"What We Believe In"

SINO-FOREST CORPORATION 2004 ANNUAL REPORT

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Sino-Forest Corporation is the largest, foreign-owned, commercial forestry plantation operator in China in terms of plantation area. The corporation cultivates and harvests trees for sale as standing timber, logs and wood fibre for the manufacturing of wood chips for pulp & paper processing and of engineered products for the furniture, construction and decoration industries.

Sino-Forest is a Canadian corporation with executive offices in Hong Kong and Canada and plantations in south-east China. The corporation operates through two wholly-owned subsidiaries — Sino-Panel Holdings Limited and Sino-Wood Partners, Limited, and its common shares have traded since 1995 on the Toronto Stock Exchange under the symbol TRE.

WE BELIEVE IN THE VAST MARKET POTENTIAL IN CHINA, where we expect to see very strong demand for a broad range of industrial and consumer wood-based products in the next decade.

WE BELIEVE IN THE VALUE OF OUR COMPETITIVE ADVANTAGES — that our established business relationships, strategic operating locations, advanced agro-forestry expertise, low operating costs, access to capital and sustainable development practices make Sino-Forest the preferred, vertically-integrated supplier of wood-based products in China.

WE BELIEVE IN OUR WELL-PROVEN STRATEGY of increasing market share and delivering sustainable and profitable growth by cultivating short-rotation tree plantations, and manufacturing and trading high-quality, value-added products destined for downstream customers.

WE BELIEVE IN THE UPSIDE POTENTIAL OF SINO-FOREST'S STOCK PRICE — that as we continue to deliver results according to plan, the corporation's shares will have the potential to trade at a higher price multiple of its growing earnings.

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"Sino-Forest is the largest, foreign-owned, commercial forest plantation operator and preferred supplier of wood fibre in China and an industry leader in the Asia-Pacific region."

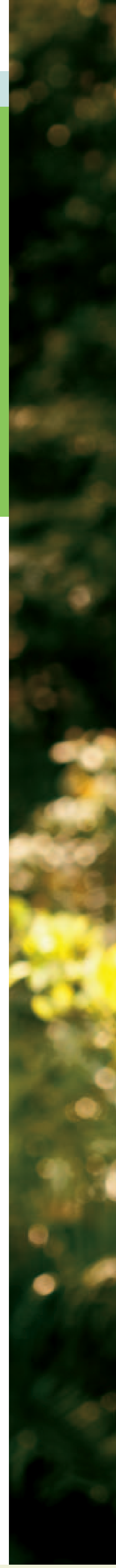
Summary of Financial Data

Millions of U.S. dollars, except per-share and return numbers	**2004 $**	2003 $	Change %
Revenue	**330.9**	265.7	25
EBITDA	**125.3**	80.7	55
Net income	**52.8**	30.2	75
Diluted earnings per share	**0.43**	0.32	34
Cash flow from operation activities	**119.4**	69.6	72
Cash and cash equivalents, end of year	**201.2**	6.9	2,816
Total assets	**756.0**	418.9	81
Shareholders' equity	**372.3**	245.0	52
Return on equity	**14%**	12%	2

Key Accomplishments in 2004

- Raised US$74 million in equity issue, and US$300 million from debt financing
- Significantly increased the Board independence and financial expertise with appointment of two new Directors
- Began to purchase 200,000 hectares of mature plantation trees, and land-use rights for re-planting under a 50-year lease, which will ultimately double Sino-Forest's plantation area under management
- Revenues increased 25%, well surpassing the $300 million milestone
- Sold $105 million of standing timber, 90% more than in 2003
- Net income rose 75% to $53 million
- EBITDA and Cash flows from operating activities both passed the $100 million milestone

"We Believe In Our Sustainable Business Strategy"



Sino-Forest delivered another solid financial performance in 2004. In addition, we raised $374 million to repay previous long-term debt and fund future growth, and increased the independence and financial expertise of our Board with the appointment of two new directors. And we began the acquisition and harvesting of mature pine trees on 200,000 hectares that will eventually double the size of Sino-Forest's forest plantation area under management. We believe the stage is set for the corporation's rapid and profitable growth in 2005 and beyond.

MONEY DOES GROW ON TREES

After reporting higher profitability in each quarter since our initial public offering in 1994, and reaching record highs with several key financial measurements last year, Sino-Forest has been an exception to the old saying that "money doesn't grow on trees". In 2004, we continued to reap the rewards of patiently planting or acquiring, nurturing to maturity, and harvesting mature trees on our plantations. As a result, the corporation produced double-digit increases in total revenues (25%), EBITDA (55%), net income (75%) and diluted earnings per share (34%).

Confident that we had established a profitable business strategy, we worked with the highly respected financial advisers Morgan Stanley to raise funds in major cities around the world. We completed in May an equity issue of 39 million common shares in a public offering in Canada and private placements to international investors, which raised $74 million. Then in August, Sino-Forest raised another $300 million by issuing non-convertible guaranteed senior notes bearing an interest rate of 9.125% per annum and maturing in 2011, to many institutional investors in Asia, the United States and Europe. This


ALLEN CHAN
Chairman & CEO
REVENUE (millions)
04 $330.9
03 $265.7
02 $200.7
01 $137.3
00 $126.7
$0 $50 $100 $150 $200 $250 $300 $350
NET INCOME (millions)
04 $52.8
03 $30.2
02 $20.6
01 $18.6
00 $28.6
$0 $10 $20 $30 $40 $50 $60

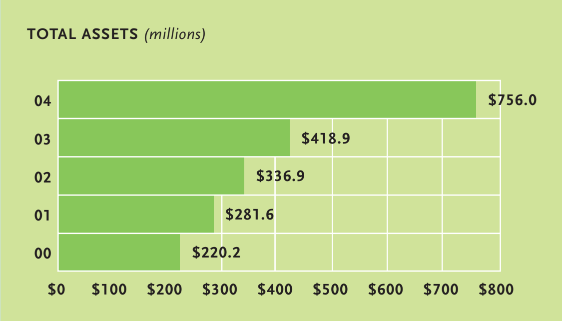
popular financing led to the corporation receiving awards from two top financial publications: "Best High-Yield Bond" from Asiamoney and "Best Non-investment-grade Bond" from IFR Asia.

We believe in establishing our operations in locations near the largest and most productive markets in China.

Proceeds from these successful financings, combined with increasing operating cash flow, were used to repay outstanding long-term indebtedness, and to finance the acquisition of 200,000 hectares of mature pine trees, and to complete the development of our wood-product manufacturing facilities. Having simplified our long-term debt structure, and secured the funding to acquire additional mature pine trees, Sino-Forest is well positioned for strong growth and profitability over the next few years.

HUGE MARKETS CREATE EXTRAORDINARY DEMAND

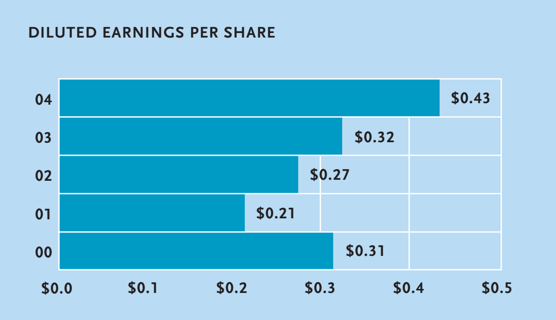
The People's Republic of China (PRC) is rising up in the world economy, both as a low-cost manufacturer and a consumer. We believe that it is a promising, emerging market, even though its market economy is still relatively new. As an enormous and complex country, China has a diverse political economy, yet its government is introducing economic liberalization at a rapid pace. No doubt, the country is facing large-scale political, economic, social, infrastructure and environmental challenges, but its vibrant regional economies will continue to experience stellar growth and drive buoyant demand for essential resources such as water, electricity, oil and wood. This growth, combined with a ban on the logging of natural forests and increasing industrial and consumer demand, have created a huge wood fibre shortage in the PRC and it is not expected to improve in the medium term.



DEVELOPING ADVANTAGES TO EXECUTE OUR STRATEGY

We believe that we can supply a growing portion of China's insatiable need for wood products, by leveraging the competitive advantages that we have developed over the past decade. Sino-Forest has a strong position in a fragmented forestry industry with limited competition.

Our plantations, production mills and customers are strategically located near transportation arteries connected to the PRC's largest consumer markets and manufacturing hubs. We are among leaders in plantation management know-how; we have technical expertise in agro-forestry and R&D skills that yield higher productivity and product quality than most other local plantations in China. We also benefit from low-cost labor, material and delivery costs, and economies of scale. Sino-Forest has relatively moderate leverage on its balance sheet and good access to capital as a public company. And with a strong track record as the preferred supplier of wood fibre in the PRC, we have important, well-established relationships with local forestry bureaus, dealers, customers and suppliers.



We believe these competitive advantages have allowed us to develop a multi-faceted business strategy that consists of expanding our plantation area through low-cost and low-risk investment, enhancing our plantation yield through technology, which ultimately maximizes earnings and shareholder returns.

The corporation is able to expand swiftly through its purchased plantation model — purchasing and managing commercially viable plantations that can consistently supply standing timber, logs and wood chips. We typically acquire existing young and mature trees, and after harvesting, replace them with eucalyptus trees that mature in only five years in southern China. We steadily improve the output and profitability of our plantations by increasing their recoverable yield using biological research & development and forestry best practices. All this fits well with the Government of China's plan to increase wood production from commercial plantations managed effectively by the private sector.

> We believe that our competitive advantages have made Sino-Forest one of the most preferred suppliers of wood-based products in China.

In the years ahead we expect our revenues to come proportionally more from standing timber and log sales, and relatively less from wood chips. We anticipate this will increase Sino-Forest's operating margin, earnings per share and cash flow.

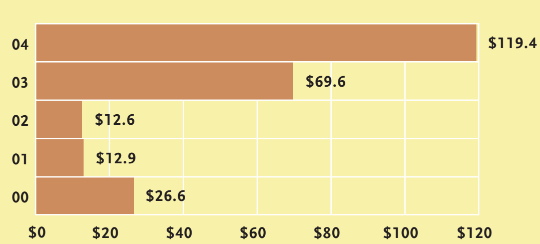
GROWING TREES AND VALUE

As our trees grow, so does their market value, but much faster. In March this year, we received an updated, independent valuation of Sino-Forest's plantation assets as well as a prospective valuation of our proposed plantation development plans in China. Jaakko Pöyry Management Consulting (Asia-Pacific) Ltd., a reputable, international consulting firm, used a discounted cash flow methodology to estimate that our existing forest assets on approximately 242,000 hectares of land (current rotation only) had a value of approximately $566 million at year end 2004. Recognizing that Sino-Forest is in the process of significantly expanding its forest plantation area under management with the Heyuan undertaking, the consultants derived the value of approximately $774 million for the "perpetual" re-establishment and maintenance of all Sino-Forest plantation rotations over a 50-year period. These valuations are significantly higher than the $360 million book value of Sino-Forest's forest assets on its balance sheet at year end 2004.

A recent, independent valuation states that Sino-Forest's plantation assets at year end 2004 were worth $566 million.

The report also confirmed what other experts have said about our strong competitive position, by stating that Sino-Forest is "at the forefront of commercial plantation development in China", and that our position in the market will likely remain dominant due to our established land bank and long-term relationships with forestry bureaus in the key southern China provinces of Guangdong, Guangxi, Jiangxi and Fujian.

CASH FLOW FROM OPERATING ACTIVITIES *(millions)*

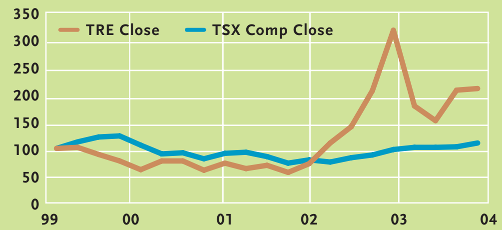


PREPARED FOR A PROSPEROUS FUTURE

Sino-Forest has undertaken a number of organizational initiatives to help prepare the corporation for further profitable growth. We have recently appointed two, independent directors to the corporation's Board, both experienced businessmen and Chartered Accountants: David Horsley is Senior Vice President and CFO of TSX-listed Cygnal Technologies Corporation, and Jamie Hyde, Vice President, Finance and CFO of

GSW Inc. All Sino-Forest Board committees are now completely composed of independent directors. Our board is committed to further enhancing our governance practices, and to providing valuable guidance to management on the development and implementation of our strategic plan.

SHARE PRICE PERFORMANCE



Our management team will be focusing in the near term on the major Heyuan plantation undertaking, which will enhance profitability and growth in shareholders' equity. The sale of standing timber on the first 13,569 of 200,000 hectares in Heyuan has already produced a return on investment of approximately 46%.

> We believe that Sino-Forest has the right people and strategy in place to ensure robust growth and prosperity.

There are 500 employees who work for Sino-Forest, and we take seriously our corporate social responsibility toward them, their local communities and the natural environment.

We believe that Sino-Forest has the right competitive advantages, well-grounded strategy and capable people in place to increase shareholders' return on equity and to further develop the corporation into a large-cap, forest product leader in east Asia.

Accordingly, we believe in the upside potential of Sino-Forest's stock price, because of our strong market position in a massive growing economy and our relatively low stock trading price multiple of earnings relative to other public peer companies.

We conclude this message by giving many thanks to our various stakeholders — customers, shareholders, lenders, forestry partners and employees — whose commitment will continue to drive Sino-Forest's success into a promising future.

Allen Chan
Chairman and CEO
March 31, 2005

"We Believe in China's Growing Markets"

BOOMING MARKET DEMAND

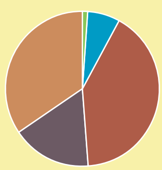
Sino-Forest is growing rapidly as it strives to satisfy demand for wood products in its huge, booming markets. China's economy is growing at approximately 9% per year. Its government is marshalling economic reforms, encouraging foreign investment and increasing capital spending on infrastructure. Over the past decade, an increasing proportion of China's industrial output has been produced by domestic and foreign, private and public companies, instead of state-owned and collective organizations.

There is a boom in construction of commercial and residential space. China's middle class has grown to an estimated 100 million, creating voracious markets with extraordinary growth potential in household consumption. Consumers are increasingly buying new homes, and furniture made of plantation wood. Guangdong Province, where Sino-Forest conducts most of its business, is China's richest province and one of the world's largest suppliers of consumer products.

To protect their natural environments, governments throughout Asia have restricted logging of natural forests, causing huge shortages of harvested wood. Since China has 21% of the world's population but only 3% of its forest, timber is imported from as far away as the Brazilian Amazon. Independent, international forestry consultants Jaakko Pöyry have estimated that total wood consumption will grow significantly over the next decade, and much of it will likely be supplied by industrial tree plantations.

The forest plantation industry in China is composed mostly of small operators with limited expertise and resources, only a small part of plantation forests are managed in a commercially viable manner. With high capital requirements and long payback periods, the barriers to entry into the industry are high, and competition is low. Sino-Forest has valuable, long-term relationships in several key markets with local authorities; the corporation is committed to aligning its practices with government policies and community goals. With its renewable plantations providing a sustainable solution to wood shortages, the corporation is uniquely positioned to reap value from China's huge market potential.

PLANTATION AREA BY PROVINCE



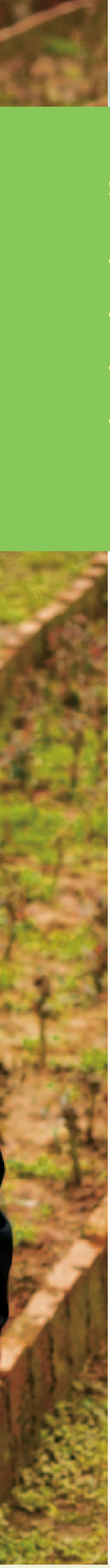
" Our plantations in south-east China are geographically diversified and located near transportation arteries connected to major wood-product manufacturers."

Kai Kit (K. K.) Poon
President

“We Believe In Integrated Operations”

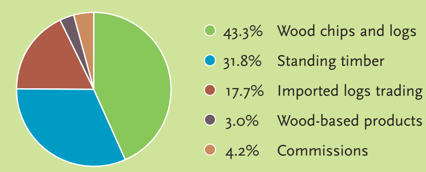
“Our revenues are derived from a variety of wood products sold to a broad range of industries.”

WEI MAO ZHAO
Masters in Technology,
Senior Vice President,
China Plantation Operation, China



Sino-Forest's Business Units

- Plantations and Standing Timber
- Wood Chips and Logs
- Panel Manufacturing
- Wood Products Trading

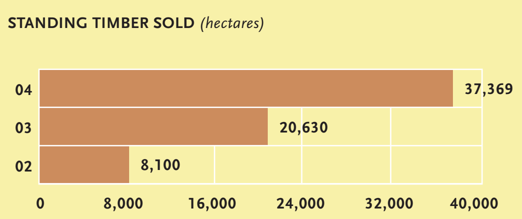


BUSINESS OPERATIONS

Sino-Forest is the largest, foreign-owned, commercial forest plantation operator in China in terms of plantation area and is involved in wood product manufacturing. The corporation supplies:

- wood chips for pulp & paper and panel board manufacturing,
- standing timber and logs for sawmills and panel production, and
- wood-based products for construction, furniture and interior decoration.

The corporation also acts as an agent trading wood chips and other woods products.



OPERATIONS

Plantations

By year end 2004, Sino-Forest had increased its plantation area under management by 38% since 2003 to 242,000 hectares.

PLANTED AND PURCHASED PLANTATIONS

The security of Sino-Forest's supply of trees stems from business relations it has developed over the past ten years with plantation owners, local forestry bureaus, plantation service providers and wood product dealers. At year end 2004, the corporation managed plantations on approximately 242,000 hectares of land. This was comprised of 210,000 hectares of purchased trees, where it has the option to sell the existing trees, and lease the land for re-planting over a period of 30 to 50 years. On the other 32,000 hectares of planted trees, Sino-Forest has sowed its own trees, through wholly-owned subsidiary and cooperative joint ventures with commercial companies of local government forestry bureaus whereby Sino-Forest assumes the costs and manages the plantation, then shares the timber with its cooperative joint-venture partners. All plantations are located in areas with favorable growing climate and rapid economic development, near transportation arteries. Sino-Forest applies its advanced plantation management and silviculture (re-planting) techniques, using mostly fast-growing eucalyptus trees.

OPERATIONS

Research & Development

RESEARCH & DEVELOPMENT

Sino-Forest is one of few plantation operators in China with an advanced R&D program, which is focused on continuously improving the corporation's short-rotation plantation yield and contributing to forest environment conservation. The corporation leverages its cooperative relationships with local and foreign research centres and consultants to integrate both existing and self-developed technology into its operations.

Sino-Forest's scientists apply modern biotechnology techniques to optimize cloning, breeding, fertilizer application, soil productivity and tree spacing, all in order to maximize harvest yield and value. The R&D team uses bio-engineering to develop hybrids, genetic diversity, non-chemical fertilization and resistance to disease, pests, draught, frost and fire. As a result, Sino-Forest currently obtains an average yield of 90 cubic metres of eucalyptus timber per hectare per cycle, compared to China's average 60 metres, and it is targeting to achieve 120 metres after two tree rotations. The corporation also applies R&D to its wood processing and utilization technologies, the diversification of its downstream products, and the maintenance and improvement of forest ecosystems and environments.

Sino-Forest's research and development expertise is a significant competitive advantage in terms of maximizing plantation yield.

OPERATIONS

Standing Timber

The Heyuan acquisition and re-planting program will drive significant growth in Sino-Forest's revenues and cash flow.

STANDING TIMBER

Through both planted and purchased tree plantations, Sino-Forest is increasing its inventory of standing timber. When the corporation decides to sell timber, at various stages of maturity, it is sold to domestic wood dealers. Then the land is re-planted, typically with hardwood eucalyptus, which grows quickly in short, five-year rotations and produces a higher yield. Poplar is also planted for woodchip and sawlog production. Sino-Forest's standing timber is located in China's southern provinces, strategically located near consuming markets, giving it a competitive advantage over imported logs with their higher freight costs. The sales of standing timber produce much higher margins than do wood chip and panel board sales, and in 2004 represented approximately 32% of the corporation's revenues.

HEYUAN TREE ACQUISITION

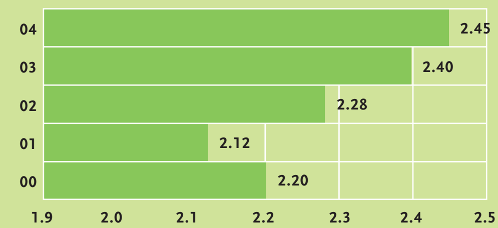
Last year, Sino-Forest entered into a landmark agreement with a corporation endorsed by the local forestry bureau to select, purchase and sell mature pine trees on 200,000 hectares in Heyuan (Guangdong Province). Sino-Forest can acquire standing timber until February 2006, and has the option to lease and use the land to re-plant up to 50 years at rental rates ranging from $22 to $33 per hectare per year. The acquisition is currently estimated to cost approximately $200 million, double Sino-Forest's plantation area, and increase revenues substantially. At year end 2004, the corporation had surveyed 50,000 hectares, purchased 30,000 hectares of trees and sold 13,569 hectares of standing timber for $22 million. Sino-Forest plans to sell mature trees over a 36-month period and re-plant eucalyptus trees over five years. The Heyuan acquisition is contributing immediately to cash flow.

OPERATIONS

Wood Chips

Sino-Forest's largest source of revenue is wood chips, which serve as raw material for the production of pulp & paper and engineered forest products for furniture manufacturing and construction. In its recent report to Sino-Forest, Jaakko Pöyry Consulting has estimated that demand for pulpwood will increase 7% per year from 2002 to 2007 and over 5% from 2007 to 2012, and that an increasing proportion of paper products will be manufactured from woodchip kraft. Overall demand for paper and board fibre is projected to increase at a rate of 4% to 5% per annum, particularly since many new pulp & paper and fibreboard mills have opened or will soon open in south-east China.

WOOD CHIP SHIPMENTS *(millions, BDMT)*



Shipments of the corporation's wood chip have increased at a fairly steady pace since 2001. And after dropping to a low in 2001, the price of wood chips has been trending upward.

Jaakko Pöyry states in its report that, after increasing more than 5% per annum over the past five years, China's domestic demand for pulpwood is expected to grow significantly, with a number of new pulpmills planned for construction.

Many new panel mills and planned pulp mills in China will accelerate growth in demand for wood chips.

OPERATIONS

Panel Manufacturing

A projected 11% annual growth in China's furniture production over the next five years will drive demand for wood-based panels.

Years ago, Sino-Forest had planned to build a variety of downstream manufacturing facilities in both Suzhou (Jiangsu Province) and Gaoyao (Guangdong Province). Those plans had to be postponed due to limited available financing, but were revised and accelerated after the corporation obtained recent funding. Sino-Forest management decided to have fewer but larger engineered product lines, in one location rather than two. In Suzhou, the corporation has decided to move its saw mill operation to another location, and sell or lease its entire industrial property. In Gaoyao, Sino-Forest plans to invest $22 million to expand the annual capacity of its modern particleboard mill to 275,000 cubic metres, and construct plants for melamine lamination (5,400,000 m²/year), and not build a new saw mill nor facilities to produce finger-joint board, kitchen cabinets and composite doors. Production equipment has been ordered and 5 mills are expected to be operational by the end of 2005.

OPERATIONS

Wood Product Trading

Sino-Forest sells and trades logs, wood chips and wood-based products, such as sawn timber and lumber and veneer, in Chinese markets mostly through authorized intermediaries who have the requisite domestic business licenses to sell and trade such products. The corporation is also engaged in the sales and trading of logs, wood chips and wood-based products sourced from outside China, where business licences are not necessary, to wood dealers, and end-users such as pulp and panel mills and furniture and wood product manufacturers. These trading activities complement Sino-Forest's core business of growing and selling trees for sale, and provide another source of revenue based on products imported from other countries.

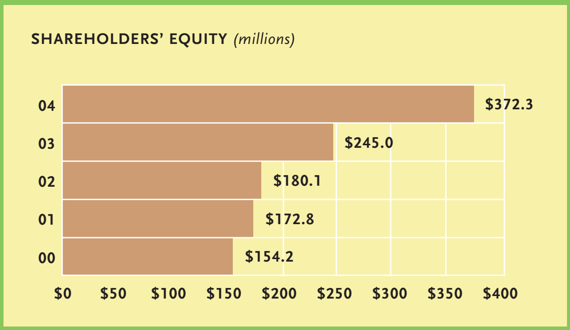
Although Sino-Forest's trading team has dealt with overseas suppliers and authorized intermediaries (wholesalers) for the past decade, the corporation's intention is to conduct relatively more transactions directly with end-user customers. Having a relatively sizeable trading agency gives Sino-Forest a wider range of products to satisfy and expand its customer base and a stronger trading position in the forest product marketplace.

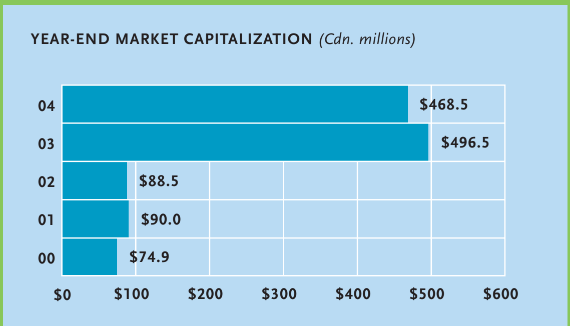
Jaakko Pöyry Consulting expects the gap between domestic wood supply and future demand for wood chips, pulplogs and solid wood sawlogs to increase.

"We Believe In Strong Governance and Management"

"Sino-Forest has been strengthening its management team and accounting systems to support its recent growth and future plans."

Hua Chen
Senior Vice President, China Operations and Finance





CORPORATE GOVERNANCE

As a publicly listed corporation on the Toronto Stock Exchange, Sino-Forest is subject to demanding Canadian regulatory requirements, so its accounting, governance and disclosure standards are higher than those of most of its peers in China. Committed to having good governance, the corporation appointed two new independent directors, both Chartered Accountants, to its Board last September. David Horsley is Senior Vice President and CFO of TSX-listed Cygnal Technologies Corporation and a Chartered Business Valuator, and he has served on the Boards of several companies, for some as chairman of their audit committee. And Jamie Hyde is Vice President, Finance and CFO of GSW Inc. — a leading, North American manufacturer and marketer of water and building products listed on the TSX, and was a partner with Ernst & Young for 12 years. They join the other three independent directors, Jack Lawrence, Simon Murray and Edmund Mak, who also bring highly valuable experience to the boardroom table. Five of the corporation's eight directors, and all Board committee members, are now independent.

STRONGER MANAGEMENT

In order to support Sino-Forest's plans for growth in several provinces and product lines in China, the corporation has shored up its management ranks with the appointment of new vice presidents. The corporation also opened a new, mainland executive office in Guangzhou, China. Sino-Forest has worked hard over the past ten years, not only selecting the right business partners, plantations and tree species, but also putting in place the right internal team to drive growth of its business and position it for success in the future. Competent management allows the corporation to operate with increased accountability and minimal bureaucracy.

“We Believe in Results”

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“After successfully raising $374 million and generating excellent results last year, Sino-Forest has a strong financial position from which to finance our business plan going forward.”

KEE WONG
Executive Vice President and Chief Financial Officer

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

The following management's discussion and analysis ("MD&A") presents the factors that had a material effect on our results of operations during the years ended December 31, 2004 and 2003. Our financial position as of the end of December 31, 2004 and 2003 are also discussed in this MD&A. You should read this MD&A in conjunction with our historical consolidated financial statements as at December 31, 2004 and 2003 and for the years then ended and the notes thereto. Our consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This MD&A contains forward-looking statements. The United States dollar is our reporting currency and all figures contained herein are in United States dollars unless otherwise indicated.

OVERVIEW OF BUSINESS

We are the largest foreign-owned commercial forestry plantation operator in the People's Republic of China ("PRC") in terms of plantation area. As of December 31, 2004, we had approximately 242,000 hectares of forestry plantations located in southern and eastern China. We have been operating forestry plantations in the PRC since 1995. We are focused on the development and supply of wood fibres and logs to meet the increased demand from manufacturers in the wood panel, furniture, construction, interior decoration and pulp and paper markets in the PRC. Our manufacturing plants are intended to complement our forestry plantations and trading operations, and to create an additional source of demand for wood fibres in the PRC.

We currently sell wood chips, wood-based products and, beginning in 2002, standing timber from our planted tree plantations and purchased tree plantations. We also earn commission income from agency services in the sale of wood chips and wood-based products in the PRC and elsewhere in Asia. Wood-based products include logs, veneer, sawn timber, wood flooring and lumber, all primarily sourced from domestic and overseas suppliers, as well as particleboard and melamine faced chipboard and sawn timber from our manufacturing plants.

The standing timber, wood chips, logs and other wood-based products that we sell are used to produce a variety of wood-based products in two principal markets in the PRC: (1) the wood panel, furniture, construction and interior decoration markets; and (2) the pulp and paper markets. In general, we sell the larger diameter portion (i.e. 14 centimetres or above) of the trees as logs to solid-wood furniture manufacturers, and the smaller diameter portion (i.e. below 14 centimetres) of trees as wood chips to wood panel manufacturers and pulp and paper mills.

We have primarily the following species on our forestry plantations: eucalyptus, poplar and pine trees. Demand for eucalyptus trees generally comes from wood panel and furniture manufacturing plants and pulp and paper mills. Pulp and paper mills particularly seek out eucalyptus trees for the high density of their wood fibres. Demand for pine trees generally comes from solid wood and reconstituted wood panel and furniture manufacturing plants. However, pine trees are not suitable for pulp and paper mills because of the low density of their wood fibres. Demand for poplar trees generally comes from solid wood and reconstituted wood panel and furniture manufacturing plants and mechanical pulp and paper mills, which use a processing method that is different from that used by traditional pulp and paper mills.

The prices of wood chips from eucalyptus, poplar and pine trees are generally driven by international wood chip prices, while the prices of logs from the lower portion of eucalyptus, poplar and pine trees are generally driven by domestic PRC log prices. To a large extent, wood chip prices are influenced by log prices. Log prices vary according to the species and size of the logs, with large diameter logs commanding higher prices than small diameter logs. Log prices spiked in 1994 due primarily to a fear of supply shortages as a result of environmental concerns over logging of natural forests in the United States and Asia. Thereafter, log prices trended downward from 1995 until 2001. In 1998, in response to severe flooding in major river systems with deforested catchment areas, the PRC government introduced the National Forest Protection Program. This resulted in logging bans of millions of hectares of natural forest in key water catchment areas, which created a large increase for demand in imported large diameter logs. This demand was met primarily by imports from the Russian Far East, but also from New Zealand, Papua New Guinea and other countries. During this period, domestic demand for wood fibres in China was increasing, supported by economic development, increased living standards and trade deregulation. The combined effect of increasing domestic demand and increasing log imports was to stabilize prices from 2001 of smaller diameter grades and cause a slight increase in larger diameter log prices.

Management's Discussion and Analysis *(CONT'D)*

We sell standing timber by hectare. Prices per hectare of standing timber vary according to a variety of factors, including the yield, age and species of the trees sold.

OUR STRATEGY

Our strategy is to build on our competitive strengths and our business opportunities in the PRC in order to become a leading commercial forestry plantations operator and preferred supplier of wood fibre, providing wood fibre to downstream consumers in the PRC in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements of our strategy:

- focusing on investing in additional forestry plantations;
- improving the yields of our forestry plantations;
- practicing responsible environmental forestry;
- maintaining our logs, wood chips, and wood-based product sales and trading activities and manufacturing plants as complementary activities; and
- widening and diversifying our investor base and enhancing our corporate image and profile in Asia.

OUR COMPETITIVE STRENGTHS

We believe that we have the following strengths:

- we are currently the largest foreign-owned commercial forestry plantation owner in the PRC in terms of plantation area with our own predictable, sustainable and large-scale supply of forestry resources;
- our plantations are strategically located in southern and eastern China;
- we have a strong track record in obtaining and developing commercial forestry plantations;
- we have developed extensive forestry and management expertise with local knowledge in the PRC;
- systematic application of planting and silviculture techniques;
- strong research and development capability;
- expertise in sustainable plantation development; and
- established relationships in the PRC.

OUR BUSINESS OPPORTUNITIES

We believe, we are well-positioned to benefit from the following factors:

- strong and growing consumption of wood fibre from downstream producers;
- deepening wood deficit situation in the PRC;
- recent changes in the forestry industry favor sustainable plantations; and
- the opportunity to acquire up to 200,000 hectares of mature pine trees in Heyuan, Guangdong Province.

KEY FACTORS AFFECTING OUR BUSINESS

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

- changes in domestic and international economic conditions;
- interest rates;
- governmental regulations and policies;
- population growth and changing demographics; and
- seasonal weather cycles (e.g. dry summers, wet winters) and other factors.

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

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

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

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

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

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

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

COMPONENTS OF INCOME STATEMENT ITEMS

Revenue

We derive our revenue from:

- Selling standing timber sourced from our own forestry plantations and from our CJV partner in Heyuan;
- Selling wood chips sourced from PRC suppliers;
- Selling and trading wood-based products, such as logs, veneer, sawn timber and lumber sourced from overseas suppliers, and particleboard, melamine faced chipboard and sawn timber from our manufacturing plants; and
- Receiving commission income from the introduction of timber suppliers and wood chip customers.

Management's Discussion and Analysis *(CONT'D)*

We conduct our wood chip sales activities in the PRC through domestic wood dealers who act as our authorized intermediaries to purchase timber supplies and sell processed wood chips to the market. We recognize the revenue from the sales of wood chips as and when we receive confirmation from the authorized intermediaries that the raw timber has been processed into wood chips. Under our agreements with the authorized intermediaries, the risks and rewards of ownership are transferred to the authorized intermediaries for sale to the market upon processing of the raw timber into wood chips.

We plan to use one of our existing wholly foreign-owned enterprises (WFOE) to enter into contracts with suppliers of raw timber, and either process such raw timber itself, or engage third parties to do this processing on its behalf, before selling logs, wood chips and wood-based products processed from raw timber to customers. However, we expect that a significant portion of our sales of logs, wood chips and wood-based products processed from timber sourced from third party suppliers in the PRC will continue to be performed by the authorized intermediaries on behalf of the British Virgin Islands subsidiaries. While we anticipate that we will gradually phase out their involvement in these activities, the pace of this process is not decided and we expect that we will continue to rely on authorized intermediaries in the sale of wood chips sourced from third parties in the PRC for the foreseeable future.

The following table sets forth a breakdown of our total revenue for the years ended December 31, 2004 and 2003.

Years Ended December 31,		2004		2003
(in thousands, except percentages)	$	%	$	%
Revenue				
Wood chips and logs	143,418	43.3	133,285	50.1
Standing timber	105,126	31.8	55,439	20.9
Imported logs	58,689	17.7	57,211	21.5
Commission income	14,010	4.2	13,982	5.3
Wood-based products	9,702	3.0	5,822	2.2
Total revenue	330,945	100.0	265,739	100.0

Cost of Sales

Our costs of sales consists of: (1) depletion of timber holdings as they are harvested and sold; (2) the costs of logs used as the raw materials in our sales of wood chips; (3) processing fees and administrative charges associated with wood chip sales; (4) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (5) the costs incurred at our manufacturing plants.

DEPLETION OF TIMBER HOLDINGS

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates, however, management does not believe it is likely that such differences will materially affect the Company's financial position.

Significant areas requiring the use of management estimates are depreciation and amortization rates, provision for doubtful debts, inventory valuations and revenue from the rendering of services recognized based on the percentage of completion of the transaction.

CHANGES IN ACCOUNTING POLICIES

Effective in 2004, the Company has adopted prospectively, without restatement, the new recommendations of CICA Handbook Section 3870 with respect to stock-based compensation plans. These recommendations require the use of a fair value based approach to accounting for stock-based compensation awards granted to employees. The Company records an expense over the vesting period of stock-based payments of options granted based on the fair value method and records the offsetting amount as a credit to contributed surplus.

RESULTS OF OPERATIONS

Revenue

Our revenue increased 24.5%, from $265.7 million in 2003 to $330.9 million in 2004. The increase in revenue was due primarily to the increase in the sales of standing timber in 2004, 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 89.7%, from $55.4 million in 2003 to $105.1 million in 2004. In 2004, we sold 37,369 hectares of standing timber at an average selling price of $2,813 per hectare, compared to 20,630 hectares of standing timber at an average selling price of $2,687 per hectare in 2003. The increase in the average selling price in 2004 reflected the sale of pine trees from our purchased tree plantations which generally commanded higher average selling prices due to the fact that these are older trees. In 2004, we sold 29,880 hectares of pine trees, which included the sale in the fourth quarter of 13,569 hectares of mature pine trees under the Heyuan Pine Acquisition Undertaking and 7,489 hectares of eucalyptus trees compared to 20,350 hectares of eucalyptus trees and 280 hectares of poplar trees sold in 2003. Standing timber sales comprised 31.8% of total revenue in 2004, compared to 20.9% in 2003.

Revenue From Wood Chips and Logs. Revenue from sales of wood chips and logs increased 7.6%, from $133.3 million in 2003 to $143.4 million in 2004. The increase in revenue from wood chips and logs sales was due to an increase in sales volumes of approximately 3.4% and an improvement in selling price of approximately 3.3%. Sales volumes increased from 1.45 million bone dry metric tons ("BDMT") in 2003 to 1.50 million BDMT in 2004. Average selling price of wood chips increased from $92 per BDMT to $95 per BDMT in 2004. Wood chips and logs sales comprised 43.3% of total revenue in 2004, compared to 50.1 % of total revenue in 2003.

Revenue From Wood-Based Products. Revenue from sales of wood-based products increased 8.6%, from $63.0 million in 2003 to $68.4 million in 2004. The increase in revenue from wood-based products sales was due to the following:

- an increase in shipments of imported logs of $1.5 million, representing a 2.6% increase from last year sales;
- an increase of $2.3 million in sales of particleboard, representing a 50.0% increase from last year sales;
- an increase of $0.1 million in sales from our sawmill operation, representing a 33.3% increase from last year sales;
- an increase of $0.8 million in revenue from greening projects, representing a 400.0% increase from last year sales; and
- an increase of $0.7 million in wood flooring sales, representing a 120.0% increase from last year sales.

Wood-based products sales comprised 20.7% of total revenue in 2004, compared to 23.7% in 2003.

Commission Income. Revenue from commission income for 2003 and 2004 was $14.0 million. Agency fees on the sale of wood chips in 2004 and 2003 remained at $14.7 per BDMT.

Cost of Sales

Our cost of sales increased 14.2%, from $200.8 million in 2003 to $229.4 million in 2004. The increase in cost of sales was due primarily to an increase in the areas sold for standing timber, increase in volumes and prices for wood chips, and an increase in cost as a result of higher production and sales from our wood-based business.

Cost of Sales of Standing Timber. Standing timber cost of sales increased 58.6%, from $28.5 million in 2003 to $45.2 million in 2004. The increase in costs of sales reflected primarily the increase in the area of trees sold. The increase in costs of sales reflected primarily the increase in sales volumes offset by the lower purchased cost of pine

Management's Discussion and Analysis *(CONT'D)*

trees sold in 2004. Costs of sales per hectare of standing timber decreased 12.7%, from $1,383 per hectare in 2003 to $1,208 per hectare in 2004.

Cost of Sales of Wood Chips and Logs. Wood chips cost of sales increased 7.9%, from $109.5 million in 2003 to $118.2 million in 2004. The increase in cost of sales reflected the increase in sales volumes and the increase in prices of wood chips. Prices of wood chips had increased approximately 3.6% from approximately $75.60 per BDMT in 2003 to $78.30 per BDMT in 2004.

Cost of Sales of Wood-Based Products. Wood-based products cost of sales increased 5.1%, from $62.8 million in 2003 to $66.0 million in 2004, primarily reflecting an increase in sales of imported logs, increase in production costs from the wood-based manufacturing plants as a result of an increase in production volume and additional cost incurred on the new line of business (greening project) of $0.7 million.

Gross Profit(1)

Our gross profit increased 56.4%, from $64.9 million in 2003 to $101.5 million in 2004. Gross profit margin, or gross profit as a percentage of total revenue, increased from 24.4% in 2003 to 30.7% in 2004 primarily due to higher gross margin attained from the sales of standing timber.

Standing Timber. Gross profit margin from sales of standing timber increased from 48.6% in 2003 to 57.0% in 2004 as the average cost per hectare for 2004 has decreased approximately 12.7% due to lower purchased cost of pine trees sold in 2004 and an increase in average selling price.

Wood Chips and Logs. Gross profit margin from sales of wood chips and logs in 2003 and in 2004 remained flat at approximately 18%.

Wood-Based Products. Gross profit margin from sales of wood-based products improved from 0.3% in 2003 to 3.5% in 2004. The increase in gross profit margin from sales of wood-based products was due to reduction in average production cost by approximately 7.7% from our particleboard production plant and the higher margin attained from our sawmill, wood flooring and the greening project operations.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 60.9%, from $13.3 million in 2003 to $21.4 million in 2004, due primarily to stock-based compensation of $6.9 million and the write-off of certain fees and expenses totaling $1.9 million relating to the aborted plan to list the ordinary shares of Sino-Wood Partners, Limited in Hong Kong.

Depreciation and Amortization

Depreciation and amortization increased 8.7%, from $2.3 million in 2003 to $2.5 million in 2004, reflecting the increase in depreciation charges for our manufacturing plants.

Impairment of Timber Holdings and Capital Assets

Impairment of timber holdings and capital assets of $3.9 million in 2004 representing a provision for the non-deductible portion of our insurance claims for losses on fire of our timber holdings of $0.3 million and the write-off of expenses of $3.6 million of previously capitalized costs with respect to the development of the manufacturing projects.

Income from Operations

Our income from operations increased 50.0%, from $49.2 million in 2003 to $73.8 million in 2004, due to the factors discussed above. Our income from operations as a percentage of revenue increased from 18.5% in 2003 to 22.3% in 2004.

Interest Expense

Our interest expense increased 30.3%, from $12.2 million in 2003 to $15.9 million in 2004, due primarily to interest accrued for the $300 million non-convertible guaranteed senior notes issued in August 2004.

Amortization and Write-off of Deferred Financing Costs

Our deferred financing costs increased 437.5%, from $0.8 million in 2003 to $4.3 million in 2004 due to writing-off the remaining balance of deferred financing costs relating to the plantation loan and the IFC projects loans. The plantation loan and the IFC projects loans were repaid during the year. Deferred financing costs with respect to the issuance of the $300 million non-convertible guaranteed senior notes in August 2004 were capitalized and amortized over the term of the senior notes.

Other Exchange Gains

Other exchange gains increased 285.7%, from $0.7 million in 2003 to $2.7 million in 2004 due to exchange gain arising from the appreciation of the Canadian dollars against the U.S. dollars during the year.

Interest Income

Our interest income increased 600.0%, from $0.2 million in 2003 to $1.4 million in 2004, due to increases in cash and cash equivalents and short-term deposits from the proceeds of our equity offering in May 2004 and the issuance of $300 million non-convertible guaranteed senior notes in August 2004.

Exchange Gains (Losses) on Long Term Debt

Exchange gain on long-term debt was $0.2 million in 2004 compared to an exchange loss of $3.8 million in 2003. The exchange gain on long-term debt was due to the weakening of the Euro against the U.S. dollars during the year. In 2003, exchange loss of $3.8 million was reported as a result of the strengthening of the Euro against the U.S. dollars in 2003. This Euro denominated loan was repaid in 2004.

Provision for Income Taxes

In 2004, provision for income taxes was $5.0 million, compared to $3.1 million in 2003. The increase in provision for income taxes in 2004 was due to the higher income earned in 2004.

Net Income

As a result of the foregoing, our net income for 2004 increased 74.8%, from $30.2 million in 2003 to $52.8 million in 2004. Our net profit margin increased from 11.4% in 2003 to 16.0% in 2004.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Annual Financial Information

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2004, 2003 and 2002.

Years Ended December 31, *(in thousands, except per share amounts)*	2004 $	2003 $	2002 $
Operating Results			
Revenue	330,945	265,739	200,748
Cost of sales	(229,433)	(200,835)	(158,089)
Gross profit(1)	101,512	64,904	42,659
Net income from operations	73,772	49,216	31,287
Net income	52,774	30,180	20,592
EBITDA(2)	125,316	80,687	43,194
Basic earnings per share(3) (4)	0.43	0.38	0.27
Diluted earnings per share(3) (4)	0.43	0.32	0.27
Financial Position			
Current assets	320,660	115,665	100,579
Non-current assets	435,389	303,189	236,316
Total assets	756,049	418,854	336,895
Current liabilities (including current portion of long-term debt)	83,795	117,929	74,495
Long-term debt (net of current portion)	300,000	55,953	82,289
Total shareholders' equity (net assets)	372,254	244,972	180,111
Cash dividends declared per share	nil	nil	nil

Management's Discussion and Analysis *(CONT'D)*

Fourth Quarter Financial Information

The following table sets forth the selected financial information for the three months ended December 31, 2004 and 2003.

Three months ended December 31, *(in thousands, except per share amounts)*	2004 $	2003 $
Operating Results		
Revenue	130,629	82,336
Cost of sales	(91,778)	(61,971)
Gross profit(1)	38,851	20,365
Net income from operations	28,385	13,814
Net income	20,144	8,036
EBITDA(2)	57,411	22,769
Basic earnings per share(3)(4)	0.15	0.09
Diluted earnings per share(3)(4)	0.15	0.07

Quarterly Financial Information

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2004.

			Earnings Per Share(3)(4)	
(in thousands, except per share amounts)	Revenue $	Net Income $	Basic $	Diluted $
2004				
December 31	130,629	20,144	0.15	0.15
September 30	94,715	14,016	0.11	0.11
June 30	64,818	12,742	0.11	0.09
March 31	40,783	5,872	0.06	0.05
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

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

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

(3) On June 22, 2004, we filed articles of amendment whereby our Class A Subordinate-Voting Shares were reclassified as common shares and our Class B Multiple-Voting Shares were eliminated.

(4) Net Income per share is calculated using the weighted average number of common shares (formerly Class A Subordinate-Voting Shares) and Class B Multiple-Voting Shares outstanding during each period.

SEASONALITY

Our business is seasonal. Generally, the third and fourth quarters together account for approximately 60% of annual revenue, while the first and second quarters together account for approximately 40% of annual revenue. This reflects the 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.

FOURTH QUARTER FINANCIAL RESULTS

Revenue for the fourth quarter ended December 31, 2004 increased by 58.7% to $130.6 million compared to $82.3 million for the fourth quarter in fiscal 2003. The increase in revenue for the fourth quarter of 2004 was attributable to the following:

	$
Increase in volume (12,000 BDMT) of shipments for principal sales	1,147,000
Increase in wood chip prices of approximately 3%	1,570,000
Increase in volume (1,400 BDMT) of shipments for agency sales	23,000
Increase in hectares (15,227 hectares) from the sale of standing timber	35,677,000
Decrease in average standing timber prices of approximately 14%	(2,166,000)
Increase in wood-based product sales, logs and others	12,042,000
Increase in revenue for the period	48,293,000

For the fourth quarter ended December 31, 2004, standing timber sales were as follows:

	Hectare	Sales Per hectare $	Total Revenue $	Cost Per Hectare $	Total Cost $	Gross Profit(1) $	Gross Margin %
Purchased Plantations	6,451	4,124	26,602,000	1,399	9,028,000	17,574,000	66.1
Heyuan Pine	13,569	1,586	21,526,000	1,087	14,753,000	6,773,000	31.5
Planted Plantations	1,102	1,232	1,358,000	1,003	1,105,000	253,000	18.6
Total	21,122	2,343	49,486,000	1,178	24,886,000	24,600,000	49.7

In the fourth quarter of 2004, we sold 6,451 hectares of standing timber from our purchased plantations for proceeds of $26.6 million. Cost of the timber holdings depleted as a result of this sale was $9.0 million. Gross margin from this sale was 66.1%. Average selling price of our purchased plantations in the fourth quarter of 2004 was $4,124 per hectare. In the fourth quarter of 2003, the Company sold 5,895 hectares of standing timber from our purchased plantations for proceeds of $16.0 million. Costs of timber holdings depleted were approximately $8.1 million. Gross margin for the fourth quarter of 2003 was 49.4%. Average selling price of purchased eucalyptus trees sold in the fourth quarter of 2003 was $2,710 per hectare. The higher gross margin attained in the fourth quarter of 2004 was due to the fact that the older pine trees sold in the fourth quarter of 2004 commanded a higher price than the younger eucalyptus trees sold in the fourth quarter of 2003. In general, prices of larger plantation pine logs have increased 15% – 20% in 2004.

In the fourth quarter of 2004, we have also started selling mature pine trees in Heyuan pursuant to the Undertaking received from our CJV partner in Heyuan. We purchased an initial 30,000 hectares of mature pine trees in the fourth quarter of 2004 for total cost of $32.6 million. The other 20,000 hectares that we have completed final documentation to purchase are expected to be concluded in the first quarter of 2005 as we needed some additional time to complete our assessment of the plantations to be acquired. Of the 30,000 hectares that was purchased, we sold 13,569 hectares of standing timber in the fourth quarter of 2004, generating total revenue of $21.5 million.

Management's Discussion and Analysis *(CONT'D)*

Our cost on this sale was $14.8 million. Gross margin was 31.5%. We plan to sell approximately 10,000 hectares to 12,000 hectares of mature pine trees from our Heyuan Acquisition in the first quarter of 2005. The first quarter of the year typically is our smallest quarter due to the Chinese New Year holiday season.

In addition to the above, we sold 1,102 hectares of planted plantations in the fourth quarter of 2004 for proceeds of $1.4 million. Cost of timber holdings depleted as a result of this sale was approximately $1.1 million. Gross margin earned on this sale was 18.6%, which was significantly lower than the margin earned on our purchased plantation sales. The reason for the lower margin earned on this sale was because this was younger eucalyptus trees which was planted in the early days of our plantation development. Accordingly, the yield from this plantation was much lower than the current planting plus the fact that some areas of this plantation sold were affected by frost.

For the fourth quarter ended December 31, 2004, wood chip shipments increased 1.6% to 845,400 BDMT compared to 832,000 BDMT in the corresponding period in 2003.

Commission income earned in the fourth quarter of 2004 from wood chip shipments of 319,900 BDMT remained the same as in 2003 of approximately $4.7 million.

The average wood chip price, net of VAT, in the fourth quarter of 2004 was approximately $95 per BDMT. The average price of wood chips, net of VAT, attained in the fourth quarter of 2003 was $92 per BDMT. With respect to sales in which the Company acted as an agent, the Company earned an average of $14.7 per BDMT in the fourth quarter of 2004 and 2003.

For the fourth quarter of 2004, revenue from our wood-based business amounted to $25.0 million, of which the Company reported an operating loss of approximately $4.2 million, compared to revenue and operating loss of $14.2 million and $3.5 million respectively, in the fourth quarter of 2003. The increase in the operating loss in the fourth quarter of 2004 was primarily attributable to the impairment of capital assets of $3.2 million offset by an improvement in gross profit margin of our wood-based business as a result of the reduction in average production cost by approximately 7.7% from our particleboard production plant and the higher margin attained from our sawmill, wood flooring and greenery projects operations.

Costs and expenses were $102.2 million in the fourth quarter of 2004, an increase of 49.2% compared to $68.5 million in the fourth quarter of 2003. The increase in cost of sales is largely attributable to increase in sales in the fourth quarter of 2004. Selling, general and administration expenses increased 10.5% from $5.7 million in the fourth quarter of 2003 to $6.3 million in the fourth quarter in 2004 primarily due to a charge for stock-based compensation of $1.2 million.

In the fourth quarter of 2004, impairment of timber holdings and capital assets was $3.5 million representing a provision for the non-deductible portion of our insurance claims for losses on fire of our timber holdings of $0.3 million and the write-off of expenses of $3.2 million of previously capitalized costs with respect to the development of the manufacturing projects.

Interest expense increased 134.4% from $3.2 million in the fourth quarter of 2003 to $7.5 million in the fourth quarter of 2004 as a result of the issuance of $300 million non-convertible guaranteed senior notes in August 2004. The notes bear interest at a rate of 9.125% per annum and payable semi-annually.

LIQUIDITY AND CAPITAL RESOURCES

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

CASH FLOWS

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

Years Ended December 31, *(in millions)*	2004 $	2003 $
Cash flows from operating activities		
Net cash provided by operations(1)	117.7	73.3
Net change in working capital(2)	1.6	(3.7)
Total	119.3	69.6
Cash flows used in investing activities	(171.1)	(89.5)
Cash flows from financing activities	246.0	25.7
Net increase in cash and cash equivalents	194.2	5.8

(1) Represents net income as adjusted for depletion of timber holdings, accretion of Exchangeable Notes, exchange gains/losses on long-term debt, depreciation and amortization, amortization and write-off of deferred financing costs, amortization of redemption premium on long-term debt, stock-based compensation, impairment of timber holdings and capital assets and others.
(2) Represents decreases (increases) in accounts receivable, inventories, due from PRC CJV partners, other receivables and prepaid expenses and 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 71.4%, from $69.6 million in 2003 to $119.3 million in 2004. The increase was the result of an increase in cash provided by operations as a result of the strong results due to increase in sales of standing timber.

Cash Flows Used in Investing Activities

In 2003 and 2004, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations and for investments in manufacturing facilities. Our cash outlays for our forestry plantations amounted to $89.2 million in 2003 and $159.1 million in 2004. Our cash outlays for our manufacturing facilities and other capital assets amounted to $7.4 million in 2003 and $6.1 million in 2004. Increase in non-pledged short-term deposits in 2004 amounted to $5.8 million compared to a decrease in non-pledged short-term deposits of $7.0 million in 2003.

Cash Flows From Financing Activities

In 2004, cash flows from financing activities consisted of $67.6 million net proceeds from the issuance of shares, $300 million from the issuance of the non-convertible guaranteed senior notes and $3.4 million decrease in pledged short-term deposits offset by deferred financing costs of $9.4 million, repayment of amounts due to related parties of $3.9 million, repayment of bank indebtedness and long-term debt of $10.5 million and $101.2 million, respectively. 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 common shares, $5.0 million from the repayment of share purchase loans, $3.9 million from amounts due to related parties and $5.0 million from a term loan. These cash flows were partially offset by a decrease in bank indebtedness of $9.0 million and long-term debt of $0.9 million, increase in deferred financing costs of $2.6 million and pledged short-term deposits of $2.1 million.

FINANCING ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

As of December 31, 2004, we had secured and unsecured short-term liabilities of $28.5 million, comprising $11.2 million of short-term bank loans and $17.3 million of trust receipt loans. We had long-term debt of $300 million. Our borrowings are denominated in U.S. dollars and Renminbi.

Management's Discussion and Analysis *(CONT'D)*

Short-Term Borrowings. As of December 31, 2004, we had $38.6 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. Of the $38.6 million of funding available under the short-term credit facilities, $28.5 million is being utilized as at December 31, 2004. Interest is payable on these short-term borrowings at rates ranging from 3.9% to 5.9% per annum, and the borrowings are either repayable on demand or due within one year. As of December 31, 2004, 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 $4.6 million and certain bank deposits of $5.1 million.

Plantation Loan. Our subsidiary company, Sino-Wood Partners, Limited, was a party to a long-term plantation loan (the "Plantation Loan") that was entered into on September 28, 1999 for Euro 19.0 million. The loan was used to develop our forestry plantations in the PRC. The Plantation Loan was for a period of 10 years. Principal repayment of the Plantation Loan was to 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 bore interest at a rate that is equal to a margin of 3.5% over the six-month European London Interbank Offering Rate ("EURO LIBOR"). The Plantation Loan was secured by corporate guarantee from Sino-Forest Corporation. The Plantation Loan was repaid during the year.

Exchangeable Notes. In 1999, Sino-Wood Partners, Limited issued exchangeable notes (the "Exchangeable Notes") in an aggregate principal amount of $20.0 million to an investor, which was subsequently granted a seat on our Board of Directors. The Exchangeable Notes bore interest at a rate of 5% per annum payable semi-annually. The Exchangeable Notes were exchangeable for our Class A Subordinate-Voting Shares and were guaranteed by Sino-Forest Corporation and certain of its subsidiaries. On March 5, 2003, pursuant to an exchange agreement entered into with Sino-Wood Partners, Limited and Sino-Forest Corporation, 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 was entitled to receive either: (1) approximately $2.3 million in lieu of foregone interest if Sino-Wood Partners, Limited completes 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 the 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. The balance of the Exchangeable Notes including interest accrued of $183,000 was repaid during the year. Following the repayment of the balance of the Exchangeable Notes, we purchased from the holder the 66,325 Class B shares at a price of HK$1.00 per Class B share.

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 matured on September 9, 2004 and bore interest or dividends at a rate of 4.0% per annum, payable on February 1 and August 1 of each year. The Convertible Instruments were 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 were guaranteed by Sino-Forest Corporation. One of the holders of the Convertible Instruments also has had 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. The Convertible Notes were redeemed during the year. The preference shares were purchased by us and cancelled during the year. Following the redemption of the Convertible Notes, we purchased the 59,906 Class B shares from the holders of the Convertible Instruments at a price of HK$1.00 per Class B share.

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 bore interest at a margin of 3% over the six-month London Interbank Offering Rate ("LIBOR"). The loans were secured by pledges over the land-use rights, buildings, machinery and equipment and insurance contracts. In addition, Sino-Forest Corporation had guaranteed the debts and monetary liabilities of the subsidiary companies under the Manufacturing Loans. The Manufacturing Loans were repaid during the year.

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 were 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 bore interest at a margin of 0.625% over LIBOR payable semi-annually. The Equipment Loans were repaid during the year.

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 was 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 bore interest at a margin of 2.5% per annum over LIBOR payable quarterly. The term loan was guaranteed by Sino-Forest Corporation. The term loan was repaid during the year.

Other Contractual Obligations. As of December 31, 2004, we had other contractual obligations relating to: (1) approximately $19.5 million in respect of capital contributions to our WFOEs; (2) $21.8 million of capital commitments in respect of buildings, timber holdings, and plant and machinery; (3) $27.1 million of purchase commitments in respect of logs and (4) commitments under operating leases of approximately $34.3 million.

Management's Discussion and Analysis *(cont'd)*

Scheduled Maturity of Contractual Obligations. The following table presents the scheduled maturities of our contractual obligations as of December 31, 2004.

	Actual Anticipated Payment Dates						
Contractual Obligations *(in thousands)*	Total $	2005 $	2006 $	2007 $	2008 $	2009 $	Thereafter $
Long-term debt(1)	300,000	–	–	–	–	–	300,000
Capital contributions	19,517	19,517	–	–	–	–	–
Capital commitments(2)	21,838	20,052	1,786	–	–	–	–
Purchase commitments	27,119	27,119	–	–	–	–	–
Operating leases(3)	34,321	1,505	1,284	1,005	843	805	28,879
Total contractual cash obligations	402,795	68,193	3,070	1,005	843	805	328,879

(1) Represents the U.S. dollar equivalent of foreign currency denominated debt due in 2011.
(2) Represents commitments to invest in buildings and plant and machinery for investments in the manufacturing plants in Gaoyao, Guangdong 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.

Guarantees. We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2004, we had provided guarantees of approximately $30.6 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

HISTORICAL AND PLANNED CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the two years ended December 31, 2004 and 2003.

Years Ended December 31, (in thousands)	2004 $	2003 $
Forestry plantations	172,519	89,194
Manufacturing plants and other capital assets	6,083	7,365
Total	178,602	96,559

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 land lease costs, 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.

Forestry plantations capital expenditures for 2005 are expected to exceed $200 million. Capital expenditures to complete the development of our manufacturing facilities are expected to be approximately $22 million. The 2005 capital expenditures will be funded primarily with cash raised from the $300 million non-convertible guaranteed senior notes and cash generated from operations.

INDEPENDENT VALUATION OF OUR FOREST ASSETS BY JAAKKO PÖYRY

JP Management Consulting (Asia-Pacific) Ltd. ("Jaakko Pöyry") has determined the valuation of our forest assets as at December 31, 2004 to be $565.6 million. As at December 31, 2004, the book value of our timber holdings was $359.6 million. This is the result of a valuation of the existing planted and purchased areas using a 12% discount rate applied to real, pre-tax cash flows.

Jaakko Pöyry has also prepared an existing forest valuation that includes the revenues and costs of re-establishing and maintaining the plantation forests for a 50 year period (perpetual valuation). We have an option to lease the land under the purchased trees model for future rotations, the terms of which have yet to be agreed. We are embarking on a

200,000 hectare expansion of our plantations in Heyuan City. Jaakko Pöyry has determined the valuation of our forest assets based on a perpetual rotation (including the planned expansion in Heyuan City) using a pre-tax discount rate of 12% to be $773.8 million as at December 31, 2004.

The complete valuation report by Jaakko Pöyry dated March 22, 2005 can be obtained on SEDAR at www.sedar.com.

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 2004 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, 2004	81,787	47,115	21,639	2,494	10,539	–	–
At December 31, 2003	67,345	12,800	18,192	4,144	26,687	5,446	76

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 0.7%, (0.8)% and 1.2% in 2001, 2002 and 2003, 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.

Management's Discussion and Analysis *(CONT'D)*

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 for the years ended December 31, 2004 and 2003 were $5.0 million and $3.1 million, which represent effective tax rates of 8.7% 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 a currency swap agreement with respect to interest payable over the next 5 years on the non-convertible guaranteed senior notes, 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, 2004. 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.

COMMON SHARES

As at the date hereof, we had an aggregate of 136,589,548 common shares outstanding.

DIVIDENDS

We paid no dividends in 2004.

STOCK-BASED COMPENSATION

We account for stock options using the fair value method. Under this method, compensation expense for stock options is measured at the grant date using an option pricing model and recognized on a straight-line basis over the vesting period. In 2004, we recognized $6.9 million in expense related to stock options and the purchase of Rights in Sino-Wood Partners, Limited.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, we pay 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 $1,491,000 [December 31, 2003 – $1,346,000].

In addition, as at December 31, 2004, we had an aggregate amount of $1,019,000 [December 31, 2003 – $1,249,000] owed to these related companies.

We previously provided interest free loans to employees under its stock option plan to finance the acquisition of common shares upon the exercise of options. When we made these loans, the proceeds of the sale of the relevant common shares were delivered to us, the loan was repaid, and the balance of the proceeds were held by us on behalf of the employees. At December 31, 2003, $3,937,000 of proceeds were held by us and repaid during 2004. These amounts were non-interest bearing and payable on demand.

We had also assisted our employees in facilitating the sale of blocks of common shares held by employees. The proceeds of these sales were deposited in our accounts on a temporary basis to be held by us on behalf of the employees. During 2004, we facilitated the sale of common shares for an officer and the related sales proceeds of $3,715,000 due to this officer was repaid. This amount was non-interest bearing and payable on demand. We do not intend to facilitate sales of common shares for employees in the future.

Interest expense for the year ended December 31, 2004 on the Exchangeable Notes was $27,000 [December 31, 2003 – $5,160,000] in which one of our directors is an officer and shareholder in a management company that provides certain advisory, management and general administrative services to the entity that ultimately held the Exchangeable Notes.

Interest expense and redemption premium for the year ended December 31, 2004 on the Convertible Instruments amounted to $433,000 [December 31, 2003 – $454,000] and $1,614,000 [December 31, 2003 – $1,900,000] respectively. One of our directors is an officer and shareholder in a management company that provides certain advisory, management and general administrative services to the entity that ultimately held the Convertible Instruments.

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 non-convertible guaranteed senior notes, we have entered into a currency swap agreement to fix interest payments at $27.4 million per annum over the next 5 years. We do not otherwise engage in other 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 and Hong Kong dollars. In 2004 and 2003, 81.8% and 77.1% of our sales were received in Renminbi and 18.2% and 22.9% of our sales were received in U.S. dollars and Hong Kong 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 and Hong Kong dollars.

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 U.S. 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, 2004, we had Renminbi denominated bank accounts of RMB107.6 million (equivalent to $13.0 million), U.S. dollar denominated bank accounts of $200.1 million, Canadian dollar denominated bank accounts of Cdn. $13.3 million (equivalent to $11.0 million), and Hong Kong dollar denominated bank accounts of HK$8.8 million (equivalent to $1.1 million). We also had U.S. dollar denominated accounts receivable of $17.9 million.

Management's Discussion and Analysis *(CONT'D)*

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.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debt, primarily on our bank indebtedness. Our debt consists of fixed and variable rate debt obligations with original maturities ranging from less than one to seven 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. 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.

For a complete list and description of additional risk factors which may affect our Company or its business, please refer to our annual information form for the year ended December 31, 2004 which is available on SEDAR at www.sedar.com.

Additional Information

Additional information relating to our company, including our annual information form for the year ended December 31, 2004, is available on SEDAR at www.sedar.com.

February 25, 2005

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, 2004 and 2003 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, 2004 and 2003 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

Toronto, Canada
February 25, 2005

Chartered Accountants

Consolidated Balance Sheets

As at December 31, [Expressed in thousands of United States dollars]	2004 $	2003 $
ASSETS		
Current		
Cash and cash equivalents	201,166	6,929
Short-term deposits *[NOTE 7]*	24,089	21,674
Accounts receivable *[NOTE 3]*	81,787	67,345
Deposit for the purchase of logs	3,912	6,041
Due from PRC CJV partners *[NOTE 6]*	3,890	6,688
Other receivables and prepaid expenses	3,080	5,818
Inventories *[NOTE 4]*	2,736	1,170
Total current assets	320,660	115,665
Timber holdings	359,607	232,516
Capital assets, net *[NOTE 5]*	66,269	65,894
Deferred financing costs, net	8,869	4,230
Other assets	644	549
	756,049	418,854
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[NOTE 7]*	28,508	39,025
Accounts payable and accrued liabilities *[NOTE 16]*	36,783	22,051
Income taxes payable	18,504	13,465
Current portion of long-term debt *[NOTE 8]*	–	43,388
Total current liabilities	83,795	117,929
Long-term debt *[NOTE 8]*	300,000	55,953
Total liabilities	383,795	173,882
Commitments *[NOTES 2 AND 15]*		
Shareholders' equity		
Share capital *[NOTE 9]*	138,915	67,439
Contributed surplus *[NOTE 10]*	3,032	–
Retained earnings *[NOTE 8(g)]*	230,307	177,533
Total shareholders' equity	372,254	244,972
	756,049	418,854

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan
Director

James M.E. Hyde
Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31, [Expressed in thousands of United States dollars, except for earnings per share information]	2004 $	2003 $
Revenue		
Sales	316,935	251,757
Commission income	14,010	13,982
	330,945	265,739
Costs and expenses		
Cost of sales	229,433	200,835
Selling, general and administration	21,354	13,343
Impairment of timber holdings and capital assets	3,916	–
Depreciation and amortization	2,470	2,345
	257,173	216,523
Income from operations before the undernoted	73,772	49,216
Interest expense	(15,875)	(12,243)
Amortization and write-off of deferred financing costs	(4,317)	(842)
Other exchange gains	2,682	701
Interest income	1,366	240
Exchange gains (losses) on long-term debt	190	(3,840)
Income before income taxes	57,818	33,232
Provision for income taxes *[NOTE 11]*	(5,044)	(3,052)
Net income for the year	52,774	30,180
Retained earnings, beginning of year	177,533	147,353
Retained earnings, end of year	230,307	177,533
Earnings per share *[NOTE 12]*		
Basic	0.43	0.38
Diluted	0.43	0.32

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31, [Expressed in thousands of United States dollars]	2004 $	2003 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	52,774	30,180
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	45,158	29,126
Stock-based compensation	6,932	–
Amortization and write-off of deferred financing costs	4,317	842
Impairment of timber holdings and capital assets	3,916	–
Depreciation and amortization	2,470	2,345
Amortization of redemption premium on long-term debt	2,015	2,376
Other	335	–
Exchange losses (gains) on long-term debt	(190)	3,840
Accretion of Exchangeable Notes	23	4,616
	117,750	73,325
Net change in non-cash working capital balances *[NOTE 13]*	1,612	(3,749)
Cash flows from operating activities	119,362	69,576
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	300,000	5,000
Repayment of long-term debt	(101,189)	(941)
Issuance of shares, net of issue costs *[NOTE 9]*	67,576	17,455
Decrease in bank indebtedness	(10,517)	(9,039)
Increase in deferred financing costs	(9,364)	(2,627)
Increase (decrease) in amounts due to related parties *[NOTE 16(b)]*	(3,937)	3,937
Decrease (increase) in pledged short-term deposits	3,398	(2,071)
Issuance of Convertible Instruments	–	14,017
Cash flows from financing activities	245,967	25,731
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	(159,101)	(89,194)
Additions to capital assets	(6,083)	(7,365)
Decrease (increase) in non-pledged short-term deposits	(5,813)	7,003
Increase in other assets	(95)	–
Cash flows used in investing activities	(171,092)	(89,556)
Net increase in cash and cash equivalents	194,237	5,751
Cash and cash equivalents, beginning of year	6,929	1,178
Cash and cash equivalents, end of year	201,166	6,929
Supplemental cash flow information		
Cash payment for interest charged to income	9,038	4,561
Cash payment for interest capitalized	1,826	1,167

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

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

Timber holdings

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.

Capital assets

Capital assets are recorded at cost including interest capitalized on assets under construction. Repairs and maintenance expenditures are charged to income; major betterments and replacements are capitalized. Depreciation and amortization are provided on a straight-line basis 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

Notes To Consolidated Financial Statements *(CONT'D)*

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 which occurs when the contract for sale is entered into. 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, due from PRC CJV partners, deposit for the purchase of logs and accounts payable and accrued liabilities and bank indebtedness, approximate their fair values.

Stock-based compensation plan

Effective in 2004, the Company has adopted prospectively, without restatement, the new recommendations of CICA Handbook Section 3870 with respect to stock-based compensation plans. These recommendations require the use of a fair value based approach to accounting for stock-based compensation awards granted to employees. The Company records an expense over the vesting period of stock-based payments of options granted based on the fair value method and records the offsetting amount as a credit to contributed surplus.

Financial derivatives

The Company uses derivative financial instruments such as foreign currency swaps to hedge its risk associated with foreign currency fluctuations. The Company does not enter into financial instruments for trading or speculative purposes. Premiums paid or received on financial derivatives contracts are deferred and amortized to income over the remaining term of the contracts. The differentials to be received or paid under interest rate contracts are recognized in income as adjustments to interest expense.

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

Sino-Wood's subsidiaries were committed to contribute an aggregate of $14,200,000 of capital to the five PRC CJVs, which was subsequently increased to $17,650,000. The increase in capital contributions was approved by the Commission of Foreign Trade and Economic Co-operation ["CFTEC"] in 1999. During these years, the Company had made capital contributions of $16,275,000 [2003 – $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:

	2004 $	2003 $
Consolidated balance sheets		
Current assets	6,036	2,142
Long-term assets	26,946	48,474
Current liabilities	(2,718)	(7,980)
Long-term liabilities	(11,010)	(22,190)
Consolidated statements of income		
Revenue	2,531	500
Net loss for the year	(1,192)	(881)
Consolidated statements of cash flows		
Cash flows from financing activities	4,973	719
Cash flows from (used in) investing activities	(1,600)	348

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. 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, 2001, 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.

Notes To Consolidated Financial Statements *(CONT'D)*

In September 2001, Sino-Wood, through its wholly-owned subsidiaries, 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, 2004, Sino-Wood had made total contributions of $1,500,000 [2003 – $750,000].

In September 2004, Sino-Wood, through its wholly-owned subsidiaries, established a WFOE ["Heyuan WFOE"]. The principal business activities of the Heyuan WFOE are tree plantation, sales and manufacturing of wood-based products. The Heyuan WFOE was formed for a period of 30 years and Sino-Wood is required to contribute $5,000,000 for its 100% equity. As at December 31, 2004, Sino-Wood had made contributions of $2,100,000. On January 11, 2005, Sino-Wood made the remaining contribution of $2,900,000.

[b] Wood-based operations

In March 2000, SFR China Inc. ["SFR China"], an indirectly wholly-owned subsidiary of the Company, established a WFOE [the "SFR WFOE"]. The principal business activity of the SFR WFOE is to manufacture wood-based products. The SFR WFOE was formed for a period of 50 years and SFR China is required to contribute $10,000,000 for its 100% equity interest. As of December 31, 2004, the Company has made total contributions of $1,908,000 [2003 – $1,908,000]. The remaining capital contribution of $8,092,000 was to be contributed by March 2003. Subsequently the contribution period was extended to March 2005. During 2004, the Company applied to the government authority to reduce the registered capital to $1,908,000.

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 of December 31, 2004, the Company has made contributions of $6,475,000 [2003 – $5,400,000]. The remaining capital contributions of $8,525,000 must be contributed by January 2005. During 2004, the IFC projects loans were repaid by the Company on behalf of Jiafeng WFOE. The Company is in the process of converting part of the IFC projects loans repaid as capital contributions for the remaining balance due.

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, 2004 included $43,136,000 due from three customers [2003 – $37,926,000 due from three customers]. $41,501,000 [2003 – $65,783,000] payable to authorized intermediaries for the purchase of timber on behalf of the Company and processing costs to convert the timber into wood chips has been set-off with amounts receivable from them from the sale of wood chips.

4. INVENTORIES

Inventories consist of the following:

	2004 $	2003 $
Wood products	1,098	403
Work in progress	1,034	99
Raw materials	604	668
	2,736	1,170

5. CAPITAL ASSETS

Capital assets consist of the following:

	2004		2003	
	Cost $	Accumulated depreciation and amortization $	Cost $	Accumulated depreciation and amortization $
Machinery and equipment	59,270	6,281	57,426	4,245
Buildings	7,683	780	7,529	547
Land-use rights	4,862	435	5,277	358
Office furniture and equipment	1,011	634	775	529
Vehicles	2,003	430	964	398
	74,829	8,560	71,971	6,077
Less: accumulated depreciation and amortization	(8,560)		(6,077)	
Net book value	66,269		65,894	

Buildings, machinery and equipment (including deposits of $14,060,000 [2003 – $11,303,000]) of $29,677,000 [2003 – $29,986,000] 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.

7. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

As at December 31, 2004, short-term deposits are made for varying periods of between one month to twelve months [2003 – one month to twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 0.4% to 2.6% per annum [2003 – 0.1% to 1.1%].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $38,591,000 [2003 – $60,681,000]. These credit facilities bear interest at 3.9% to 5.9% per annum as at December 31, 2004 [2003 – 3.2% to 7.0%] and are repayable on demand or due within one year. Interest capitalized as part of the cost of assets under construction and timber holdings for the year amounted to $nil [2003 – $230,000].

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

	2004 $	2003 $
Trust receipt loans	17,334	12,004
Bank loans	11,174	27,021
	28,508	39,025

Notes To Consolidated Financial Statements *(CONT'D)*

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2004 of $4,600,000 [2003 – $9,161,000];

[b] certain short-term deposits at December 31, 2004 of $5,142,000 [2003 – $8,540,000]; and

[c] timber holdings of nil hectares [2003 – 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:

	2004 $	2003 $
Non-convertible guaranteed senior notes [a]	300,000	–
Equipment loan [b]	–	470
Exchangeable Notes [c]	–	275
Plantation loan [d]	–	23,703
IFC projects loans [e]	–	38,000
Convertible Instruments [f]	–	31,893
Term loan	–	5,000
	300,000	99,341
Less: long-term debt due within one year	–	(43,388)
	300,000	55,953

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	300,000	7,907
	300,000	99,341

[a] Long-term debt

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

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

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

The fair value of the non-convertible guaranteed senior notes and the currency swap contract as at December 31, 2004 were approximately $330,000,000 and $11,500,000, respectively.

Interest expense for the year was $10,219,000.

[b] 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 were 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 bore interest at LIBOR plus 0.625% payable semi-annually. The loans were repaid during the year.

Interest capitalized as part of the cost of assets under construction for the year amounted to $18,000 [2003 – $30,000].

[c] 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 bore 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 were 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 were outstanding on the maturity date were 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(f). 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 were to be redeemed on the maturity date at 106.24% of their subscription price plus unpaid interest and Sino-Wood should 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(f)]. 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.

In 2003, 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% was included in share capital as the amount no longer represented a liability of the Company. The balance of the Exchangeable Notes including interest accrued of $183,000 were repaid and the 66,325 Class B shares were purchased by the Company during the year.

Interest expense for the year was $27,000 [2003 – $5,160,000].

Notes To Consolidated Financial Statements *(CONT'D)*

[d] 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 was for a period of ten years. Principal repayment of the loan was to commence on May 15, 2005 in ten equal semi-annual installments. The loan bore interest at the six month Euro LIBOR plus 3.5% per annum. Interest expense for the year amounted to $962,000 [2003 – $1,698,000].

Sino-Wood entered into an interest rate cap agreement to manage its interest rate risk. The cap agreement reduced its exposure to Euro LIBOR movements by fixing the Euro LIBOR at a maximum of 7% per annum. The counterparty paid 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 Plantation loan was repaid and the interest rate cap agreement was cancelled during the year.

[e] 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 loans were to be repaid in twelve equal semi-annual installments commencing on December 15, 2003, with the final installment due on June 15, 2009. The loans bore interest at six-month LIBOR plus 3% per annum. The IFC project loans were repaid during the year.

Interest capitalized as part of the cost of assets under construction for the year amounted to $928,000 [2003 – $1,741,000].

[f] 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, bore interest or dividends at a rate of 4% per annum payable in semi-annual installments and had 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 were either to 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 were to 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 had the identical attributes as the ordinary shares of Sino-Wood except that holders of Class B shares were 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 should 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 should 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(c). Further, one of the holders of the Convertible Instruments also had 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. The Convertible Instruments were repaid and the 59,906 Class B shares were purchased by the Company at par during the year.

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(c)] amounted to $819,000 [2003 – $956,000] and $2,015,000 [2003 – $2,376,000], respectively.

[g] Covenants

Under the terms of the above debt agreements, the Company must meet certain financial and non-financial covenants including limitation on dividend and other payment restrictions affecting the Company and the restricted subsidiaries (as defined). The Company complied with all of these financial and non-financial covenants as at December 31, 2004.

9. SHARE CAPITAL

Share capital consists of the following:

	2004 $	2003 $
Authorized		
Unlimited common shares, without par value		
Unlimited preference shares, issuable in series, without par value		
Issued		
136,589,548 common shares [2003 – 96,219,548 Class A Subordinate-Voting Shares]	138,915	67,439
	138,915	67,439

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2004 is Cdn. $216,672,854 [2003 – Cdn. $117,148,676].

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

During 2004, 200,000 stock options were exercised for proceeds of $272,000 and 200,000 common shares were issued.

In May 2004, the Company completed a placement of 38,970,000 common shares for aggregate gross proceeds of $74,284,000. Share issue costs relating to the placement amounted to $6,980,000.

In conjunction with the completion of the equity offering in May 2004, the Company purchased from management certain rights to acquire shares in Sino-Wood pursuant to securities purchase agreements for a pre-determined purchase price not to exceed Cdn. $12,000,000. The amount was paid by the issuance of 2,400,000 common shares valued at Cdn. $2.65 per share based upon the offering price. One half of the shares vested 90 days following the completion of the offering and the remaining one half will vest on the first anniversary of the completion of the offering. The Company will record compensation expense of approximately $7,800,000 over the vesting period. The compensation expense recorded in 2004 was $6,368,000.

During the year ended December 31, 2003, 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 ended December 31, 2003, 600,000 stock options were exercised for proceeds of $691,000.

[c] During the year ended December 31, 2003, 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% was also included in share capital as described in note 8(c).

[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

Notes To Consolidated Financial Statements *(CONT'D)*

upon the sale of the pledged shares. The Company recorded the share purchase loans as a reduction in share capital. During the year ended December 31, 2003, 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 considered outstanding for purposes of calculating basic earnings per share. There were no share purchase loans outstanding as at December 31, 2003.

Authorized

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

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

Stock options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. As at December 31, 2004 options to purchase 2,945,000 common shares have been granted and options to purchase 6,255,000 common shares remain available to be granted under the Stock Option Plan. No compensation expense was recorded for the stock options awarded in 2003.

On May 11, 2004, options to acquire 2,820,000 common shares were granted to employees and independent directors at an exercise price of Cdn. $2.72 in accordance with the Company's Stock Option Plan. The options granted will vest over 3 years and expire on May 10, 2009. The fair value of the stock options granted was estimated to be $2,458,000 on the date of grant using the Black & Scholes option-pricing model with the following assumptions:

Dividend Yield	0.0%
Volatility	54.6%
Risk-free interest rate	3.7%
Expected option lives (in years)	3.5
Weighted average fair value of each option (in U.S. dollars)	$0.87

The compensation expense recorded for the year of 2004 with respect to the above option granted amounted to $564,000.

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

	2004		2003	
	Number of Shares	Weighted average exercise price Cdn.$	Number of Shares	Weighted average exercise price Cdn.$
Balance, beginning of year	325,000	1.79	600,000	1.54
Options granted	2,820,000	2.72	325,000	1.79
Options exercised	(200,000)	1.79	(600,000)	1.54
Balance, end of year	2,945,000	2.68	325,000	1.79
Exercisable at year-end	125,000	1.79	325,000	1.79

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2004:

Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable	Options non-exercisable	Weighted average exercise price
Cdn. $1.00 – Cdn. $2.00	125,000	3.45 years	Cdn. $1.79	125,000	–	Cdn. $1.79
Cdn. $2.00 – Cdn. $3.00	2,820,000	4.36 years	Cdn. $2.72	–	2,820,000	Cdn. $2.72

10. CONTRIBUTED SURPLUS

The contributed surplus of $3,032,000 represents stock-based compensation and options granted over the vesting period which was charged to the income statement for the year ended December 31, 2004.

11. INCOME TAXES

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

	2004 $	2003 $
Income before income taxes	**57,818**	33,232
Expected statutory tax rate	**36.12%**	36.12%
Expected income tax provision	**20,884**	12,003
Increase (decrease) in income taxes resulting from:		
Unrecognized income tax losses arising from losses of the Company and its subsidiaries	**14,559**	6,759
Income tax at different rates in foreign jurisdictions	**(30,399)**	(15,710)
	5,044	3,052

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% [2003 – 17.5%] 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, 2004, the Company has income tax losses of approximately $18,906,000 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 $905,000 of these tax losses will expire in 2005, $1,974,000 in 2006, $1,696,000 in 2007, $1,476,000 in 2008, $1,145,000 in 2009, $992,000 in 2010, $1,018,000 in 2011 and $9,700,000 in 2012. The benefit of these losses, if realized, will be at the Canadian tax rates at the time the benefit is realized.

Notes To Consolidated Financial Statements *(CONT'D)*

In addition, as at December 31, 2004, the Company's PRC WFOEs and CJVs have incurred tax losses in the PRC of approximately $12,197,000 [2003 – $8,690,000] 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.

12. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	2004 $	2003 $
Net income for the year, used in basic earnings per share calculations	52,774	30,180
Share of net income by holders of Class B shares of Sino-Wood upon conversion to ordinary shares of Sino-Wood – notes 8(c) and 8(f)	–	(4,536)
Net income for the year, used in diluted earnings per share calculations	52,774	25,644
Weighted average shares for basic earnings per share	121,374,000	80,290,000
Stock-based payments and options	305,000	89,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	121,679,000	80,379,000

13. STATEMENTS OF CASH FLOWS

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

	2004 $	2003 $
Cash provided by (used for):		
Accounts receivable	(14,442)	(27,155)
Due from Leizhou Forestry Bureau	–	10,202
Due from PRC CJV partners	2,798	2,384
Other receivables and prepaid expenses	2,347	594
Deposit for the purchase of logs [a]	(3,912)	–
Inventories	(1,566)	(292)
Accounts payable and accrued liabilities [b]	11,348	7,479
Income taxes payable	5,039	3,039
	1,612	(3,749)

[a] During 2004, the Company utilized a deposit on logs made in 2003 for the purchase of timber holdings.

[b] As at December 31, 2004, the Company had an aggregate amount of $7,377,000 payable in respect of timber holdings acquired during the year included in accounts payable and accrued liabilities.

14. 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 79% of the Company's assets are located in the PRC and Hong Kong and the remaining 21% which mainly comprise of cash and cash equivalents are located in Canada.

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, logs 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.

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

By Industry Segment

	2004				2003			
	Plantation $	Wood-based $	Corporate $	Total $	Plantation $	Wood-based $	Corporate $	Total $
Revenue from external customers								
Sale of wood chips and logs	143,418	–	–	143,418	133,285	–	–	133,285
Sale of imported logs	–	58,689	–	58,689	–	57,211	–	57,211
Sale of wood-based products and others	–	9,702	–	9,702	–	5,822	–	5,822
Sale of standing timber	105,126	–	–	105,126	55,439	–	–	55,439
Commission income	14,010	–	–	14,010	13,982	–	–	13,982
	262,554	68,391	–	330,945	202,706	63,033	–	265,739
Income (loss) from operations before interest, exchange gains (losses) and amortization and write-off of deferred financing costs	90,960	(7,899)	(9,289)	73,772	59,117	(7,160)	(2,741)	49,216
Identifiable assets	441,842	133,244	180,963	756,049	293,664	116,220	8,970	418,854
Interest income	11	52	1,303	1,366	–	169	71	240
Interest expense	1,273	1,119	13,483	15,875	2,010	1,414	8,819	12,243
Depreciation and amortization	105	2,357	8	2,470	130	2,200	15	2,345
Provision for (recovery of) income taxes	5,348	(306)	2	5,044	3,187	(146)	11	3,052
Depletion of timber holdings included in cost of sales	45,158	–	–	45,158	28,540	586	–	29,126
Additions to timber holdings and capital assets	173,908	4,689	5	178,602	89,252	7,303	4	96,559

Notes To Consolidated Financial Statements *(CONT'D)*

Revenue from the Company's largest customer for the year amounted to approximately 23% [2003 – 29%] of total revenue. During the year, there were three [2003 – two] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 58% [2003 – 50%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 26% [2003 – 25%] of total purchases. During the year, two [2003 – two] vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 51% [2003 – 48%] 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 $316,634,000 [2003 – $247,493,000] and $301,000 [2003 – $4,264,000], respectively.

As at December 31, 2004, approximately $13,003,000 [2003 – $685,000] of the Company's cash and cash equivalents were denominated in Renminbi.

As at December 31, 2004, all of the Company's timber holdings and approximately $65,829,000 [2003 – $65,651,000] of the Company's capital assets were located in the PRC.

15. COMMITMENTS

As at December 31, 2004, the Company has various commitments to make capital contributions to PRC 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 $21,838,000 [2003 – $15,887,000] and purchase commitments in respect of logs of $27,119,000 [2003 – $6,118,000]. Commitments under operating leases for land and buildings are as follows:

	$
Within one year	1,505
In the second year	1,284
In the third year	1,005
In the fourth year	843
In the fifth year	805
Thereafter	28,879
	34,321

16. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays consultancy fees to companies controlled by certain directors who are also executives officers in lieu of their compensation. The consultancy fees incurred for the year amounted to $1,491,000 [December 31, 2003 – $1,346,000].

In addition, as at December 31, 2004, the Company had an aggregate amount of $1,019,000 [December 31, 2003 – $1,249,000] owed to these related companies.

[b] The Company previously provided interest free loans to employees under its stock option plan to finance the acquisition of common shares upon the exercise of options. When the Company made these loans, the proceeds of the sale of the relevant common shares were delivered to the Company, the loan was repaid, and the balance of the proceeds were held by the Company on behalf of the employees. At December 31, 2003, $3,937,000 of proceeds were held by the Company and repaid during 2004. These amounts were non-interest bearing and payable on demand.

The Company had also assisted its employees in facilitating the sale of blocks of common shares held by employees. The proceeds of these sales were deposited in the Company's accounts on a temporary basis to be held by the Company on behalf of the employees. During 2004, the Company facilitated the sale of common shares for an officer and the related sales proceeds of $3,715,000 due to this officer was repaid. This amount was non-interest bearing and payable on demand. The Company does not intend to facilitate sales of common shares for employees in the future.

[c] Interest expense for the year ended December 31, 2004 on the Exchangeable Notes was $27,000 [December 31, 2003 – $5,160,000] in which one of the directors 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 held the Exchangeable Notes.

[d] Interest expense and redemption premium for the year ended December 31, 2004 on the Convertible Instruments amounted to $433,000 [December 31, 2003 – $454,000] and $1,614,000 [December 31, 2003 – $1,900,000] respectively. One of the directors 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 held the Convertible Instruments.

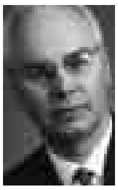
17. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2004 consolidated financial statements.

Independent Directors

DAVID J. HORSLEY
CA, CBV, Toronto

Director since 2004, member of Audit, Compensation, and Corporate Governance Committees; Senior Vice President and Chief Financial Officer, Cygnal Technologies Corporation; previously Senior Vice President and Corporate Secretary, Canadian General Capital Limited.



JAMES (JAMIE) M.E. HYDE
CA, Toronto

Director since 2004, chair of Audit Committee and member Corporate Governance Committee; Vice President, Finance and Chief Financial Officer, GSW Inc.; previously Partner, Ernst & Young, where he provided for 24 years a broad range of professional services to public and private companies.

JOHN (JACK) LAWRENCE
Toronto

Director since 1997, chair of Compensation Committee; Chairman, Lawrence & Company; previously Chairman and Chief Executive Officer, Bank of Montreal Investment Counsel Limited, Deputy Chairman, Nesbitt Burns Inc., and Chairman and Chief Executive Officer, Burns Fry Limited.

EDMUND MAK
MBA, Vancouver

Director since 1994, member of Audit Committee; engaged in real estate marketing for Re/Max Select Properties; previously worked 30 years with public, multi-national and private corporations in North America and Hong Kong, in the real estate, computer and high technology equipment, transportation, construction, oil and gas, textile and China trade industries.

SIMON MURRAY
Hong Kong

Director since 1999, member of Compensation Committee; Chairman, GEMS (General Enterprise Management Services Limited); previously worked 35 years in Asia as founder Simon Murray & Associates, Executive Chairman, Asia Pacific, Deutsche Bank Group, co-founder, Distacom, and Group Managing Director, Hutchison Whampoa.

Directors and Officers

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

Director since 1994, after co-founding Sino-Forest in 1993; previously worked 12 years as a management consultant and project manager in China; previously worked for Hong Kong government in new town development and management programs.

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

Director since 1994, after co-founding Sino-Forest in 1993; previously worked 10 years in the forestry industry.

KEE Y. WONG
FCA, Executive Vice President and Chief Financial Officer, Hong Kong

Director since 1997; joined Sino-Forest in 1996; previously Partner, Ernst & Young in Toronto, acting as auditor and business advisor to many growth-oriented companies; previously worked 10 years in England as an accountant.

Other Officers and Executives

HUA CHEN
MBA, Senior Vice President, China Operations and Finance, China

Joined Sino-Forest in 2002; previously board chair of Suzhou New-Development Area Economic Development Group, and managed large corporations and gained access to capital markets in China.

SAMUEL HUI
MBA, Senior Vice President, Corporate Development, Banking and Treasury, Hong Kong

Joined Sino-Forest in 2003; previously worked 25 years in senior management with major international and local banks and listed companies in Hong Kong and Australia.

ALFRED C.T. HUNG
Vice President, Corporate Planning, Banking and Sales, Hong Kong

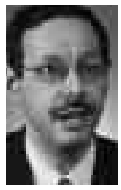
Joined Sino-Forest in 1999; previously gained nine years experience in investment research and management working for several international firms.

ALBERT IP
Vice President, Project Management, Hong Kong

Joined Sino-Forest in 1997; previously worked 20 years in marketing, production management, project management and corporate business development and operation, in the garment, electronics and woodworking industries.

JAMES LAU
MBA, Vice President, Operations, Sino-Panel (Asia) Inc., China

Joined Sino-Forest in 2003; previously worked 14 years in business development, sales and marketing, operations, logistics and general management for multinational companies in a variety of sectors.



JAY LEFTON
LLB, Corporate Secretary, Toronto

Partner, Aird & Berlis LLP practicing in corporate and securities law since 1986, including financings, mergers and acquisitions, take-over bids, strategic alliances and shareholder agreements; previously member of the Ontario Securities Commission Securities Advisory Committee.

ALVIN LIM
Vice President, Finance and Group Financial Controller, Hong Kong

Joined Sino-Forest in 2002; previously worked 10 years in finance and accounting for international audit and investment firms.

WEI MAO ZHAO
Masters in Technology, Senior Vice President, China Plantation Operation, China

Joined Sino-Forest in 2002; previously General Manager, Everbright Group Corp. with extensive experience in wood product manufacturing and knowledge of international wood material markets.

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

INVESTOR RELATIONS

Kee Y. Wong, F.C.A.
Executive Vice-President and
Chief Financial Officer
Tel: 852.2877.0078
Fax: 852.2877.0062

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

Jacques Charbin
Investor Relations, Canada
Tel: 416.200.5513
Email: jacquescharbin@sinoforest.com

ANNUAL SHAREHOLDERS MEETING

4:00 p.m.
Monday, May 16, 2005
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.

Environmental and Community Stewardship

Sino-Forest has always believed in sustainable development — satisfying the needs of today without compromising the environmental resources needed by future generations — thereby sensibly preserving nature's capital.

China's government is implementing an economic development policy that takes into account energy conservation and protection of the environment. And as a leader in environmental sustainability and corporate citizenship, Sino-Forest takes seriously its responsibility for managing valuable natural resources, and for providing livelihoods to local residents and suppliers. Having a sustainable business model brings multiple benefits to the corporation's various stakeholders. It saves money and increases profitability; it pleases customers who want to buy products that are environmentally friendly; it fosters innovation that opens doors to new markets, products and services; and it is perceived positively by employees, business partners and public authorities.

Sino-Forest is fortunate to be in a business that depends on a renewable resource. The corporation can control its supply of raw material, by replacing the trees that it harvests, thereby ensuring that its inventory is always preserved and growing to meet China's future needs. The volume harvested in any given year typically does not exceed the volume that grows incrementally to maturity in that time. So each year, Sino-Forest harvests only a small percentage of its total timberlands. Early last year, the corporation obtained Forest Stewardship Council (FSC) certificates for its plantations in Gaoyao, and it intends to expand its FSC certifications to all its plantations.

Sino-Forest's operating model is very much community-based, whereby the corporation works in unison with local authorities, professionals and suppliers to produce better land use, forest products, safe and secure jobs, and financial income. The corporation treats its employees fairly and they are proud to work for a growing, entrepreneurial company that provides them with benefits for their families, skills training and career development. In addition, the third-party service providers engaged by Sino-Forest to operate its forestry plantations employ an estimated 19,000 seasonal workers in local communities.

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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