount of the Exchangeable Notes exercised their options to exchange $10,000,000 of the Exchangeable Notes into 8,069,320 Class A Subordinate-Voting Shares of the Company. Interest accrued of approximately $7,224,000 that had been provided on these Exchangeable Notes to reflect the guaranteed interest rate of 15% is now included in share capital as the amount no longer represents a liability of the Company. As at December 31, 2003, $156,000 in principal amount of the Exchangeable Notes remained outstanding. The difference between this amount and $275,000 as recorded on the consolidated balance sheets represented the 15% per annum interest accrued less the 5% interest already paid.

Interest expense for the year was $5,160,000 [2002 – $5,643,000].

[c] Plantation loan

In 1999, Sino-Wood entered into a loan agreement for a long-term loan of Euro 18,970,710 [$20,000,000] 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 Euro LIBOR plus 3.5% per annum. As at December 31, 2003, the six-month Euro LIBOR was 2.16% [2002 – 3.625%]. Interest expense for the year amounted to $1,698,000 [2002 – $1,367,000].

Sino-Wood has entered into an interest rate cap agreement to manage its interest rate risk. The cap agreement reduces its exposure to Euro LIBOR movements by fixing the Euro LIBOR at a maximum of 7% per annum. The counterparty will pay to Sino-Wood the excess of Euro 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 on May 15, 2008.

As at December 31, 2003, the amount of the plantation loan outstanding was $23,703,000 [2002 – $19,863,000]. The increase in the plantation loan outstanding as at December 31, 2003 resulted from the strengthening of the Euro against the U.S. dollar in 2003.

[d] IFC projects loans

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 totaling $47,500,000. First and second disbursements of the loans of $19,000,000 each were received by the subsidiaries in September 2001 and February 2002, respectively. The subsidiaries are still in discussion with the lenders on the timing at which the final disbursement of $9,500,000 will be made.

The loans will be repaid in twelve equal semi-annual installments commencing on December 15, 2003, with the final installment due on June 15, 2009. The loans bear interest at six-month LIBOR plus 3% per annum. As at December 31, 2003, the six-month LIBOR was 1.22% [2002 – 2.03%]. These loans are secured by pledges over the land-use rights, buildings, machinery and equipment which have an aggregate net book value at the consolidated balance sheet date of approximately $26,162,000 [2002 – $23,830,000].

Interest capitalized as part of the cost of assets under construction for the year amounted to $1,741,000 [2002 – $1,812,000].

[e] Convertible Instruments

On March 10, 2003, Sino-Wood issued $14,000,000 of convertible instruments ["Convertible Instruments"] comprised of $12,000,000 of convertible notes and $2,000,000 of convertible preference shares. The Convertible Instruments were issued at par value, bear interest or dividends at a rate of 4% per annum payable in semi-annual installments and have a maturity of 18 months. In the event of a listing of the shares of Sino-Wood on the HKSE before the maturity date, the Convertible Instruments will either be redeemed at the time of the listing or be converted into ordinary shares of Sino-Wood at the listing price at the option of the holders of the Convertible Instruments. If no listing takes place prior to the maturity date, the Convertible Instruments will be redeemed on the maturity date at 106.24% of their subscription price plus unpaid interest or dividends. In addition, subscribers of the Convertible Instruments were issued 59,906 Class B shares of Sino-Wood. The Class B shares have the identical attributes as the ordinary shares of Sino-Wood except that holders of Class B shares are not entitled to dividends or distribution [other than distributions which may be made on the winding up of Sino-Wood]. In the event of a listing of the shares of Sino-Wood on the HKSE by the maturity date, the Class B shares shall automatically convert into ordinary shares on a one-for-one basis [or such other ordinary shares as will be subject to the listing]. Otherwise, the holders of the Class B shares shall sell, at the option of Sino-Wood, all the shares to Sino-Wood or, at the election of Sino-Wood, to the Company at par of HK$1.00 each for cash. See also note 8(b). Further, one of the holders of the Convertible Instruments also has a put option pursuant to which they may exercise an option to sell to the Company their 17,116 Class B shares at the par value of HK$1.00 each and their Convertible Instruments at the principal amount plus a premium of 6.24%, in the event that they cease to act as the sponsor and global coordinator of the listing of the shares of Sino-Wood on the HKSE. Interest expense and redemption premium charged for the year on the Convertible Instruments [including $15,500,000 of convertible notes issued in exchange for the Exchangeable Notes [note 8(b)]] amounted to $956,000 and $2,376,000, respectively.

[f] 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.

As at December 31, 2003, the current ratio of the Company, calculated on a consolidated basis, did not comply with the minimum requirement specified under the agreements of the IFC projects loans [note 8(d)]. As a consequence of the non-compliance, the Company may not make any distribution out of its profits or share capital and may not incur any new debt without written approval from the IFC and other co-lenders.

However, management does not believe that the aforesaid non-compliance and meeting the other covenants will affect the normal operations of the Company or accelerate the debt maturity.

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

9. Share Capital

Share capital consists of the following:

	2003 $	2002 $
Authorized		
Unlimited Class A Subordinate-Voting Shares		
6,000,000 Class B Multiple-Voting Shares		
Unlimited Preference Shares, issuable in series		
Issued		
96,219,548 Class A Subordinate-Voting Shares [2002 – 74,330,228, including 4,649,000 issued under share purchase loans]	67,439	32,758
Nil [2002 – 6,000,000] Class B Multiple-Voting Shares	–	–
	67,439	32,758

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, 2003 is Cdn.$117,148,676 [2002 – Cdn.$66,466,253].

During the year, the movement in share capital were as follows:

[a] On August 7, 2003, the Company completed a private placement of 7,220,000 Class A Subordinate-Voting Shares for aggregate gross proceeds of $12,440,000. Share issue costs relating to this private placement amounted to $638,000.

[b] During the year, 600,000 stock options were exercised for proceeds of $691,000.

[c] During the year, a total of 8,069,320 Class A Subordinate-Voting Shares were issued in exchange for $10,000,000 in principal value of the Exchangeable Notes. The interest accrued of approximately $7,224,000 that had been provided to reflect the guaranteed interest rate of 15% is also included in share capital as described in note 8(b).

[d] In December 2003, 6,000,000 of the outstanding Class B Multiple-Voting Shares were converted into 6,000,000 Class A Subordinate-Voting Shares. The conversion had no dilutive effect on earnings per share.

[e] The Company had provided interest free loans to employees pursuant to the terms of the Stock Option Plan to finance the acquisition of Class A Subordinate-Voting Shares. In accordance with the terms of the Stock Option Plan, the shares acquired under share purchase loans were pledged to the Company and the indebtedness was repayable upon the sale of the pledged shares. The Company recorded the share purchase loans as a reduction in share capital. During the year, share purchase loans of $4,962,000 were repaid and share capital was increased accordingly. The 4,649,000 Class A Subordinate-Voting Shares previously pledged as collateral are now considered outstanding for purposes of calculating basic earnings per share. There are no share purchase loans outstanding as at December 31, 2003.

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 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

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

- 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.

Stock options

The Company's Stock Option 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 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. As at December 31, 2003 options to purchase 325,000 Class A Subordinate-Voting Shares have been granted and options to purchase 9,075,000 Class A Subordinate-Voting Shares remain available to be granted under the Stock Option Plan. No compensation expense is recorded for the stock options awarded during the year [2002 – $nil] as the options are all granted at exercise prices set at the current market price for the Company's common stock on the grant date. The fair value of stock options granted to employees for the year ended December 31, 2003 is not material.

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

	2003		2002	
	Number of Shares	Weighted average exercise price Cdn.	Number of Shares	Weighted average exercise price Cdn.
Balance, beginning of year	600,000	1.54	925,000	1.77
Options granted	325,000	1.79	–	–
Options exercised	(600,000)	1.54	–	–
Options cancelled	–	–	(325,000)	2.21
Balance, end of year	325,000	1.79	600,000	1.54
Exercisable at year-end	325,000	1.79	600,000	1.54

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable at December 31, 2003:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exerciseable	Weighted average exercise price
Cdn.$1.76–Cdn.$2.00	325,000	4.45 years	Cdn.$1.79	325,000	Cdn.$1.79

On March 14, 2003, the Board of Directors approved the transfer of rights, for nominal consideration, of the economic equivalent of 50,000 ordinary shares of Sino-Wood ["the Sino-Wood Option"] from the Company to certain officers and directors of the Company upon the completion of certain future events. As these future events have not occurred, these rights granted do not impact diluted earnings per share. In addition, no compensation expense has been recorded at the time of the granting of these rights due to the uncertainty of future events occurring [note 16].

In 1997, Sino-Panel granted options to senior management to acquire up to 10% of Sino-Panel's equity on a fully-diluted basis (before and after giving effect to any future initial public financing by Sino-Panel), for nominal consideration [the "Sino-Panel Option"]. These options have no impact on diluted earnings per share as Sino-Panel is still under development and remains unprofitable [note 16].

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

10. Income Taxes

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

	2003 $	2002 $
Income before income taxes	33,232	20,114
Expected statutory tax rate	43.95%	43.95%
Expected income tax provision	14,606	8,840
Increase (decrease) in income taxes resulting from:		
Unrecognized income tax losses arising from losses of the Company and its subsidiaries	8,224	7,799
Income tax at different rates in foreign jurisdictions	(19,778)	(17,117)
	3,052	(478)

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 and CJVs are eligible for an exemption from state and local income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward, followed by a 50% exemption for the next three years.

Hong Kong profits tax has been provided at the rate of 17.5% [2002 – 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 and its subsidiaries operate.

As at December 31, 2003, the Company has income tax losses of approximately $4,080,000 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 $347,000 of these tax losses will expire in 2004, $905,000 in 2005, $825,000 in 2006, $631,000 in 2007, $680,000 in 2008 and $692,000 in 2009. The benefit of these losses, if realized, will be at the Canadian tax rates at the time the benefit is realized.

In addition, the Company's subsidiaries, PRC WFOEs and CJVs have incurred tax losses in Hong Kong and the PRC for which no benefit has been recognized in these consolidated financial statements. The ultimate recovery of these losses is not determinable. There are no other temporary differences.

11. Earnings per Share

The earnings used in the calculations of earnings per share were as follows:

	2003 $	2002 $
Net income for the year, used in basic earnings per share calculations	30,180	20,592
Share of net income by holders of Class B shares of Sino-Wood upon conversion to ordinary shares of Sino-Wood – notes 8(b) and 8(e)	(4,536)	–
Net income for the year, used in diluted earnings per share calculations	25,644	20,592

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 were deducted from the weighted average number of Class A Subordinate-Voting Shares outstanding in calculating basic earnings per share. 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. The weighted average number of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding were as follows:

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

	Weighted average	
	Basic	**Diluted**
2003	80,290,000	80,379,000
2002	75,682,000	80,330,000

12. Net Change in Non-Cash Working Capital Balances

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

	2003 $	2002 $
Cash provided by (used for):		
Accounts receivable	(27,155)	(20,981)
Due from Leizhou Forestry Bureau	10,202	–
Due from PRC CJV partners	2,384	(1,822)
Other receivables and prepaid expenses	594	2,524
Deposit for the purchase of logs	–	(6,041)
Inventories	(292)	105
Accounts payable and accrued liabilities	11,416	(1,169)
Income taxes payable	3,039	(498)
	188	(27,882)

13. Segmented Information

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

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segment. Summary details of the industry segments are as follows:

[a] the plantation segment engages in the sale of wood chips and standing timber and the provision of agency services in the sale of wood chips; and

[b] the wood-based segment engages in the wood-based products trading and manufacturing and the provision of agency services in the trading of wood-based products.

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

By Industry Segment

	2003			2002		
	Plantation $	Wood-based $	Total $	Plantation $	Wood-based $	Total $
Revenue from external customers						
Sale of wood chips	133,285	–	133,285	113,554	–	113,554
Sale of wood-based products	–	63,033	63,033	–	55,254	55,254
Sale of standing timber	55,439	–	55,439	19,188	–	19,188
Commission income	13,982	–	13,982	12,752	–	12,752
	202,706	63,033	265,739	145,494	55,254	200,748
Income (loss) from operations	54,559	(4,642)	49,917	33,396	(2,109)	31,287
Identifiable assets	299,538	119,316	418,854	229,270	107,625	336,895
Interest income	72	168	240	47	745	792
Interest expense	2,884	9,359	12,243	1,367	7,265	8,632
Depreciation and amortization	82	2,263	2,345	68	1,557	1,625
Recovery of (provision for) income taxes	(3,826)	774	(3,052)	1,546	(1,068)	478
Depletion of timber holdings included in cost of sales	28,540	586	29,126	10,282	–	10,282
Additions to capital assets	89,256	7,303	96,559	36,888	7,299	44,187

Revenue from the Company's largest customer for the year amounted to approximately 29% [2002 – 30%] of total revenue. During the year, there were two [2002 – three] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 50% [2002 – 72%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 25% [2002 – 31%] of total purchases. During the year, two [2002 – three] vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 48% [2002 – 71%] 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 countries amounted to approximately $247,493,000 [2002 – $186,546,000] and $4,264,000 [2002 – $1,450,000], respectively.

As at December 31, 2003, approximately $685,000 [2002 – $944,000] of the Company's cash and cash equivalents were denominated in Chinese renminbi.

As at December 31, 2003, approximately $298,167,000 [2002 – $233,139,000] of the Company's capital assets were located in the PRC.

14. Commitments

As at December 31, 2003, the Company has various commitments to make capital contributions to the PRC CJVs and WFOEs, the details of which are disclosed in note 2. In addition, the Company has capital commitments in respect of buildings, timber holdings, plant and machinery of $15,887,000 [2002 – $17,176,000]. Commitments under operating leases for land and buildings are as follows:

	$
Within 1 year	487
In the second year	433
In the third year	380
In the fourth year	303
In the fifth year	300
Thereafter	21,237
	23,140

15. Related Party Transactions

The Company pays consultancy fees to companies controlled by certain directors who are also executive officers in lieu of their compensation. The consultancy fees incurred for the year amounted to $1,346,000 [2002 – $891,800].

In addition, as at December 31, 2003, the Company had an aggregate amount of $1,249,000 [2002 – $673,800] owed to these related companies.

16. Subsequent Events

Under a securities purchase agreement among the Company and certain directors and executive officers, the Board of Directors of the Company agreed to purchase the Sino-Wood Option [note 9] for approximately Cdn.$12,000,000. The amount will be paid by the issuance of up to a maximum of 2,400,000 Class A Subordinate-Voting Shares valued at a price per share determined at the completion of the offering based upon the offering price. If the value of such shares issued to management is less than Cdn.$12,000,000, management shall not be entitled to any additional consideration. As a result of this resolution of the Board of Directors, the Company will record compensation expense of approximately $7,800,000 upon completion of its offering of Class A Subordinate-Voting Shares as described below. As part of the securities purchase agreement for the Sino-Wood Option, management has also agreed to the cancellation of the Sino-Panel Option.

On March 24, 2004, the Company filed a short form prospectus for the issue and sale of Class A Subordinate-Voting Shares. Upon the completion of the offering, stock options to acquire 2,820,000 Class A Subordinate-Voting Shares will be granted to the independent directors and employees [but not the executive officers] at an exercise price based upon the prevailing market price and the offering price in accordance with the Company's Stock Option Plan.

Directors and Officers

Directors

Allen T.Y. Chan
Chairman and Chief Executive Officer, Sino-Forest
Hong Kong
Committees: Audit, Compensation
Director since 1994

Kai Kit (K.K.) Poon
President, Sino-Forest
Hong Kong
Director since 1994

Kee Y. Wong, F.C.A.
Executive Vice-President and Chief Financial Officer, Sino-Forest
Toronto
Committees: Corporate Governance
Director since 1997

John (Jack) Lawrence
Chairman, Lawrence & Company
Toronto
Committees: Audit, Compensation (Chair)
Director since 1997

Edmund Mak
Real Estate Marketing, Re/Max Select Properties
Vancouver
Committees: Audit (Chair), Compensation, Corporate Governance
Director since 1994

Simon Murray
Chairman, GEMS (General Enterprise Management Services Limited)
Hong Kong
Director since 1999

Officers

Allen T.Y. Chan
Chairman and Chief Executive Officer

Kai Kit (K.K.) Poon
President

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

Hua Chen
Chief Financial Officer, China

Wei Mao Zhao
Vice-President, China

Jay Lefton
Corporate Secretary

Corporate and Shareholder Information

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

Forbes West
Senior Advisor
Hill & Knowlton Canada
Tel: 416.203.2200
Fax: 416.203.2215

ANNUAL SHAREHOLDER MEETING
4:00 p.m.
Monday, June 21, 2004
The Fairmont Royal York Hotel
The Imperial Room
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

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.

PRODUCED BY STORY COMMUNICATIONS   DESIGNED BY RAVE! DESIGN INC.

Sino-Forest Corporation

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

EXECUTIVE HEAD OFFICE

Sino-Forest Corporation
3129-40 Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong, China

Tel: 852.2877.0078
Fax: 852.2877.0062

www.sinoforest.com
www.sinoforestonline.com