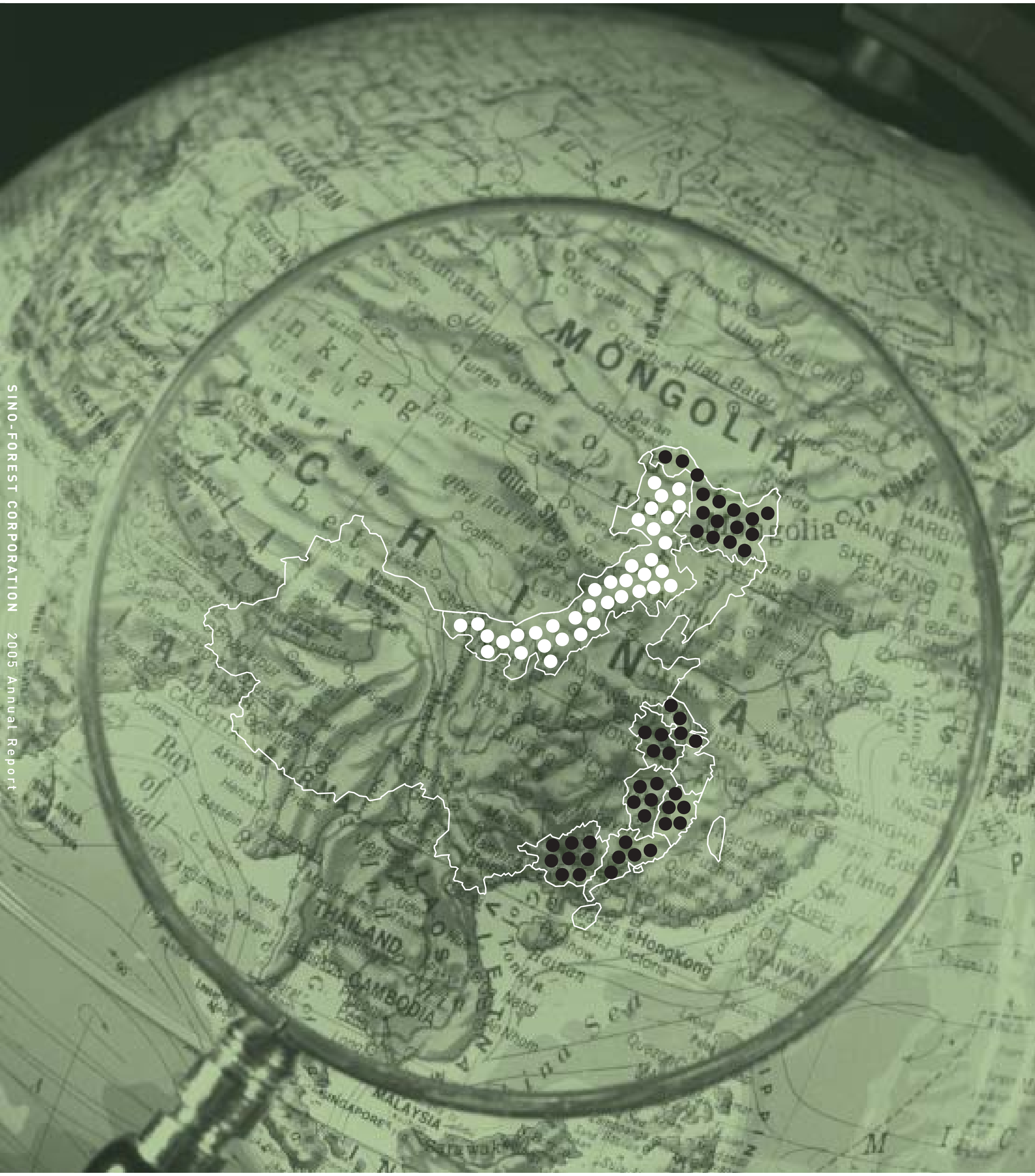
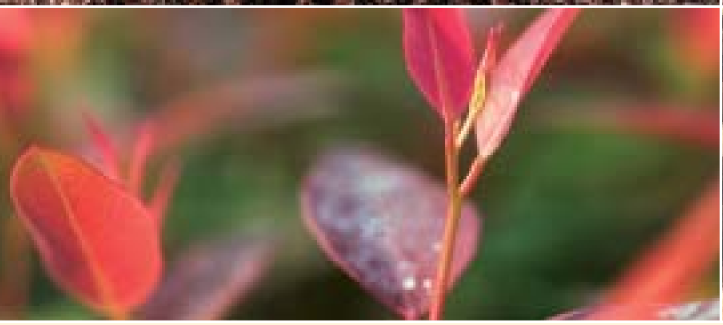
SINO-FOREST CORPORATION
2005 Annual Report



BREAKING NEW GROUND






SINO-FOREST CORPORATION IS THE LEADING COMMERCIAL FORESTRY PLANTATIONS OPERATOR IN CHINA. THE CANADIAN CORPORATION BEGAN OPERATIONS IN 1994 AS THE FIRST FOREIGN AND PRIVATELY MANAGED COMPANY INVOLVED IN FOREST PRODUCTS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC"). ITS PRINCIPAL BUSINESSES INCLUDE THE OWNERSHIP AND MANAGEMENT OF FORESTRY PLANTATION TREES AND THE SALES AND TRADING OF LOGS, TIMBER AND WOOD CHIPS.
SINO-FOREST IS A LEADING SUPPLIER OF QUALITY WOOD FIBRE WITH COMPLEMENTARY, DOWNSTREAM WOOD PRODUCT OPERATIONS. ITS EXECUTIVE OFFICES ARE IN HONG KONG AND TORONTO, AND ITS COMMON SHARES TRADE ON THE TORONTO STOCK EXCHANGE UNDER THE SYMBOL TRE.

CONTENTS

Sino-Forest Key Accomplishments in 2005

- Increased total plantation area under management 34% to 324,000 hectares
- Revenue increased 49%, nearly achieving the $500-million milestone
- EBITDA more than doubled to over $250 million
- Net income improved 55% to $82 million, and 37% per share fully diluted
- Cash flows from operations augmented 65% to almost $200 million
- Share price rose 44% in 2005 to nearly $5 at year end.

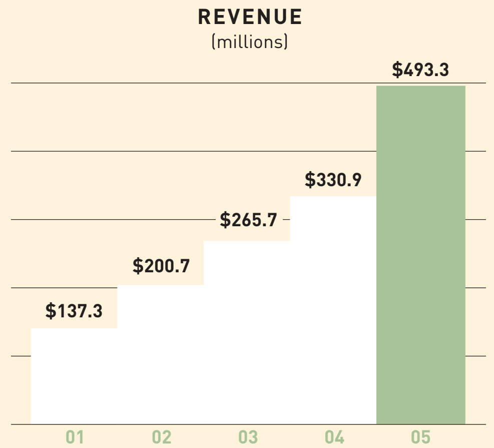
SUMMARY OF FINANCIAL DATA

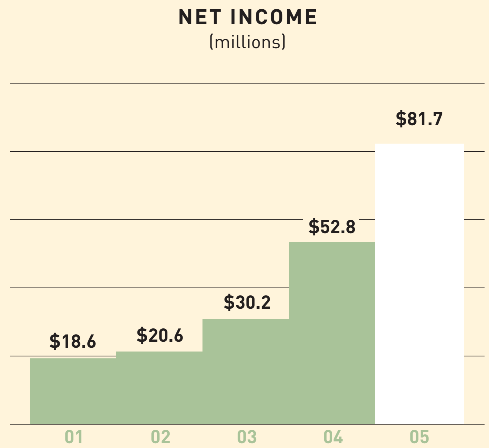
U.S. dollars	**2005** **$**	2004 $	Annual Change %	Five-year CAGR* %
Hectares of trees acquired	**175,214**	110,644	58	—
Hectares of trees under management at year end	**324,000**	242,000	34	—
Hectares of trees sold	**108,013**	37,369	189	—
Revenue (millions)	**493**	331	49	31
Gross profit (millions)	**137**	102	35	29
Gross profit margin	**28%**	31%	-3 pts	—
EBITDA (millions)	**256**	125	105	50
Net income (millions)	**82**	53	55	25
Diluted earnings per share	**0.59**	0.43	37	15
Cash flow from operating activities (millions)	**196**	119	65	49
Cash and cash equivalents, end of year (millions)	**108**	201	-46	43
Total Assets (millions)	**895**	756	18	32
Return on equity	**17%**	14%	+3 pts	—
Share price at year end (in Canadian dollars)	**4.94**	3.43	44	38
Market capitalization at year end (in millions of Canadian dollars)	**681**	469	45	54

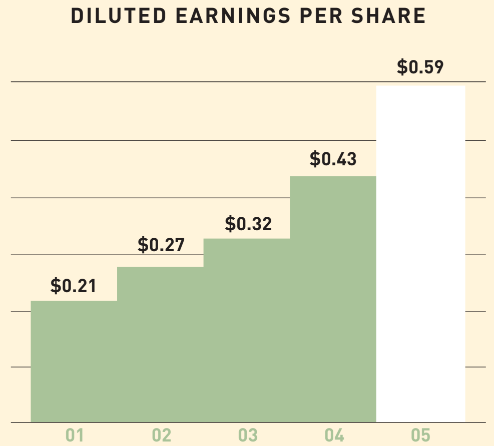
** Compound average annual growth rate from 2000 to 2005*

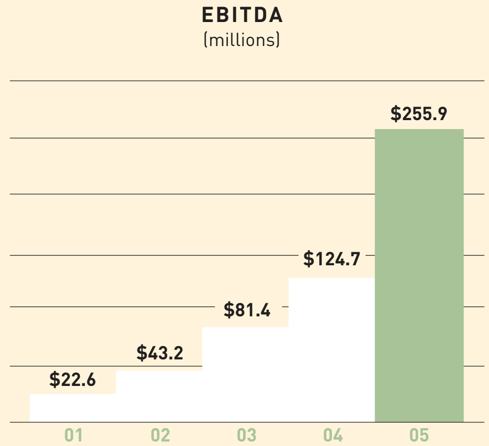
FINANCIAL OVERVIEW

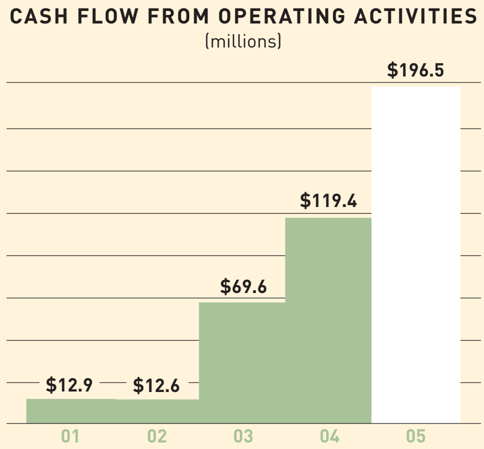
SINO-FOREST WAS A FIRST MOVER INTO THE CHINA FOREST PLANTATION MARKET IN 1994, AND HAS SINCE GENERATED A STRONG TRACK RECORD OF EXCEPTIONAL GROWTH AND PROSPERITY — GROWING ITS TOP-LINE REVENUE BY A COMPOUND AVERAGE 34% PER ANNUM AND ITS BOTTOM-LINE DILUTED EARNINGS PER SHARE BY 20% PER ANNUM. THE CORPORATION HAS ALSO BROADLY DIVERSIFIED ITS SOURCES OF INCOME BY GEOGRAPHIC REGION, TREE SPECIES AND TYPE OF SERVICE, MAINTAINING A LEADERSHIP POSITION IN SUSTAINABLE FORESTRY MANAGEMENT AND COMMUNITY INVOLVEMENT.

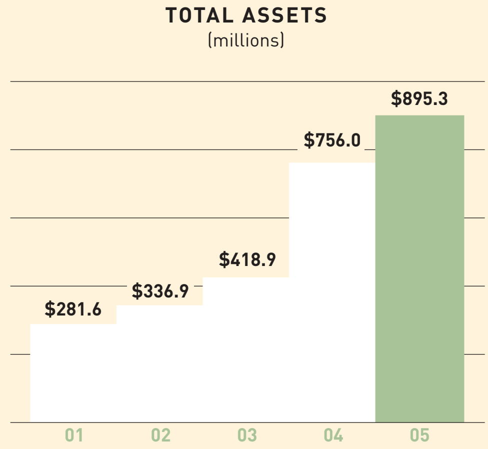


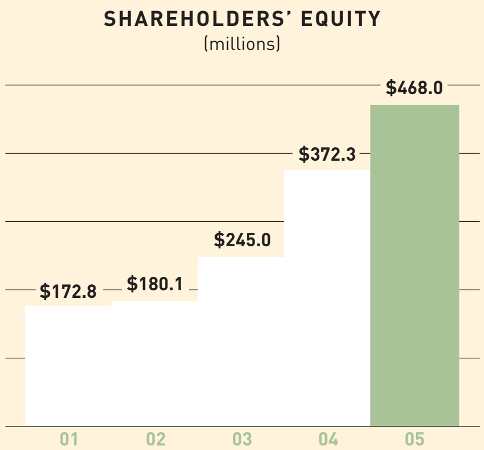


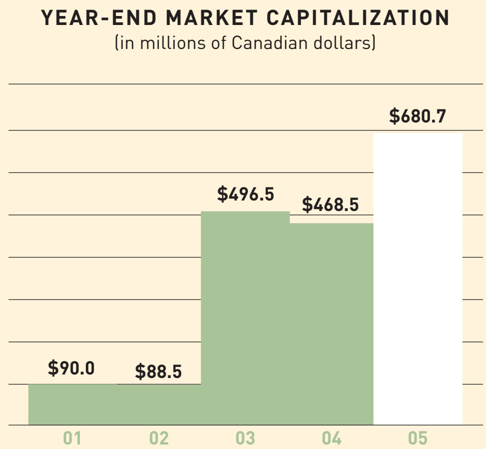


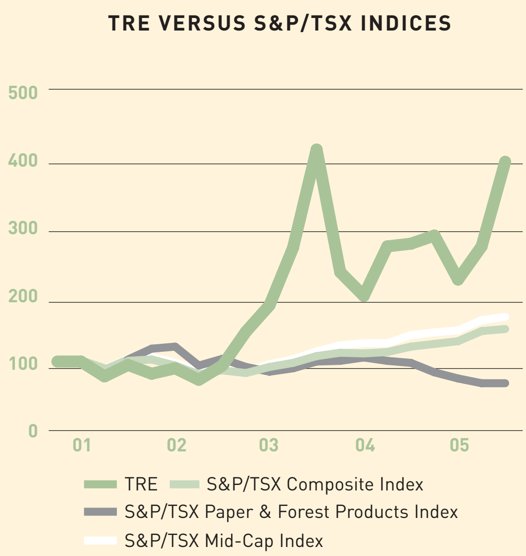


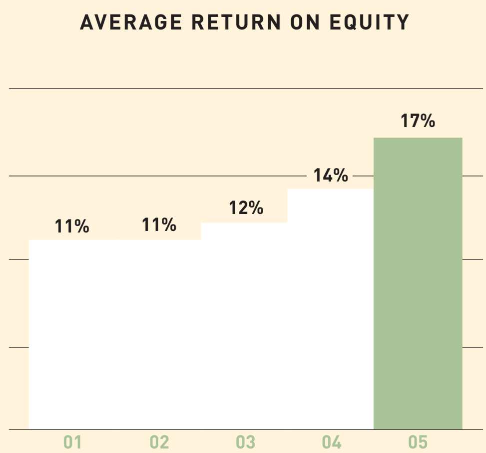

CASH FLOW FROM OPERATING ACTIVITIES
(millions)
$12.9
$12.6
$69.6
$119.4
$196.5
01
02
03
04
05


TOTAL ASSETS
(millions)
$281.6
$336.9
$418.9
$756.0
$895.3
01
02
03
04
05


SHAREHOLDERS' EQUITY
(millions)
$172.8
$180.1
$245.0
$372.3
$468.0
01
02
03
04
05


YEAR-END MARKET CAPITALIZATION
(in millions of Canadian dollars)
$90.0
$88.5
$496.5
$468.5
$680.7
01
02
03
04
05


TRE VERSUS S&P/TSX INDICES
500
400
300
200
100
0
01
02
03
04
05
TRE
S&P/TSX Composite Index
S&P/TSX Paper & Forest Products Index
S&P/TSX Mid-Cap Index


AVERAGE RETURN ON EQUITY
11%
11%
12%
14%
17%
01
02
03
04
05

SINO-FOREST AT A GLANCE

THE CORPORATION PROVIDES WOOD FIBRE AND MANUFACTURED WOOD PRODUCTS TO THE CONSTRUCTION, HOUSING, FURNITURE, INTERIOR DECORATION AND PULP & PAPER INDUSTRIES. IT COMBINES GENETICALLY ENHANCED AND SUSTAINABLY MANAGED PLANTATIONS WITH ENGINEERED WOOD PROCESSING TECHNOLOGY TO MAXIMIZE THE VALUE OF ITS WOOD RESOURCES.

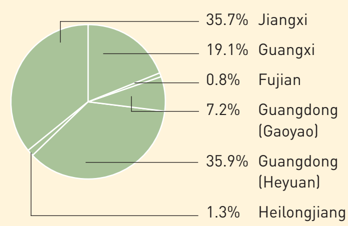
MAJOR STREAMS OF INCOME		PERCENT OF 2005 REVENUES
	**PLANTATIONS AND STANDING TIMBER** At either "purchased" or "planted" plantations, we acquire and sell mature trees and re-plant trees on the leased land, or we acquire young trees and professionally cultivate them to maturity before selling the standing timber.	49%
	**WOOD CHIPS AND LOGS** We sell wood chips and logs sourced from other suppliers in China; we also receive fees and commission income generated from wood chip agency sales.	32%
	**WOOD-BASED PRODUCTS** We source and sell imported products such as logs, veneer, sawn lumber; we also manufacture and sell particleboard, melamine faced chipboard and sawn timber; and we sell flooring and nursery products and services.	20%

LEGEND

- Executive Office
- Operation Office
- China Office
- Purchased Forest
- Planted Forest
- Flooring
- Particleboard
- Ports
- Mandra Forestry Plantations Managed by Sino-Forest

- With its economy growing at 8-9% annually, China has a significant deficit between roundwood supply and demand.
- At year end 2005, Sino-Forest had 324,000 hectares of plantation trees under management. According to independent forestry experts, Jaakko Pöyry Consulting, the merchantable standing volume on this land (excluding trees less than 4 years old on approximately 17,000 hectares) represents almost 24 million cubic metres (m^3) of wood fibre supply for domestic markets.

PLANTATION AREA BY PROVINCE



OUR ADAPTABILITY AND INNOVATION ENABLE US TO GROW AND PROSPER

A Message from Allen Chan

In 2005, we made great strides in augmenting our supply of trees and wood fibre. We continued to be the leading commercial wood fibre supplier in China and to deliver outstanding financial results. After investing about $270 million in the acquisition of 175,214 hectares of trees, including the Heyuan Undertaking, our total plantation area under management increased to 324,000 hectares by year end. Sino-Forest is in a formative stage — building a critical mass of trees to provide a steady supply of quality fibre to China's huge, growing markets and generate a strong, growing stream of cash flow from operations.

We will break new ground as we continue to expand, adapt and innovate, in step with China's 11th five-year plan (2006-2010). All the while, we remain committed to developing a sustainable wood fibre supply, diversifying our sources of income as we grow.

FINANCIAL PERFORMANCE

By year end 2005, we had almost crossed the important financial milestones of $900 million in assets, $500 million in revenue and $200 million in cash flow from operations. As Sino-Forest reported increasingly impressive earnings per share from quarter to quarter, we work harder to communicate our success story to investment communities around the world. And while the North American forest product sector faced difficulties, the stock

OUR COMPETITIVE ADVANTAGES

- ***Strategically Located Plantations*** *in suitable climates for fast-growing species, near major transportation arteries and manufacturing hubs*
- ***Qualified Management*** *with a solid track record of prosperous growth, valuable market knowledge, and expertise in high-yield and sustainable forestry*
- ***Strong, Growing Market Position*** *in a fragmented industry, and valuable business relations with forestry bureaus, customers and suppliers*
- ***Solid Financial Condition*** *— facilitating access to capital to fund future growth*

CHINA'S FLOURISHING ECONOMY HAS CREATED ENORMOUS DEMAND FOR WOOD FIBRE

market attributed a more justifiable price multiple to Sino-Forest's earnings potential, resulting in a year-end stock price increase of 44%, and a compound average annual increase of 18% since we started business in 1994.

ADAPTING TO CHANGING MARKETS

We have learned to adapt to the fast-changing, political and economic environments of the PRC, which is comprised of many, large, flourishing regional economies. Extensive infrastructure development, mounting direct foreign investment, increasing urbanization, a fast-growing middle-income class and higher home ownership are collectively driving enormous demand for wood fibre in the construction, furniture and pulp & paper industries. The PRC recognizes the critical importance of supporting professionally managed, commercial forest plantations as a solution to the country's growing wood deficit. And the timber market system is undergoing reform with gradual market-oriented liberalization.

China's forestry sector has many markets in a fragmented industry. Although we are the leading commercial wood fibre supplier in the country, there are abundant opportunities to further grow our market share and build our timber portfolio. By being adaptable and innovative, over the past decade, we established competitive advantages that have served our stakeholders well. As early entrants in the industry, we have accumulated a large portfolio of trees on land leased long-term. We have built key, trustful relationships at local and national levels, working in unison with government authorities and academic institutions. And we have developed strong R&D capabilities, adopted forest management best practices, and taken a leadership role in sustainable forest development. We are proud to be at the forefront of our industry.

STRATEGIC INSIGHT AND VISION

For more than a decade, we have gained an in-depth knowledge and understanding of market opportunities and challenges in China. We have looked into the future, set clear objectives, and adopted a strategy that leverages our competitive strengths and paves the way to continued financial success.

BREAKING NEW GROUND WITH SUCCESSFUL STRATEGIES

To strengthen our market position, we will further expand and diversify our sources of income. Ten years ago, we started along the south-east coastal provinces and close to the major transportation arteries. As economic development continues and gradually moves inland, Sino-Forest's strategy is to expand its access to trees and occupy plantations both inland and north, where they are less sought after. We are striving to be a first mover in geographically widespread locations, before other industry players. Our extensive network and forest industry insights give us the ability to identify investment opportunities that fit strategically within our long-term plans. Expanded operations will give Sino-Forest the capacity to supply a larger base of customers, and to maintain a low-cost advantage through economies of scale.

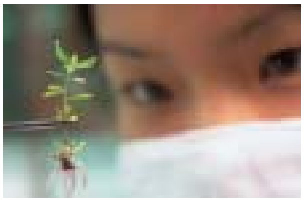
We will utilize our expertise in tree and fibre knowledge, and our growing experience in manufacturing to maximize the value of our wood resources. Above all, we will manage our businesses in a sustainable manner — in harmony with nature and local communities.

FOCUSING ON STANDING TIMBER

Our business strategy has evolved over the years, as we adapt and innovate. We are gradually shifting our efforts and investments toward higher-margin standing timber and high-value-added products, thus reducing our dependence on income from wood chip & log sales and commission fees.

We are focused on building up expeditiously a critical mass of trees under management. This will allow us to maintain a sustainable, perpetual rotation model that generates

OUR BUSINESS STRATEGIES



- ***Maximize Resources*** *by leveraging our scientific and plantation management expertise to optimize plantation yield and our supply of quality wood fibre*
- ***Expand and Diversify Revenues*** *by acquiring and re-planting forestry plantation trees in various geographic regions, and providing a broad range of valuable forestry services*
- ***Practice Sustainable Development*** *by conserving and rejuvenating forested areas and creating community employment benefits*

CREATING MARKET VALUE WITH EACH TREE ACQUISITION

sufficient cash to finance ongoing re-planting, maintenance and acquisition of additional trees. We are looking particularly to northern China. Early this year, we established a base in Heilongjiang, close to the Russian border, where there is an abundance of trees. We are also investing relatively more in Purchased plantations (where we generate a high gross profit margin from purchasing young trees and cultivating them to maturity, and acquire the rights to lease the land for re-planting) than Planted plantations (where we re-plant and share harvest proceeds with our joint-venture partners).

Our core business now is standing timber — primarily acquiring and/or growing to maturity, then selling, marketable trees. Our re-planting strategy is to grow fast-growing trees — after applying sophisticated R&D to develop genetically engineered seedlings, we plant and cultivate them using methodical forest management techniques. This significantly increases the yield of the land, which we typically lease long term, and maximizes our supply of wood fibre. And with timber prices trending upward, our trees are becoming even more valuable.

HEYUAN UNDERTAKING

During the past two years, we have demonstrated our ability to break new grounds by pursuing sound business opportunities such as the Heyuan Undertaking in Guangdong Province, where we have undertaken to acquire mature pine trees. Between the fourth quarter of 2004 and year end 2005, Sino-Forest had acquired 109,824 hectares of trees, sold 77,758 hectares of trees, and commenced re-planting on 11,000 hectares with eucalyptus. In the beginning of 2006, we've acquired another 15,865 hectares, and our plan is to re-plant 25,000 to 30,000 hectares and to double the yield of the land with our first rotation. Although the undertaking provided Sino-Forest with immediate access to wood fibre and cash flow, the increasing costs in trees acquisition and land rental in Heyuan have become economically less attractive for further investment. We will therefore divert our attention and shareholder capital to breaking new ground inland and northward.

COMPLEMENTARY OPERATIONS HELP MAXIMIZE OUR WOOD RESOURCES

INDEPENDENT VALUATION

To help investors appreciate and understand the market value of Sino-Forest's forestry assets, we have commissioned Jaakko Pöyry Consulting — reputable, international, forestry experts to conduct a yearly valuation report. The table below is based on sophisticated modeling of the projected net present value of discounted, pre-tax cash flows.

	Oct. 31 03	Dec. 31 04	**Dec. 31 05**
Trees inventory under management	147,000 ha	242,000 ha	**324,000 ha**
Value of existing forest assets* (US$)	$345 M	$566 M	**$729 M**
Value with perpetual rotation** (US$)	$436 M	$774 M	**$968 M**

* Single rotation, based on one-off harvesting of standing timber; includes revenues and costs associated with the existing tree inventory.

** Perpetual rotation, based on perpetual re-planting and cultivation of plantation land after harvesting through many rotations over a 50 year period; includes revenues and costs associated with sustainable forestry modelled in perpetuity.

COMPLEMENTARY OPERATIONS

Sino-Forest continues to develop a variety of downstream wood products and services that complement our core timber business. Having complementary operations allows us to better utilize the fibre at our plantations and to satisfy the diverse needs of our growing customer base. For over a decade, fees and commissions related to the sales of wood chips and logs sourced from third party suppliers have been a steady source of income, and the price of wood chips has been moving upward. We continue to import and sell hardwood logs, veneer and sawn lumber from countries in Asia. In addition, Sino-Forest has a nursery and greenery business that provides landscape services in Suzhou and neighbouring cities.

Sino-Forest invested $17 million last year in the expansion of our particleboard plant in Gaoyao, Guangdong Province, in order to satisfy fast-growing demand for panels and increase its economies of scale and profitability. Particleboard manufacturing capacity will increase to 275,000 m^3 and melamine lamination capacity to 6.4 million m^2. We also moved our small oriented strand board (OSB) production line from Suzhou to Heilongjiang, close to an abundant supply of raw mate-

BREAKING NEW GROUND IN MORE MARKETS ACROSS CHINA

OUR GOALS

- ***Deliver Growing Profitability*** *by increasing the proportion of our total income dependent on higher-margin standing timber and wood panels*
- ***Broaden Market Penetration*** *by increasing plantation area under management in a variety of markets across China, allowing for a sustainable annual harvest that can generate sufficient cash flow to finance ongoing re-planting, cultivation and further acquisition of trees*
- ***Increase Shareholder Value*** *by working to increase our share price, while preserving a strong financial position to fund capital expenditures and maintain conservative debt levels*

rial. In addition, Sino-Maple is installing wood flooring production equipment at our Suzhou facility at an estimated cost of $15 million to supply 107 retail stores carrying Sino-Maple branded quality, engineered flooring across China.

FUTURE OPPORTUNITIES

We hope to break new ground in the vast, forested areas of Heilongjiang in northern China, close to the Russian border, where there is an abundant supply of wood fibre that needs to be professionally managed in order to function properly as an ecological conservation forest.

In 2005, the central government's State Administration of Forestry lifted the ban on felling of mature and over-mature trees. At the same time, the Chinese government is also aggressively promoting the domestic wood pulp industry, integrated with upstream plantation-based fibre supply and downstream paper production.

Sino-Forest is therefore pursuing the opportunity to provide forest management services and obtain access to wood fibre in this strategically important region.

SETTING GOALS

We wish to continue on the path of success, by setting out some challenging but realistic goals in which we intend to measure our performance in the future.

BUILDING TRUST THROUGH GOOD GOVERNANCE AND TRANSPARENCY

IMPROVING GOVERNANCE

Sino-Forest's Board of Directors has adopted a best practice approach to corporate governance as recommended by Canadian securities regulators and by the Toronto Stock Exchange. Over the past few years, the corporation has established mandates for its Directors, Chairman, CEO and the Board's two Committees, and adopted important governance policies.

In October 2005, one of our Directors, Dave Horsley, was appointed as Senior Vice President and Chief Financial Officer, and Kee Wong was promoted to Vice Chairman to focus on strategic and corporate development and financing of the Company. Mr. Horsley was replaced by a new independent Director in January this year — W. Judson Martin of Toronto, who is a corporate director and highly experienced executive, well recognized by the investment community in North America. The Board is also working toward appointing an independent Lead Director.

OUTLOOK

Sino-Forest continues to extend its enviable track record of producing excellent operating and financial results. We have the vision, business strategies and management capabilities to become a leading, national and integrated supplier of quality wood products and services in the booming markets of China. Having successfully raised $150 million recently through a syndicated loan, we have the funds to continue acquiring trees, re-planting harvested lands with fast-growing species, and increasing the synergies between our core and complementary businesses.

Sino-Forest's management team and Board of Directors join me in expressing gratitude to our investors, customers, employees and business partners for their valuable contributions to the corporation's success in 2005 and we look forward to building sustainable value with you in 2006 and beyond.

Allen Chan
Chairman and CEO
March 30, 2006

RESPONSIBLE GOVERNANCE IS AN INTEGRAL PART OF OUR GROWTH

Governance

Sino-Forest is governed by a Board of Directors composed of highly experienced executives, the majority of whom are considered independent under Canadian securities legislation. They have undertaken additional improvements since our last annual report. The roles and mandates of Directors, Chairman of the Board, Lead Director, and CEO have been defined to clearly delineate their responsibilities and are posted on the company's website, along with the charters of the Audit and Corporate Governance & Compensation Committees, both of which are composed of independent Directors. As a publicly listed company in Canada, Sino-Forest has adopted best practices as recommended by Canadian securities regulators and by the Toronto Stock Exchange. The Board has also adopted the use of the following corporate governance policies and tools: Code of Business Conduct; Public Disclosure Policy; Insider Trading Policy; Whistle Blower Policy; Board Effectiveness Survey. The Corporation's Report on Corporate Governance and a description of its *Alignment With Corporate Governance Guidelines* are set out in Sino-Forest's Management Information Circular.

After serving on our Board, we appointed Dave Horsley as Senior Vice President and Chief Financial Officer, and to strengthen our risk management and internal control processes we hired Tom Maradin as Vice President of Risk Management. Replacing Dave on the Board and as a member of Audit and Compensation Committees since February this year is W. Judson Martin of Toronto. Judson brings a wealth of experience as a previous senior executive at Alliance Atlantis Communications Inc., MDC Corporation, Trilon Securities Corporation, Brookfield Development Corporation and Trizec Corporation Ltd.

Also over the past year, we have boosted investor relations and completely renovated our website to increase two-way communication and transparency with current and prospective investors around the world, and to broaden our shareholder base and investment analyst coverage.

SUSTAINABLE DEVELOPMENT IS PART OF OUR CORPORATE CULTURE

Environmental Stewardship and Community Support

We take great pride in being an industry leader in sustainable forest development and a conscientious corporate citizen in the local communities where we operate. We believe in conducting business with future generations and our valuable reputation in mind. Our business is inherently renewable — in addition to their providing a needed raw material, our forests host a biodiversity of living creatures, protect watersheds, provide clean drinking water, remove carbon dioxide from the atmosphere, and beautify landscapes. And we make it even more sustainable by replanting where we sow, without harming the natural environment. That is, we generally limit harvesting to the volume of trees in our inventory that comes to maturity in any given year.

Sharing the goal of maximizing nature's bounty for many stakeholders, Sino-Forest manages its plantations and develops forestry technologies in cooperation with government authorities, academic institutions and local community custodians. We play an active role in China's plans to increase the country's overall forestation and wood product self-sufficiency, and to beautify cities with greenery and landscaping. We join hands with academics at universities to take part in ecological and sustainability studies and research. In the process, many local communities benefit from Sino-Forest's operations, in terms of jobs creation and skills training. In fact, as many as 20,000 seasonal workers are gainfully employed at our plantations.

Every year, Sino-Forest is audited to continue to qualify for its Forest Stewardship Council (FSC) certification — currently the most broadly supported standard by conservation groups — by the Rainforest Alliance, an international nonprofit organization. We are proud to be the first and only commercial forestry plantation operator in China to receive this certification in 2004 for our forest management operation at a Gaoyao plantation in Guangdong Province.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Additional information relating to our company, including our annual information form for the year ended December 31, 2005 is available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

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

OVERVIEW OF BUSINESS

Introduction

We are the largest foreign owned commercial forestry plantation operator in the PRC in terms of plantation area. As at December 31, 2005, we had approximately 324,000 hectares of forestry plantations located mainly 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 fibre to meet the increased demand from manufacturers in the wood panel, furniture, construction, interior decoration and pulp and paper industries 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 fibre in the PRC.

We currently sell standing timber from our planted tree plantations and purchased tree plantations, wood chips and logs and wood-based products. We also earn commission income from agency services in the sale of wood chips. Wood-based products include the sale of imported wood-based products such as logs, veneer, sawn timber, the sale of particleboard, melamine faced chipboard and sawn timber from our manufacturing plants and the sale of flooring and nursery products and services.

The standing timber, wood chips and logs and wood-based products that we sell, directly or through authorized intermediaries, are used in the PRC to produce a variety of wood-based products in the wood panel, furniture, construction, interior decoration and pulp and paper industries. 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 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.

Vision

Our vision is to become a leading commercial forestry plantation operator and a preferred supplier of wood fibre to downstream consumers in the PRC operating in the wood panel, furniture, construction, interior decoration and pulp and paper industries. Our manufacturing operations are intended to complement our plantation operations and trading operations and to create an additional source of demand for wood fibre in the PRC.

Market Conditions

Within the PRC wood fibre market, there are a number of factors that contribute to the opportunities that are available to the Company, including:

- strong and growing demand for wood fibre from downstream producers, driven by demand for furniture, construction, interior decoration and pulp and paper;
- shortage of supply of wood fibre due to restrictions on logging of natural forests in the PRC and underdevelopment of economically viable plantations in the PRC;
- recent changes in the forestry industry favor sustainable plantations, such as new equipment used to facilitate processing of plantation logs.

Competitive Strengths

We believe that we are well positioned to take advantage of the opportunities presented by current market conditions due to the following competitive strengths:

- our status as the largest foreign owned commercial forestry plantation operator in the PRC in terms of plantation area with our predictable, sustainable and large-scale supply of forestry resources;
- strategic location of most of our plantations mainly in southern and eastern China;
- extensive forestry and management expertise with local knowledge of the PRC;
- systematic application of silviculture techniques;
- strong research and development expertise;
- established relationships with local forestry bureaus, other plantation owners and service providers and wood dealers in the PRC.

Strategy

In order to achieve our vision, we have developed a strategy that builds on our competitive strengths in order to realize the opportunities in the market place. The key elements of our strategy are as follows:

- focusing on acquiring additional forestry plantations and access to long-term supply of wood fibre in proximity to existing plantations in southern and eastern China as well as other areas where demand exists but where we do not have plantations;
- improving the yields of our forestry plantations by continued investment in research and development;
- practicing responsible environmental forestry;
- strengthening our management processes and information systems to keep pace with the growth in our business;
- maintaining our wood chips and logs and wood-based products trading activities as another means of providing fibre to the consumers in the PRC;
- widening and diversifying our investor base and enhancing our corporate image and profile.

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 rely on our relationships with joint venture partners, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. We rely on our joint venture partners to, among other things, fulfill their obligations under the agreements. We rely on authorized intermediaries for our wood chips and trading activities. We rely on a few large customers for a significant percentage of our total revenue. We rely on a few large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

We are heavily dependant upon our senior management in relation to their expertise in the forest industry, research and development in forest plantation management practice, wood-based products manufacturing production processes and relationships cultivated by them with our PRC CJV partners, major customers and others.

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 and are subject to the risks inherent in establishing a new business, including competitive pressures, which could have a material adverse effect on our business, financial condition and results of operations.

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

Components of Income Statement Items

Revenue

We derive our revenue from three sources, as follows:

Standing Timber

- selling standing timber sourced from our purchased and planted forestry plantations

Wood Chips and Logs

- selling wood chips and logs sourced from PRC suppliers and receiving agency fees on the sale of wood chips

Wood-Based Products

- selling imported wood-based products such as logs, veneer, sawn timber; selling particleboard, melamine faced chipboard and sawn timber from our manufacturing plants; selling flooring and nursery products and services

Cost of Sales

Our costs of sales consists of: (1) depletion of timber holdings as they are 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, planting and maintenance costs, which until the trees are sold are capitalized at cost in our financial statements. Planting and maintenance 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.

SIGNIFICANT BUSINESS ACTIVITIES

Significant activities that have occurred during the year ended December 31, 2005 and to the date of this report were as follows:

Appointment of BDO McCabe Lo Limited

In April 2005, the Company announced that it has appointed BDO McCabe Lo Limited, a member of BDO International, as the new auditor for the Company.

Mandra Investment

In April 2005, the Company announced that it has agreed to enter into a series of agreements with Mandra Resources Limited and its subsidiaries ("Mandra"). Mandra is a start-up operation formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations located in Anhui province of the PRC. The Company announced the closing of the transaction in May 2005.

Appointment of Executives

In October 2005, the Company announced the appointment of Mr. David Horsley as Senior Vice President and Chief Financial Officer and the appointment of Mr. Thomas Maradin as Vice President, Risk Management.

Appointment of Director

In February 2006, the Company announced the appointment of Mr. Judson Martin to its Board of Directors to replace Mr. David Horsley who resigned as a result of becoming the Company's Senior Vice President and Chief Financial Officer.

Syndicated Loan Facility

In February 2006, the Company announced the signing of a US$150 million 5-year and one day Loan Facility, bearing interest at LIBOR plus between 0.80% and 1.50% depending on consolidated debt to EBITDA. The facility will be primarily used for the acquisition of additional standing timber and logs and for general corporate purpose.

Update Valuation of Forest Plantation Assets in China

In March 2006, the Company announced that it has received the updated, independent valuation of its commercial plantation assets as well as a prospective valuation of its proposed plantation development plans in China. Using a discounted cash flow methodology, Jaakko Pöyry estimates that the existing forest plantation (single rotation only) as at December 31, 2005 had a value of approximately US$728.5 million. The consultants report states that the plantation area was approximately 324,000 hectares as at December 31, 2005.

SELECTED ANNUAL FINANCIAL INFORMATION

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2005, 2004 and 2003.

Years ended December 31, (in thousands, except earnings per share and common shares outstanding)	**2005** $	2004 $	2003 $
OPERATING RESULTS			
Revenue	**493,301**	330,945	265,739
Cost of sales	**(356,430)**	(229,433)	(200,835)
Gross profit[1]	**136,871**	101,512	64,904
Net income from operations	**112,607**	73,389	49,899
Net income	**81,687**	52,774	30,180
EBITDA[2]	**255,910**	124,663	81,370
Basic earnings per share[3][4]	**0.59**	0.43	0.38
Diluted earnings per share[3][4]	**0.59**	0.43	0.32
FINANCIAL POSITION			
Current assets	**277,340**	320,660	115,665
Non-current assets	**617,931**	435,389	303,189
Total assets	**895,271**	756,049	418,854
Current liabilities (including current portion of long-term debt)	**127,262**	83,795	117,929
Long-term debt (net of current portion)	**300,000**	300,000	55,953
Total shareholders' equity (net assets)	**468,009**	372,254	244,972
Cash dividends declared per share	**nil**	nil	nil
Common shares outstanding	**137,789,548**	136,589,548	96,219,548

Over the past three fiscal years, we have focused on growing our standing timber plantation operations. Revenue has grown over these periods primarily due to increased sales of standing timber. Our revenue from standing timber has increased from $55.4 million (20,630 hectares, 20.9% of revenue) in 2003 to $105.1 million (37,369 hectares, 31.8% of revenue) in 2004 to $240.8 million (108,013 hectares, 48.8% of revenue) in 2005.

During these periods, our gross profit has increased accordingly. Gross profit margin, being the gross profit expressed on a percentage of revenue, increased to 30.7% in 2004 compared to 24.4% in 2003 as sales of standing timber enjoy a higher gross profit margin than our other business segments. However, gross profit margin declined to 27.7% in 2005 as sales of standing timber in 2005 included a higher proportion of lower yielding sales of standing timber from the Heyuan Pine Undertaking.

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

2003	176,000
2004	242,000
2005	324,000

In 2004, we issued long-term debt in the amount of $300.0 million to fund the acquisition of mature pine plantations (Heyuan Pine Undertaking), and to repay existing debts.

RESULTS OF OPERATIONS – 2005 VS 2004

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2005 and 2004:

Years ended December 31	2005		2004	
	$'000	**%**	$'000	%
Revenue				
Standing timber	**240,829**	**48.8**	105,126	31.8
Wood chips and logs	**155,870**	**31.6**	157,428	47.5
Wood-based products	**96,602**	**19.6**	68,391	20.7
Total revenue	**493,301**	**100.0**	330,945	100.0

Our revenue increased 49.1%, from $330.9 million in 2004 to $493.3 million in 2005. The increase in revenue was due primarily to the increase in sales of standing timber, and to a lesser extent, an increase in sales of wood-based products.

Revenue From Standing Timber

The following table sets forth revenue from standing timber sales for the years ended December 31, 2005 and 2004:

	2005			2004		
	Hectares	**Sales per hectare $**	**Total revenue $'000**	Hectares	Sales per hectare $	Total revenue $'000
Purchased plantations	**40,718**	**3,302**	**134,458**	21,907	3,709	81,255
Heyuan Pine Undertaking	**64,189**	**1,602**	**102,833**	13,569	1,586	21,527
Planted plantations	**3,106**	**1,139**	**3,538**	1,893	1,238	2,344
Total	**108,013**	**2,230**	**240,829**	37,369	2,813	105,126

Revenue from sales of standing timber increased 129.1%, from $105.1 million in 2004 to $240.8 million in 2005. In 2005, we sold 108,013 hectares of standing timber, compared to 37,369 hectares of standing timber, an increase of 70,644 hectares. The main reasons for this increase are due to the sales of an additional 50,620 hectares of standing timber from Heyuan Pine Undertaking and an increase in sales of purchased plantations of 18,811 hectares. The average selling price per hectare decreased from $2,813 in 2004 to $2,230 in 2005. The primarily reason for this decrease is due to the sales mix of standing timber (i.e. a higher proportion of standing timber sales in 2005 comprised of young trees with smaller diameter generating lower yield). Specifically, in 2005, sales from the lower yielding Heyuan Pine Undertaking comprised 59% of our standing timber sales area compared to 36% in 2004.

Standing timber sales comprised 48.8% of total revenue in 2005, compared to 31.8% in 2004.

Pursuant to a letter undertaking issued by our Heyuan PRC CJV partner, we may purchase mature pine trees of up to 200,000 hectares in Heyuan until February 2006. To December 31, 2005, we had purchased 109,824 hectares. In the first two months of 2006, we acquired approximately 15,865 hectares bringing the total to approximately 125,689 hectares of purchases under the Heyuan Pine Undertaking.

To December 31, 2005, we have sold a total of 77,758 hectares of standing timber from the Heyuan Pine Undertaking. The balance of approximately 47,931 hectares of standing timber purchased under the Heyuan Pine Undertaking are expected to be sold over the first three quarters of 2006.

As at December 31, 2005, we have a total of approximately 140,000 hectares of planted and purchased plantations in the province of Guangdong, representing approximately 43% of our total plantations. Our total plantation area in Guangdong would increase to over 60% assuming that the original plan for the Heyuan Pine Acquisition project is fully implemented. Management is of the view that having such a large proportion of its plantation base located in one province increases our plantation concentration risk and limits our resources and ability to acquire and develop plantations in other strategic provinces.

In addition to the plantation concentration risk mentioned above, we continue to experience increasing pricing pressure on acquisition of standing timber as well as leasing rates in Heyuan which are making our original acquisition model less attractive than initially planned. Accordingly, management believes that completing the Heyuan Pine Undertaking project at the increased pricing would not provide the Company the best return or option to utilize its cash resources. The Company is currently in discussions with other parties in other areas on projects that would provide us a better return.

Revenue From Wood Chips And Logs

The following table sets forth revenue from wood chips and logs for the years ended December 31, 2005 and 2004.

	2005			2004		
Wood Chips and Logs	**BDMT**	**Average selling price $**	**Revenue $'000**	BDMT	Average selling price $	Revenue $'000
Wood chips	**1,348,840**	**105**	**142,301**	1,496,920	95	142,194
Wood logs			**3,829**			1,224
Commission	**657,830**	**14.8**	**9,740**	952,500	14.7	14,010
Total			**155,870**			157,428

Revenue from sales of wood chips and logs decreased 1.0%, from $157.4 million in 2004 to $155.9 million in 2005 primarily as a result of lower commission income on the sale of wood chips. Despite an improvement in the selling price of approximately 10.5% from $95 per bone dry metric ton ("BDMT") in 2004 to $105 per BDMT in 2005, revenue from sales of wood chips increased only 0.1% from $142.2 million to $142.3 million. Sales volume declined 9.9% from approximately 1.50 million BDMT in 2004 to 1.35 million BDMT in 2005 as a result of a decrease in wood chips sales from an authorized intermediary in the fourth quarter of 2005, as further discussed below.

Revenue from commission income, which is included in wood chips and logs, decreased 30.5%, from $14.0 million in 2004 to $9.7 million in 2005 due to a decrease in volume shipped to customers upon which agency fees are earned, from 952,500 BDMT in 2004 to 657,830 BDMT in 2005. The agency fee rate per BDMT on the sale of wood chips in 2005 and 2004 remained relatively flat.

Wood chips and logs sales comprised 31.6% of total revenue in 2005, compared to 47.5% of total revenue in 2004.

In the fourth quarter of 2005, one of the two authorized intermediaries who processes wood chips for us was acquired and ceased to provide wood chips and logs services for us. As a result, our revenue earned during the fourth quarter of 2005 from the sale of wood chips processed by this authorized intermediary declined to nil from $21.2 million in the fourth quarter of 2004. Total revenue earned for the year ended December 31, 2005 from the sale of wood chips processed by this authorized intermediary was $55.7 million compared to $69.5 million in 2004. We are in the process of determining the best alternative to replace the lost production. These alternatives include finding another authorized intermediary to provide the chipping service or moving some or all of the volume to the remaining authorized intermediary.

Revenue From Wood-Based Products

The following table sets forth revenue from wood-based products for the years ended December 31, 2005 and 2004.

Wood-Based Products	**2005 $'000**	2004 $'000
Imported wood-based products	**84,136**	58,689
Others	**12,466**	9,702
Total	**96,602**	68,391

Revenue from sales of wood-based products increased 41.2%, from $68.4 million in 2004 to $96.6 million in 2005. The increase in revenue from wood-based products of $28.2 million was primarily due to an increase in shipments of imported logs of $25.4 million, representing a 43.4% increase from last year sales, and an increase of $2.8 million in other revenue.

Cost of Sales

Our cost of sales increased 55.4%, from $229.4 million in 2004 to $356.4 million in 2005. The increase in cost of sales was due primarily to an increase in the hectares of standing timber sold and an increase in sales from our wood-based products business.

Cost of Sales of Standing Timber. Standing timber cost of sales increased 210.5%, from $45.2 million in 2004 to $140.2 million in 2005. The increase in costs of sales reflected primarily the increase in the hectares of trees sold. Cost of sales per hectare of standing timber increased 7.5%, from $1,208 per hectare in 2004 to $1,298 per hectare in 2005 due to the fact that we sold almost double the hectares of purchased plantation pine (other than Heyuan Pine Undertaking) in 2005 when compared to 2004 which have a higher average cost per hectare.

Cost of Sales of Wood Chips And Logs. Wood chips and logs cost of sales increased 3.9%, from $118.3 million in 2004 to $122.9 million in 2005. The increase in cost of sales reflected the increase in the cost of wood chips despite the drop in sales volume of wood chips. The cost of wood chips has increased approximately 12.8% from approximately $78 per BDMT in 2004 to $88 per BDMT in 2005.

Cost of Sales of Wood-Based Products. Wood-based products cost of sales increased 41.5%, from $66.0 million in 2004 to $93.3 million in 2005, primarily reflecting an increase in sales of imported logs, greening and flooring projects.

Gross Profit(1)

Our gross profit increased 34.8%, from $101.5 million in 2004 to $136.9 million in 2005 due to the increased sales volume. Gross profit margin, or gross profit as a percentage of total revenue, decreased from 30.7% in 2004 to 27.7% in 2005 primarily due to the lower gross margin realized on the sales of standing timber from the Heyuan Pine Undertaking.

Standing Timber. Gross profit margin on sales of standing timber decreased from 57.0% in 2004 to 41.8% in 2005 due to sales of standing timber from the Heyuan Pine Undertaking which commanded a lower margin compared to sales of purchased plantations.

Wood Chips And Logs. Gross profit margin from sales of wood chips and logs decreased from 17.5% in 2004 to 15.9% in 2005 primarily due to the increase in the cost of wood chips.

Wood-Based Products. Gross profit margin from sales of wood-based products decreased slightly from 3.6% in 2004 to 3.4% in 2005.

Selling, General and Administration Expenses

Our selling, general and administration expenses decreased 3.8%, from $22.0 million in 2004 to $21.2 million in 2005, due primarily to a decrease in stock-based compensation of $4.3 million and lower financing costs as 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 were written-off in 2004. This decrease was offset by higher staff salaries and administrative expenses.

Depreciation and Amortization

Depreciation and amortization increased 25.5%, from $2.5 million in 2004 to $3.1 million in 2005, reflecting the increase in depreciation charges for our manufacturing plants.

Income from Operations

Our income from operations increased 53.4%, from $73.4 million in 2004 to $112.6 million in 2005, due to the factors discussed above. Our income from operations as a percentage of revenue increased from 22.2% in 2004 to 22.8% in 2005.

Interest Expense

Our interest expense increased 82.6%, from $15.9 million in 2004 to $29.0 million in 2005, due primarily to interest charged on the $300 million non-convertible guaranteed senior notes issued in August 2004.

Amortization and Write-off of Deferred Financing Costs

Our deferred financing costs decreased 69.0%, from $4.3 million in 2004 to $1.3 million in 2005 due to the write-off in 2004 of the remaining balance of deferred financing costs relating to the plantation loan and the IFC projects loans that were repaid.

Other Exchange Gains

Other exchange gains decreased 53.3%, from $2.7 million in 2004 to $1.3 million in 2005 due to stronger appreciation of the Canadian dollar against the U.S. dollar in 2004.

Interest Income

Our interest income increased 205.9%, from $1.4 million in 2004 to $4.2 million in 2005, due to increases in cash and cash equivalents and short-term deposits held throughout the year and interest earned on the loan to Mandra Holdings.

Provision for Income Taxes

In 2005, the provision for income taxes was $7.3 million compared to $5.0 million in 2004. The increase in the provision for income taxes in 2005 was due to the higher income earned.

Net Income

As a result of the foregoing, our net income for 2005 increased 54.8%, from $52.8 million in 2004 to $81.7 million in 2005. Our net profit margin increased from 15.9% in 2004 to 16.6% in 2005.

RESULTS OF OPERATIONS – Q4 2005 VS Q4 2004

The following table sets forth the selected financial information for the three months ended December 31, 2005 and 2004.

Three months ended December 31, (in thousands, except earnings per share)	**2005** **$**	2004 $
Revenue	**170,411**	130,629
Cost of sales	**(125,618)**	(91,778)
Gross profit[1]	**44,793**	38,851
Net income from operations	**35,071**	28,228
Net income	**27,535**	20,144
EBITDA[2]	**96,108**	56,984
Basic earnings per share[3][4]	**0.20**	0.15
Diluted earnings per share[3][4]	**0.20**	0.15

The following table sets forth the breakdown of our revenue for the fourth quarters ended December 31, 2005 and 2004:

	2005	2004
	$'000	$'000
Revenue		
Standing timber	**95,824**	49,486
Wood chips and logs	**39,016**	56,119
Wood-based products	**35,571**	25,024
Total Revenue	**170,411**	130,629

Revenue for the fourth quarter ended December 31, 2005 increased by 30.5% to $170.4 million compared to $130.6 million for the fourth quarter in fiscal 2004. The increase was primarily due to higher sales of standing timber and wood-based products partially offset by a decline in wood chips and logs revenue.

For the fourth quarters ended December 31, 2005 and 2004, standing timber sales were as follows:

	2005			2004		
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**21,807**	**2,966**	**64,688**	6,451	4,124	26,602
Heyuan Pine Undertaking	**18,103**	**1,616**	**29,262**	13,569	1,586	21,526
Planted plantations	**1,634**	**1,147**	**1,874**	1,102	1,232	1,358
Total	**41,544**	**2,307**	**95,824**	21,122	2,343	49,486

In the fourth quarter of 2005, we sold 41,544 hectares of standing timber compared to 21,122 hectares of standing timber in 2004. The increase was primarily due to increase in sales of standing timber from our purchased plantations. The decrease in the average selling price of our purchased plantations was due to the sale of 7,350 hectares of eucalyptus which commanded a lower price and the sale of 9,847 hectares of immature pine with smaller diameter and lower yield compared to the mature pine trees sold in the fourth quarter of 2004.

For the fourth quarter ended December 31, 2005, the decrease in revenue from wood chips and logs was mainly due to a 37.5% decrease in shipments to 328,510 BDMT compared to 525,530 BDMT in the corresponding period in 2004. This decrease was partially offset by an increase in price of wood chips. The average net wood chip price, in the fourth quarter of 2005 was approximately $106 per BDMT compared to $95 per BDMT in the fourth quarter of 2004. For reasons discussed above, our revenue earned from the sale of wood chips processed by one of the authorized intermediaries declined $21.2 million to nil in the fourth quarter of 2005 compared to the fourth quarter of 2004.

Revenue from commission income, decreased 63.3% from $4.7 million in the fourth quarter of 2004 to $1.7 million in the fourth quarter of 2005 as a result of a decrease in shipments to customers, from 319,900 BDMT to 115,000 BDMT in the corresponding period. Agency fees on the sale of wood chips in the fourth quarter of 2005 was approximately $15.0 per BDMT compared to $14.7 per BDMT in the fourth quarter of 2004.

For the fourth quarter of 2005, revenue from our wood-based products business amounted to $35.6 million, compared to $25.0 million in the fourth quarter of 2004. The increase was primarily attributable to the increase in sales of imported logs and greening and flooring projects.

Costs and expenses were $135.4 million in the fourth quarter of 2005, an increase of 32.2% compared to $102.4 million in the fourth quarter of 2004. The increase in cost of sales is largely attributable to an increase in sales in the fourth quarter of 2005. Selling, general and administration expenses increased 32.6% from $6.8 million in the fourth quarter of 2004 to $9.0 million in the fourth quarter in 2005 primarily due to higher compensation costs.

Net income increased 36.7% from $20.1 million to $27.5 million. Earnings per share increased 33.3% from $0.15 to $0.20.

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 in and develop our manufacturing facilities.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows.

Years ended December 31, (in millions)	2005 $	2004 $
Cash flows from operating activities		
Net cash provided by operations[5]	**228.1**	117.7
Net change in working capital[6]	**(31.6)**	1.6
Total	**196.5**	119.3
Cash flows from financing activities	**11.5**	246.0
Cash flows used in investing activities	**(301.4)**	(171.1)
Effect of exchange rate changes on cash and cash equivalents	**0.7**	–
Net (decrease) increase in cash and cash equivalents	**(92.7)**	194.2

Cash Flows from Operating Activities

Cash flows from operating activities increased 64.6%, from $119.3 million in 2004 to $196.5 million in 2005. The increase was the result of an increase in cash provided by operations as a result of the strong results due to the increase in sales of standing timber.

Cash Flows From Financing Activities

In 2005, cash flows from financing activities consisted of an increase in bank indebtedness of $12.5 million offset by a decrease in pledged short-term deposits of $1.0 million. 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.

Cash Flows Used in Investing Activities

In 2004 and 2005, 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 $159.1 million in 2004 and $265.2 million in 2005. Our cash outlays for our manufacturing facilities and other capital assets amounted to $6.1 million in 2004 and $16.6 million in 2005. Increase in non-pledged short-term deposits in 2005 amounted to $5.2 million compared to $5.8 million in 2004. In addition, we have provided a subordinated loan of $15.0 million to Mandra Forestry Holdings Limited in the second quarter of 2005.

Financing Arrangements and Contractual Obligations

As of December 31, 2005, we had secured and unsecured short-term liabilities of $41.3 million, comprising $14.1 million of short-term bank loans and $27.2 million of trust receipt loans. We had long-term debt of $300 million. Our borrowings are denominated in U.S. dollars and Renminbi.

Short-Term Borrowings. As of December 31, 2005, we had $54.1 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements of which $41.3 million is being utilized. Interest is payable on these short-term borrowings at rates ranging from 4.1% to 7.3% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2005, 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 $3.7 million and certain bank deposits of $6.2 million.

Other Contractual Obligations. As of December 31, 2005, we had other contractual obligations relating to: (1) approximately $25.0 million in respect of capital contributions to our WFOEs; (2) $7.8 million of capital commitments in respect of buildings, timber holdings, and plant and machinery; (3) $5.4 million of purchase commitments in respect of logs, (4) commitments under operating leases of approximately $35.8 million and (5) $300 million non-convertible guaranteed senior notes.

Scheduled Maturity of Contractual Obligations. The following table presents the scheduled maturities of our contractual obligations as of December 31, 2005.

	Actual Anticipated Payment Dates						
Contractual Obligations	Total $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000	Thereafter $'000
Long-term debt[7]	300,000	–	–	–	–	–	300,000
Capital contributions	25,000	25,000	–	–	–	–	–
Capital commitments[8]	7,820	7,820	–	–	–	–	–
Purchase commitments	5,367	5,367	–	–	–	–	–
Operating leases[9]	35,811	1,720	1,173	1,001	942	943	30,032
Total contractual cash obligations	373,998	39,907	1,173	1,001	942	943	330,032

Guarantees. We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2005, we had provided guarantees of approximately $37.3 million to banks in connection with credit facilities granted to our subsidiaries. These guarantees expire at the maturity of the underlying debt, which are for varying terms of less than one year, unless the underlying debt is renewed.

Historical and Planned Capital Expenditures

The following table sets forth the breakdown of our capital expenditures for the three months and year ended December 31, 2005.

	Three months ended December 31, 2005		**Twelve months ended December 31, 2005**	
(in millions)	**Hectares**	**$**	**Hectares**	**$**
Tree acquisition – Purchased plantations	**35,390**	**66.2**	**95,390**	**180.0**
Tree acquisition – Heyuan Pine Undertaking	**14,424**	**16.3**	**79,824**	**87.6**
Re-planting and maintenance of plantations		**2.1**		**15.5**
Panel manufacturing and others		**10.1**		**16.6**
Total		**94.7**		**299.7**

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 2006 are expected to exceed $250 million.

Capital expenditures in 2006 relating to the manufacturing operations are expected to be approximately $22.8 million, being $7.8 million to complete the development of our particleboard manufacturing facility in Gaoyao and oriented strand board mill in Heilongjiang and approximately $15.0 million to construct an engineered wood flooring manufacturing operation in Suzhou.

Once completed, the manufacturing operations in Gaoyao will be one of the largest particleboard mills in China. Total production capacity will be 275,000 m^3 of particleboard and 6,400,000 m^2 of melamine lamination capacity. The facility is expected to be completed by the end of the second quarter of 2006, and will be in production during the second half of 2006.

The Suzhou engineered wood flooring manufacturing operation will see the integration of the existing sawmill and kiln drying equipment with newly acquired flooring manufacturing equipment. The facility is expected to be operational in 2007 and will cost approximately $15.0 million. Once completed, the facility will have the capacity to produce 4.0 million m^2 of engineered wood flooring. The output of the facility will be sold to consumers through our retail flooring sales operations. Currently our products are sold through 107 retail outlets throughout China under the name Sino-Maple.

The 2006 capital expenditures will be funded primarily with 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, 2005 to be $728.5 million. As at December 31, 2005, the book value of our timber holdings was $513.4 million. This is the result of a valuation of the existing planted and purchased areas using a 11.5% 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. 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 11.5% to be $968.4 million as at December 31, 2005.

The complete valuation report by Jaakko Pöyry dated March 8, 2006 can be found on Sino Forest website at www.sinoforest.com under 'Filings' or 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, we have credit evaluation and monitoring processes intended to mitigate credit risk and maintain appropriate provisions for potential credit losses. 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 2005 and 2004.

	Aging Analysis						
	Total Accounts Receivable $'000	0–30 Days $'000	31–60 Days $'000	61–90 Days $'000	91–180 Days $'000	181–360 Days $'000	Over One Year $'000
At December 31, 2005	119,989	55,216	38,695	22,546	3,030	502	–
At December 31, 2004	81,787	47,115	21,639	2,494	10,539	–	–

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 (0.8)%, 1.2% and 3.9% in 2002, 2003 and 2004, respectively.

Taxation

The PRC wholly foreign-owned enterprises ("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 corporate 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. 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.

Our tax charge for the years ended December 31, 2005 and 2004 was $7.3 million and $5 million, which represent effective tax rates of 8.2% and 8.7% respectively. Such effective tax rates are significantly lower than the applicable corporate income tax rates due to majority of income remitted to us from the authorized intermediaries have already been taxed. 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, 2005. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP, and are more fully discussed above.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the respective service agreements, we pay the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $2,737,000 [December 31, 2004 – $1,491,000].

In addition, as at December 31, 2005, we had an aggregate amount of $2,129,000 [December 31, 2004 – $1,019,000] owed to these related companies.

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 note of 5% per annum payable semi-annually in arrears.

In 2004, the balance of the Exchangeable Notes including interest was repaid. Interest expense for the year ended December 31, 2004 was $27,000. One of our directors is an officer and shareholder in a company that provides certain advisory, management and general administrative services to the entity that ultimately held the Exchangeable Notes.

On March 5, 2003, Sino-Wood entered into an exchange agreement whereby the holder of the Exchangeable Notes exchanged $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 instruments ("Convertible Instruments"). The Convertible Instruments were issued at par value, bore interest at a rate of 4% per annum payable in semi-annual installments and had a maturity of 18 months. Since Sino-Wood was not listed prior to the maturity date, the Convertible Instruments were to be redeemed on the maturity date at 106.24% of the subscription price plus unpaid interest.

In 2004, the balance of the Convertible Instruments was repaid. Interest expense and redemption premium for the year ended December 31, 2004 was $433,000. One of our directors is an officer and shareholder in a company that provides certain advisory, management and general administrative services to the entity that ultimately held the Convertible Instruments.

QUARTERLY FINANCIAL INFORMATION

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

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2005.

			Earnings Per Share(3)(4)	
(in thousands, except per share amounts)	Revenue $	Net Income $	Basic $	Diluted $
2005				
December 31	**170,411**	**27,535**	**0.20**	**0.20**
September 30	144,359	33,175	0.24	0.24
June 30	102,886	13,241	0.10	0.10
March 31	75,645	7,736	0.06	0.06
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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting policies requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Sino-Forest's significant accounting policies are described in Note 1 to the consolidated financial statements. Each policy involves a number of estimates and assumptions made by management. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an on-going basis, the Company evaluates its estimates. Different accounting policies, or changes in estimates or assumptions, could potentially have a material impact, positive or negative, on Sino-Forest's financial position and results of operations. It is reasonably possible that circumstances may arise which cause actual results to differ from management estimates. The Company believes its most critical policies and estimates are those related to revenue recognition of standing timber and wood chips, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber Holdings

Timber holdings represents approximately 57% of the Company's consolidated total assets as at December 31, 2005. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber and plantings and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the carry amount may not be recoverable. If the sum of the future undiscounted cash flows expected to result from the asset is less than the asset's carrying value, asset impairment must be recognized. Impairment losses on timber holdings are measured as the amount by which the carrying value of the asset exceeds its fair value.

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

To assist with its impairment assessments, the Company engages an outside consultant to help derive cash flow estimates and to estimate the fair value of its existing timber holdings using discounted cash flow valuation model.

If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, Sino-Forest could potentially experience future impairment charges and such charges could be material.

Capital Assets

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

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

Revenue Recognition

Standing Timber

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

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

Wood Chips

We conduct our sales of wood chips from timber supplies sourced in the PRC through domestic wood dealers who act as our authorized intermediaries to purchase timber supplies and sell processed wood chips to customers. During most of 2005 we engaged two third party wood dealers as our authorized intermediaries. The suppliers are generally state-owned or collectively-owned wood farms in the PRC and the customers are typically pulp and paper mills, as well as reconstituted wood panel mills.

Revenue from the sale of wood chips is recognized when the products are processed by the authorized intermediaries on our behalf. We regularly evaluate the facts and circumstances in relation to the criteria within appropriate accounting guidelines and use our best judgment to determine whether to report on a gross or net basis for wood chips processed by authorized intermediaries. Currently, the facts and circumstances surrounding the wood chips business support the reporting of the sales on a gross basis as the Company acts as a principal to the transaction. The sales and cost of sales relating to this business reported on a gross basis was $142,301,000 and $119,208,000 respectively [2004 – $142,194,000 and $117,162,000]. Commission income relating to wood chips sales represents transactions when the Company acts as an agent to the transaction and is recorded on a net basis. Commission income is recognized when the services are rendered.

Provision for Tax Related Liabilities

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises. In accordance with Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to corporate income tax as a foreign investment enterprise. Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements made with the AI, the AI are responsible for paying all PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities, including but not limited to, corporate income tax, value-added tax and business tax. Accordingly, the BVI Subsidiaries are not required to and therefore did not directly pay any PRC taxes with respect to the profits earned in the PRC. The relevant income remitted to the Company should have already been taxed and not subject to additional PRC taxes.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes as required on the Authorized Sales Activities on behalf of the BVI Subsidiaries, they may attempt to recover the applicable PRC taxes or any shortfall from the BVI Subsidiaries. Since the BVI Subsidiaries are unable to ascertain whether the AI have properly handled such tax settlements and/or able to recover relevant PRC taxes required to be paid by the BVI Subsidiaries from the AI, a provision for the corporate income tax at an amount representing management's best estimate of the amount the PRC tax authorities might seek to recover, is recognized in the financial statements each year. The yearly provision is reversed to the income statement after a period of three years based on management' best estimate of the liability. This means that the Company always maintains a three-year provision for tax on the profits earned from the Authorized Sales Activities of the three most recent years.

Included in accounts payable and accrued liabilities as at December 31, 2005 is the balance of the provision for these tax related liabilities amounting to $25,379,000 [2004 – $17,936,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

Contingencies for Tax Related Liabilities

The provision for income taxes and tax related liabilities is subject to a number of different estimates and judgment made by management. A change in these estimates and judgment could have a material effect on the Company's tax expense.
The Company has operations in various countries (mainly in the PRC and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by both domestic and foreign tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, changes in tax treaties between various tax jurisdictions in which the Company operates. Due to the absence of a tax treaty between the PRC and Hong Kong, it is probable that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to three years in practice. Under prevailing PRC

tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

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

CHANGE IN ACCOUNTING POLICIES

Consolidation of Variable Interest Entities

Effective January 1, 2005, the Company adopted the accounting guideline for Consolidation of Variable Interest Entities (AcG-15). AcG -15 relates to the application of consolidation of certain entities which the usual condition (ownership of voting interest) of consolidation does not exist. The purpose of AcG-15 is to provide guidance for determining when a company includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its consolidated financial statements.

An entity is classified a variable interest entity ("VIE") under AcG-15 if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the equity. A company must consolidate a VIE if the company is its primary beneficiary. A company is a primary beneficiary of a VIE if the company holds variable interests that expose it to absorb a majority of the expected losses or will receive the majority of the expected residual returns or both, as a result of ownership, contractual or other financial interests in the VIE.

Entities that are outside of the scope of AcG-15 or that do not meet the definition of variable interest entities are consolidated if the Company owns a majority of the entity's voting interests.

Co-operative Joint Ventures

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 four Co-operative Joint Ventures ("CJVs"). Under the terms of the agreements, the CJV partners are required to provide the CJVs with land-use rights for up to 583,000 hectares of land for tree plantations. Sino-Wood's subsidiaries are responsible for providing funds to the 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.

Since the Company provides all of the financing of the CJVs they are within the scope of AcG-15. The CJV's are not eligible for voting control assessment as there is no equity instrument that typically provides voting rights which would be used to assess voting control for purposes of consolidation. The variable interest in the CJV is the CJV agreement itself which outlines the party's rights to revenue, responsibility for costs and for providing capital to fund the operations. On the basis of the terms of the engagement, the Company is the primary beneficiary and therefore should consolidate the CJV's assets, liabilities and results of activities.

Prior to the assessment of the impact of these new standards the Company accounted for the CJV's on the proportionate consolidation basis. The Company consolidated the balance sheet of the CJV's as if it is a 100% owned subsidiary which is consistent with the current accounting treatment. The CJV records the costs associated with forestry plantation management fees and forestry plantation operation servicing fees, including the costs for forestry planning, soil preparation, planting and fertilizing as standing timber assets and then as cost of sales when the trees are sold.

Once the trees are sold the CJV records 100% of the amount of the sale and reflects the revenue obligation and records the obligation to the CJV partner. The amount is recorded in the CJV income statement as a reduction of revenue rather than as an expense. The Company is responsible for paying 70% of PRC taxes and charges and other operating expenses incurred by the CJV. The CJV records these costs as expenses in the income statement as incurred. The PRC partner is responsible for 30% of PRC taxes and charges and other operating expenses. One hundred percent of the other operating expenses are recorded by the CJV. The PRC partner then reimburses the CJV for its 30% share of the other operating expenses. The CJV partner records the reimbursement as a credit to actual expenses such that only 70% of the other operating expenses are recorded in the CJV's income statement.

The change in the accounting policy has no financial impact on the Company's financial statements.

The revenue of the CJV's recorded by the Company in its consolidated financial statements for the years ended December 31, 2005 and 2004 were $3,538,000 and $2,531,000 respectively.

Foreign Currency Translation

Management has reassessed its evaluation of the method of translation for its foreign subsidiaries and has concluded that the current rate method is more appropriate. This change resulted from a combination of the continued increase in the operational exposure in the Renminbi dollar, substantially Renminbi dollar based assets of the foreign operations and their continued growth in the business activities conducted in Renminbi dollars. The Company's reporting currency will continue to be U.S. dollars. The change did not have a material impact on the previous financial statements as the Renminbi was pegged against the U.S. dollar prior to August 2005. Accordingly, the assets and liabilities of the foreign operations are translated into U.S. dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the cumulative translation adjustment account in shareholders' equity.

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

New Accounting Standards

In January 2005, the CICA issued three new Handbook sections. These new sections include CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement," CICA Handbook Section 3865 "Hedging" and CICA Handbook Section 1530 "Comprehensive Income." These new pronouncements are effective for interim and annual financial statements for a fiscal year ending on or after October 31, 2006. The Company is currently investigating the impact of these new standards on its financial position and results of operations.

RISK AND UNCERTAINTIES

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, 2005 which is available on SEDAR at www.sedar.com.

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 2005 and 2004, 82.7% and 81.8% of our sales were received in Renminbi and 17.3% and 18.2% of our sales were received in U.S. dollars and Hong Kong dollars. We translate 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. The Renminbi to U.S. dollar exchange rate has been relatively stable since 1994 except for a revaluation against the U.S. dollar in July 2005. We cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of 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, 2005, we had Renminbi denominated bank accounts of RMB298.6 million (equivalent to $37.0 million), U.S. dollar denominated bank accounts of $88.6 million, Canadian dollar denominated bank accounts of Cdn.$12.2 million (equivalent to $10.5 million), Hong Kong dollar denominated bank accounts of HK$2.2 million (equivalent to $0.3 million) and Euro denominated bank accounts of €2.0 million (equivalent to $2.4 million). We also had U.S. dollar denominated accounts receivable of $31.3 million.

We incurred foreign currency denominated debt for capital expenditures primarily relating to the development and acquisition of our forestry plantations and investment in our manufacturing plants. To the extent that the Renminbi (which has moved within a stable range in relation to the U.S. dollar since 1994), or the U.S. dollar devalues against any of these currencies, it would correspondingly increase our repayment costs on these loans.

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.

DISCLOSURE CONTROLS AND PROCEDURES

In 2004, the Canadian Securities Administrators' ("CSA") issued Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings." Sino-Forest's Chief Executive Officer ("CEO") and the Senior Vice President and Chief Financial Officer ("CFO") will be making certifications related to the information in the Company's annual and interim filings with the securities regulatory authorities. The CEO and CFO must certify responsibility for establishing and maintaining, design and effectiveness of disclosure controls and procedures.

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that all relevant information required to be disclosed in its annual and interim filings and other reports is recorded, processed, summarized and reported on a timely basis and is accumulated and communicated to the Disclosure Committee and Sino-Forest management.

Sino-Forest is continuing its project to document, test and evaluate disclosure controls and procedures and internal controls over financial reporting and to remediate where deficiencies are identified. An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules of the CSA was conducted as at December 31, 2005 by and under the Company's management, including the Chief Executive Officer and the Senior Vice President and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and the Senior Vice President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

(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 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.

EBITDA is calculated as follows:

	Years ended December 31,			Three months ended December 31,	
	2005	2004	2003	**2005**	2004
	$'000	$'000	$'000	**$'000**	$'000
Income from operations	**112,607**	73,389	49,899	**35,071**	28,228
Plus: depreciation	**3,099**	2,470	2,345	**770**	637
depletion of timber holdings	**140,204**	45,158	29,126	**60,267**	24,886
impairment of capital assets	**–**	3,646	–	**–**	3,233
	255,910	124,663	81,370	**96,108**	56,984

(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.

(5) Represents net income as adjusted for depletion of timber holdings, interest income from Mandra, exchange realignment, 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 capital assets and others.

(6) Represents decreases (increases) in accounts receivable, inventories, due from PRC CJV partners, prepaid expenses and other assets and increases (decreases) in accounts payable and accrued liabilities and income taxes payable.

(7) Represents the U.S. dollar equivalent of foreign currency denominated debt due in 2011.

(8) Represents commitments to invest in buildings and plant and machinery for investments in the manufacturing plants in Gaoyao, Guangdong Province.

(9) These represent mainly leases of certain office premises and long-term leases of plantation land for the plantation operations and associated forestry plantations.

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 BDO McCabe Lo Limited, who have full access to the Audit Committee, with and without the presence of management.

Allen T. Y. Chan
Chairman and Chief Executive Officer

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

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SINO-FOREST CORPORATION

We have audited the consolidated balance sheet of Sino-Forest Corporation as at December 31, 2005 and the consolidated statements of income and retained earnings and cash flows for the year 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 audit.

We conducted our audit 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2004 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their report dated February 25, 2005.

Hong Kong

March 30, 2006

BDO McCabe Lo Limited
Certified Public Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31, [Expressed in thousands of United States dollars]	**2005** **$**	2004 $
ASSETS		
Current		
Cash and cash equivalents	**108,418**	201,166
Short-term deposits [note 3]	**30,268**	24,089
Accounts receivable [note 4]	**119,989**	81,787
Due from PRC CJV partners [note 5]	**3,842**	3,890
Inventories [note 6]	**7,622**	2,736
Prepaid expenses and other	**7,201**	6,992
Total current assets	**277,340**	320,660
Timber holdings	**513,412**	359,607
Capital assets, net [note 7]	**81,077**	66,269
Other assets [note 8]	**23,442**	9,513
	895,271	756,049
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 3]	**41,312**	28,508
Accounts payable and accrued liabilities [note 12]	**85,212**	54,719
Income taxes payable	**738**	568
Total current liabilities	**127,262**	83,795
Long-term debt [note 9]	**300,000**	300,000
Total liabilities	**427,262**	383,795
Commitments and Contingencies [notes 17 and 18]		
Shareholders' equity		
Share capital [note 10]	**142,815**	138,915
Contributed surplus [note 11]	**1,804**	3,032
Cumulative translation adjustment	**11,396**	–
Retained earnings	**311,994**	230,307
Total shareholders' equity	**468,009**	372,254
	895,271	756,049

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]	**2005** **$**	2004 $
Revenue	**493,301**	330,945
Costs and expenses		
Cost of sales	**356,430**	229,433
Selling, general and administration	**21,165**	22,007
Depreciation and amortization	**3,099**	2,470
Impairment of capital assets	**–**	3,646
	380,694	257,556
Income from operations before the undernoted	**112,607**	73,389
Interest expense	**(28,994)**	(15,875)
Interest income	**4,179**	1,366
Other exchange gains	**1,253**	2,682
Amortization and write-off of deferred financing costs	**(1,338)**	(4,317)
Other income	**1,236**	383
Exchange gains on long-term debt	**–**	190
Income before income taxes	**88,943**	57,818
Provision for income taxes [note 12]	**(7,256)**	(5,044)
Net income for the year	**81,687**	52,774
Retained earnings, beginning of year	**230,307**	177,533
Retained earnings, end of year	**311,994**	230,307
Earnings per share [note 13]		
Basic	**0.59**	0.43
Diluted	**0.59**	0.43

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, [Expressed in thousands of United States dollars]	**2005** **$**	2004 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**81,687**	52,774
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**140,204**	45,158
Depreciation and amortization	**3,099**	2,470
Stock-based compensation	**2,672**	6,932
Amortization and write-off of deferred financing costs	**1,338**	4,317
Interest income from Mandra	**(767)**	–
Other	**(153)**	438
Impairment of capital assets	**–**	3,646
Amortization of redemption premium on long-term debt	**–**	2,015
	228,080	117,750
Net change in non-cash working capital balances [note 14]	**(31,625)**	1,612
Cash flows from operating activities	**196,455**	119,362
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in bank indebtedness	**12,532**	(10,517)
(Increase) decrease in pledged short-term deposits	**(1,024)**	3,398
Increase in long-term debt	**–**	300,000
Repayment of long-term debt	**–**	(101,189)
Issuance of shares, net of issue costs [note 10]	**–**	67,576
Increase in deferred financing costs	**–**	(9,364)
Decrease in amounts due to related parties	**–**	(3,937)
Cash flows from financing activities	**11,508**	245,967
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(265,158)**	(159,101)
Additions to capital assets	**(16,584)**	(6,083)
Increase in other assets	**(14,501)**	(95)
Increase in non-pledged short-term deposits	**(5,155)**	(5,813)
Cash flows used in investing activities	**(301,398)**	(171,092)
Effect of exchange rate changes on cash and cash equivalents	**687**	–
Net (decrease) increase in cash and cash equivalents	**(92,748)**	194,237
Cash and cash equivalents, beginning of year	**201,166**	6,929
Cash and cash equivalents, end of year	**108,418**	201,166
Supplemental cash flow information		
Cash payment for interest charged to income	**28,994**	9,038
Cash payment for interest capitalized	**–**	1,826

See accompanying notes

[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. For the periods beginning January 1, 2005, the consolidated financial statements of the Company include the accounts of entities for which the Company is the primary beneficiary.

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

Use of Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses for the periods reported. Areas where the nature of estimates makes it reasonably possible that the actual results could materially differ from amounts estimated include asset impairment of timber holdings and capital assets and income taxes.

Revenue Recognition

Revenue from standing timber is recognized when the contract for sale is entered into which establishes a fixed or determinable sales price with the customer whereby ultimate collection of the revenue is reasonably assured.

Revenue from the sale of wood chips is recognized when the products are processed by the authorized intermediaries on our behalf. We regularly evaluate the facts and circumstances in relation to the criteria within appropriate accounting guidelines and use our best judgment to determine whether to report on a gross or net basis for wood chips processed by authorized intermediaries. Currently, the facts and circumstances surrounding the wood chips business support the reporting of the sales on a gross basis as the Company acts as a principal to the transaction. The sales and cost of sales relating to this business reported on a gross basis was $142,301,000 and $119,208,000 respectively [2004 – $142,194,000 and $117,162,000]. Commission income relating to wood chips sales represents transactions when the Company acts as an agent to the transaction and is recorded on a net basis. Commission income is recognized when the services are rendered.

Revenue from the sale of logs and other products is recognized when the logs and other products are shipped to the customer.

Foreign Currency Translation

Management has reassessed its evaluation of the method of translation for its foreign subsidiaries and has concluded that the current rate method is more appropriate. This change resulted from a combination of the continued increase in the operational exposure in the Renminbi dollar, substantially Renminbi dollar based assets of the foreign operations and their continued growth in the business activities conducted in Renminbi dollars. The Company's reporting currency will continue to be U.S. dollars. The change did not have a material impact on the previous financial statements as the Renminbi was pegged against the U.S. dollar prior to August 2005. Accordingly, the assets and liabilities of the foreign operations are translated into U.S. dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the cumulative translation adjustment account in shareholders' equity.

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

Derivative Financial Instruments

The Company operates substantially in the PRC, which gives rise to risks that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange conversion rates. The Company uses derivative financial instruments such as foreign currency swaps to hedge its risk associated with fluctuations. The Company does not enter into derivative financial instruments for trading or speculative purposes. Gains and losses arising from these contracts offset the foreign exchange losses or gains from the underlying hedged amount.

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 of young trees and standing timber, planting and maintenance which are capitalized over a period of 5 to 12 years based on the growth cycle of the type of tree. Timber holdings 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 with the customer.

Investments

Investments where the Company does not have significant influence are accounted for on the cost basis. Investments are written down only when there is evidence that a decline in value that is other than temporary has occurred.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting 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.

Capital Assets

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

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

Impairment of Long-lived Assets

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

Stock-based Compensation Plan

The Company has a stock option plan as described in note 10. Stock options are accounted for using the fair value method. Under this method, compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized as a charge to selling, general and administration expense on a straight line basis over the vesting period with a corresponding credit to contributed surplus.

Earnings per Share ("EPS")

Basic EPS is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options grants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

Deferred Financing Costs

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

Offsetting of Financial Assets and Financial Liabilities

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

Cash and Cash Equivalents

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

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2005 the Company adopted the accounting guideline for Consolidation of Variable Interest Entities (AcG-15). AcG-15 relates to the application of consolidation of certain entities which the usual condition (ownership of voting interest) of consolidation does not exist. The purpose of AcG-15 is to provide guidance for determining when a company includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its consolidated financial statements.

An entity is classified a variable interest entity ("VIE") under AcG-15 if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the equity. A company must consolidate a VIE if the company is its primary beneficiary. A company is a primary beneficiary of a VIE if the company holds variable interests that expose it to absorb a majority of the expected losses or will receive the majority of the expected residual returns or both, as a result of ownership, contractual or other financial interests in the VIE.

Entities that are outside of the scope of AcG-15 or that do not meet the definition of variable interest entities are consolidated if the Company owns a majority of the entity's voting interests.

Co-operative Joint Ventures

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 four Co-operative Joint Ventures ("CJVs"). Under the terms of the agreements, the CJV partners are required to provide the CJVs with land-use rights for up to 583,000 hectares of land for tree plantations. Sino-Wood's subsidiaries are responsible for providing funds to the 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.

Since the Company provides all of the financing of the CJVs they are within the scope of AcG-15. The CJV's are not eligible for voting control assessment as there is no equity instrument that typically provides voting rights which would be used to assess voting control for purposes of consolidation. The variable interest in the CJV is the CJV agreement itself which outlines the party's rights to revenue, responsibility for costs and for providing capital to fund the operations. On the basis of the terms of the engagement, the Company is the primary beneficiary and therefore should consolidate the CJV's assets, liabilities and results of activities.

Prior to the assessment of the impact of these new standards the Company accounted for the CJV's on the proportionate consolidation basis. The Company consolidated the balance sheet of the CJV's as if it is a 100% owned subsidiary which is consistent with the current accounting treatment. The CJV records the costs associated with forestry plantation management fees and forestry plantation operation servicing fees, including the costs for forestry planning, soil preparation, planting and fertilizing as standing timber assets and then as cost of sales when the trees are sold.

Once the trees are sold the CJV records 100% of the amount of the sale and reflects the revenue obligation and records the obligation to the CJV partner. The amount is recorded in the CJV income statement as a reduction of revenue rather than as an expense. The Company is responsible for paying 70% of PRC taxes and charges and other operating expenses incurred by the CJV. The CJV records these costs as expenses in the income statement as incurred. The PRC partner is responsible for 30% of PRC taxes and charges and other operating expenses. One hundred percent of the other operating expenses are recorded by the CJV. The PRC partner then reimburses the CJV for its 30% share of the other operating expenses. The CJV partner records the reimbursement as a credit to actual expenses such that only 70% of the other operating expenses are recorded in the CJV's income statement.

The change in the accounting policy has no financial impact on the Company's financial statements.

The revenue of the CJV's recorded by the Company in its consolidated financial statements for the years ended December 31, 2005 and 2004 were $3,538,000 and $2,531,000 respectively.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term Deposits

As at December 31, 2005, short-term deposits are made for varying periods of between one month to twelve months [2004 – one month to twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 1.2% to 4.3% per annum [2004 – 0.4% to 2.6%].

[b] Bank Indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $54,137,000 [2004 – $38,591,000]. These credit facilities bear interest at 4.1% to 7.3% per annum as at December 31, 2005 [2004 – 3.9% to 5.9%] and are repayable on demand or due in less than one year.

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

	2005	2004
	$	$
Trust receipt loans	**27,253**	17,334
Bank loans	**14,059**	11,174
	41,312	28,508

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, 2005 of $3,713,000 [2004 – $4,600,000]; and

[b] certain short-term deposits at December 31, 2005 of $6,166,000 [2004 – $5,142,000].

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when accounts are determined to be uncollectible. Accounts receivable are substantially from companies located in the PRC and denominated in Renminbi and U.S. dollars. Accounts receivable as at December 31, 2005 included $45,731,000 due from three customers [2004 – $43,136,000 due from three customers]. Included in accounts receivable are amounts due from authorized intermediaries of $25,881,000 [2004 – $50,179,000] which represents amounts receivable from the sale of wood chips by the authorized intermediaries less amounts payable to them for the purchase of timber on behalf of the Company and processing costs to convert the timber into wood chips by them on the Company's behalf totaling $21,607,000 [2004 – $41,501,000]. The Renminbi currency is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of wood chips and standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other PRC liabilities.

5. 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.

6. INVENTORIES

Inventories consist of the following:

	2005 $	2004 $
Nursery	**2,890**	–
Wood products	**2,730**	1,098
Raw materials	**1,207**	604
Work in progress	**795**	1,034
	7,622	2,736

7. CAPITAL ASSETS

Capital assets consist of the following:

	2005		2004	
	Cost **$**	**Accumulated depreciation and amortization** **$**	Cost $	Accumulated depreciation and amortization $
Machinery and equipment	**75,059**	**8,604**	59,270	6,281
Buildings	**8,760**	**1,079**	7,683	780
Land-use rights	**4,980**	**539**	4,862	435
Office furniture and equipment	**1,362**	**764**	1,011	634
Vehicles	**2,574**	**672**	2,003	430
	92,735	**11,658**	74,829	8,560
Less: accumulated depreciation and amortization	**(11,658)**		(8,560)	
Net book value	**81,077**		66,269	

Buildings, machinery and equipment of $42,034,000 [2004 – $29,677,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current year [2004 – $1,826,000].

8. OTHER ASSETS

Other assets consist of the following:

	2005 $	2004 $
Investment in Mandra Holdings	**2**	–
Subordinated loan and interest receivable	**15,767**	–
Deferred financing costs, net	**7,531**	8,869
Other	**142**	644
	23,442	9,513

On May 11, 2005, the Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project").

Mandra Forestry Finance Limited ("Mandra Finance") has raised third party debt financing to implement the Mandra Project (the "Financing"), which Mandra Finance is currently undertaking. The Financing was in the form of an international private placement consisting of $195 million of debt securities, together with warrants to subscribe for up to 20% (on a fully diluted basis) of the ordinary equity shares of Mandra Forestry Holdings Limited ("Mandra Holdings"), the parent corporation of Mandra Finance, for nominal consideration. In connection with the completion of the Financing, the parties entered into agreements pursuant to which the Company has made a $15 million subordinated loan (the "Subordinated Loan") to Mandra Holdings, acquired 15% equity in Mandra Holdings for nominal consideration, and will have the exclusive right and commitment to purchase the timber harvested from the Plantations at prevailing market prices less a 3% discount. In addition, the Company will provide an array of advisory services and technical expertise to assist Mandra Finance in identifying, acquiring and developing these resources. Subject to certain conditions, the Company will have an option to acquire all the other outstanding shares of Mandra Holdings at their then fair market value.

Mandra is a VIE under AcG-15. Since the Company is not the primary beneficiary it does not include the assets, liabilities and results of activities of Mandra in its consolidated financial statements.

The Subordinated Loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of the $195 million of debt securities due in May 2013. The Subordinated Loan is secured on 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $767,000. The Company's maximum exposure of loss from Mandra is limited to the Company's investment in and subordinated loan to Mandra Holdings and related interest receivable.

9. 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, 2005 were approximately $322,000,000 [2004 – $330,000,000] and $9,230,000 [2004 – $11,550,000] respectively.

Interest expense for the year was $27,375,000 [2004 – $10,219,000].

Under the terms of the above debt agreement, 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, 2005.

10. SHARE CAPITAL

Share capital consists of the following:

	2005 $	2004 $
Authorized		
Unlimited common shares, without par value		
Unlimited preference shares, issuable in series, without par value		
Issued		
137,789,548 common shares [2004 – 136,589,548 common shares]	**142,815**	138,915
	142,815	138,915

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, 2005 is Cdn.$227,820,790 [2004 – Cdn.$222,668,470].

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 the year ended December 31, 2004.

During the years ended December 31, 2004 and 2005, the movement in share capital were as follows:

[a] During the year ended December 31, 2004, 200,000 stock options were exercised for proceeds of $272,000.

[b] 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 settled 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 vested on the first anniversary of the completion of the offering. The Company has recorded the compensation expense of approximately $7,800,000 over the vesting period. The compensation expense recorded in 2005 was $1,432,000 [2004 – $6,368,000]. As a result, in August 2004 and May 2005, 1,200,000 common shares each were issued to management in settlement for the rights described above for $3,900,000 each. [note 11].

Authorized

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

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

Stock Options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2005 options to purchase 4,437,000 common shares have been granted and options to purchase 4,763,000 common shares remain available to be granted under the Stock Option Plan.

In the second quarter of 2005, options to acquire 450,000 common shares granted on May 11, 2004 were cancelled.

During the year ended December 31, 2005, options to acquire 1,942,000 common shares [2004 – 2,820,000] were granted to employees and directors at exercise prices ranging from Cdn.$2.70 to Cdn.$3.90 in accordance with the Company's Stock Option Plan. The options granted will vest over 3 years and expire in 5 years. The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	September 14, 2005	**April 5, 2005**	**January 21, 2005**	May 11, 2004
Number of options	**292,000**	**1,350,000**	**300,000**	2,820,000
Exercise price (in Cdn. $)	**$2.70**	**$3.67**	**$3.90**	$2.72
Dividend Yield	**0.0%**	**0.0%**	**0.0%**	0.0%
Volatility	**53.9%**	**53.3%**	**54.3%**	54.6%
Risk-free interest rate	**3.4%**	**3.6%**	**3.4%**	3.7%
Expected option lives (in years)	**3.5**	**3.5**	**3.5**	3.5
Weighted average fair value of each option (in U.S. dollars)	**$0.98**	**$1.26**	**$1.35**	$0.87

The compensation expense recorded for the year 2005 with respect to the above options granted amounted to $1,240,000 [2004 – $564,000].

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

	2005		2004	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		Cdn.$		Cdn.$
Balance, beginning of year	**2,945,000**	**2.68**	325,000	1.79
Granted	**1,942,000**	**3.56**	2,820,000	2.72
Cancelled	**(450,000)**	**2.72**	–	–
Exercised	**–**	**–**	(200,000)	1.79
Balance, end of year	**4,437,000**	**3.06**	2,945,000	2.68
Exercisable at year-end	**915,000**	**2.59**	125,000	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, 2005:

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**	**2.20 years**	**Cdn.$1.79**	**125,000**	**–**	**Cdn.$1.79**
Cdn.$2.00 – Cdn.$3.00	**2,662,000**	**3.50 years**	**Cdn.$2.72**	**790,000**	**1,872,000**	**Cdn.$2.72**
Cdn.$3.00 – Cdn.$4.00	**1,650,000**	**4.22 years**	**Cdn.$3.71**	**–**	**1,650,000**	**Cdn.$3.71**

11. CONTRIBUTED SURPLUS

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

	2005 $	2004 $
Balance, beginning of year	**3,032**	–
Stock-based compensation	**2,672**	6,932
Transfer to share capital [note 10]	**(3,900)**	(3,900)
Balance, end of year	**1,804**	3,032

12. PROVISION FOR INCOME TAXES

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

	2005 $	2004 $
Income before income taxes	**88,943**	57,818
Expected statutory tax rate	**36.12%**	36.12%
Expected income tax expense	**32,126**	20,884
Increase (decrease) in income taxes resulting from:		
Unrecognized income tax losses arising from losses of the Company and its subsidiaries	**16,043**	14,559
Income tax at different rates in foreign jurisdictions	**(22,045)**	(18,382)
Profits not subject to taxation as the authorized intermediaries are responsible to pay applicable taxes therefrom on behalf of the Company [b]	**(25,884)**	(17,367)
	240	(306)
Additional tax reserves on Authorized Sales Activities [b]		
Provision for the year [b]	**10,437**	8,140
Reversal of prior years' provision [b]	**(3,421)**	(2,790)
	7,256	5,044

[a] Income Tax Rates of Major Tax Jurisdictions in which the Company Operates

The PRC wholly foreign-owned enterprises ("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 corporate 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. 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.

Hong Kong profits tax has been provided at the rate of 17.5% [2004 – 17.5%] on the estimated assessable profits arising in Hong Kong during the year.

[b] Provision for Tax Related Liabilities

Two of the Company's principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of wood chips and standing timber and earning commission income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises. In accordance with Income Tax Laws, foreign companies deriving income from sources in the PRC are subject to corporate income tax as a foreign investment enterprise. Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements made with the AI, the AI are responsible for paying all PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities, including but not limited to, corporate income tax, value-added tax and business tax. Accordingly, the BVI Subsidiaries are not required to and therefore did not directly pay any PRC taxes with respect to the profits earned in the PRC. The relevant income remitted to the Company should have already been taxed and not subject to additional PRC taxes.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes as required on the Authorized Sales Activities on behalf of the BVI Subsidiaries, they may attempt to recover the applicable PRC taxes or any shortfall from the BVI Subsidiaries. Since the BVI Subsidiaries are unable to ascertain whether the AI have properly handled such tax settlements and/or able to recover relevant PRC taxes required to be paid by the BVI Subsidiaries from the AI, a provision for the corporate income tax at an amount representing management's best estimate of the amount the PRC tax authorities might seek to recover, is recognized in the financial statements each year. The yearly provision is reversed to the income statement after a period of three years based on management's best estimate of the liability. This means that the Company always maintains a three-year provision for tax on the profits earned from the Authorized Sales Activities of the three most recent years.

Included in accounts payable and accrued liabilities as at December 31, 2005 is the balance of the provision for these tax related liabilities amounting to $25,379,000 [2004 – $17,936,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries over the three previous years.

[c] Losses Carry Forward

As at December 31, 2005, the Company has income tax losses of approximately $37,562,000 which can be applied against future years' taxable income in Canada. Approximately $1,974,000 of these tax losses will expire 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, $9,700,000 in 2012 and $19,561,000 in 2013. In addition, as at December 31, 2005, the Company's PRC WFOEs and CJVs have incurred tax losses in the PRC of approximately $18,451,000 [2004 – $12,197,000].

The benefit of these losses, has not been reflected in the financial statements as management does not consider it to be more likely than not that the related future income tax asset will be realized. There are no other material temporary differences.

13. EARNINGS PER SHARE

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

	2005	2004
Weighted average shares for basic earnings per share	**137,359,000**	121,374,000
Stock-based payments and options	**230,000**	305,000
Adjusted weighted average shares and assumed conversions for diluted earnings per share	**137,589,000**	121,679,000

14. STATEMENTS OF CASH FLOWS

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

	2005 $	2004 $
Cash provided by (used for):		
Accounts receivable	**(38,920)**	(14,442)
Due from PRC CJV partners	**143**	2,798
Prepaid expenses and other	**(61)**	(1,565)
Inventories	**(4,819)**	(1,566)
Accounts payable and accrued liabilities [a]	**11,862**	16,693
Income taxes payable	**170**	(306)
	(31,625)	1,612

[a] As at December 31, 2005, the Company had an aggregate amount of $25,286,000 [2004 – $7,377,000] payable in respect of timber holdings acquired during the year which was included in accounts payable and accrued liabilities.

[b] During the year, 1,200,000 [2004 – 1,200,000] common shares were issued to management as consideration for the purchase of certain rights to acquire shares in Sino-Wood [note 10]. The corresponding contributed surplus of $3,900,000 [2004 – $3,900,000] was transferred to share capital.

15. FINANCIAL INSTRUMENTS

The Company is 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.

The Company uses 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, the Company has entered into a currency swap agreement to fix interest payments at $27.4 million per annum over the next 5 years. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risks or interest rate risks.

Exchange Rate Risk

The Company conducts its business primarily in Renminbi, and partly in U.S. dollars and Hong Kong dollars. In 2005 and 2004, 82.7% and 81.8% of our sales were received in Renminbi and 17.3% and 18.2% of our sales were received in U.S. dollars and Hong Kong dollars. The Company translates its results of operations in U.S. dollars. It is expected in the future substantially all of our sales will be received in Renminbi. The majority of the Company's operating expenses are denominated in Renminbi and Hong Kong dollars.

A portion of the Company's revenue in Renminbi is converted into other currencies to meet foreign currency financial instrument obligations. The Company has a substantial amount of indebtedness denominated in U.S. dollars. The Company cannot predict the effect that currency exchange rate fluctuations may have on its U.S. dollar operating results or cash flows.

Many foreign currency exchange transactions involving Renminbi, including foreign exchange transactions under the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Renminbi to U.S. dollar exchange rate has been relatively stable since 1994 except for a revaluation against the U.S. dollar in July 2005. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of December 31, 2005, the Company had Renminbi denominated bank accounts of RMB298.6 million (equivalent to $37.0 million), U.S. dollar denominated bank accounts of $88.6 million, Canadian dollar denominated bank accounts of Cdn.$12.2 million (equivalent to $10.5 million), Hong Kong dollar denominated bank accounts of HK$2.2 million (equivalent to $0.3 million) and Euro denominated bank accounts of €2.0 million (equivalent to $2.4 million). The Company also had U.S. dollar denominated accounts receivable of $31.3 million.

The Company incurred foreign currency denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its 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.

Credit Risk and Concentration of Sales and Economic Dependence

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company has credit evaluation and monitoring processes intended to mitigate credit risks and maintains appropriate provisions for potential credit losses. Historically these subsidiaries have made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company.

During the year ended December 31, 2005, the purchase of timber supplies and sales of processed wood chips in the PRC has been conducted through two domestic wood dealers who act as authorized intermediaries to facilitate the purchase of timber supplies and sales of processed wood chips. The Company's relationship with two of our authorized intermediaries is governed by master agreements as supplemented by certain operational procedures relating to the wood chips sales transaction. Since the fourth quarter of 2005, the Company only engaged one wood dealer as the Company's authorized intermediary.

Entering into derivative financial instruments can give rise to additional credit risks. Credit risks arise from the possibility that counterparty will default on its contractual obligations and it's limited to those contracts where the Company would incur a loss in replacing the instrument. The Company minimizes credit risk by entering into transactions only with institutions that possess investment grade credit ratings or have provided the Company with acceptable form of credit enhancement.

Interest Rate Risk

The Company is 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. The Company undertakes debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. The Company does not currently use any derivative instruments to modify the nature of our debt so as to manage our interest rate risk.

Commodity Price Risk

The Company is exposed to fluctuations in the prices of standing timber, wood chips and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all 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.

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

Fair Value of Financial Instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all instruments classified as current approximates fair value because of the short maturities and normal trade terms of these instruments. The fair value of other financial instruments are based on the Company's best estimates using present value and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discounted rates which reflect varying degrees of risk.

16. 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 90% of the Company's assets are located in the PRC.

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

[a] the plantation segment engages in the sale of wood chips, 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 sale of wood-based, manufactured, nursery and flooring 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

				2005				2004
	Plan-tation $	**Wood-based $**	**Cor-porate $**	**Total $**	Plan-tation $	Wood-based $	Cor-porate $	Total $
Revenue								
Sale of wood chips and logs	**146,130**	**–**	**–**	**146,130**	143,418	–	–	143,418
Sale of imported logs	**–**	**84,136**	**–**	**84,136**	–	58,689	–	58,689
Sale of wood-based products and others	**–**	**12,466**	**–**	**12,466**	–	9,702	–	9,702
Sale of standing timber	**240,829**	**–**	**–**	**240,829**	105,126	–	–	105,126
Commission income	**9,740**	**–**	**–**	**9,740**	14,010	–	–	14,010
	396,699	**96,602**	**–**	**493,301**	262,554	68,391	–	330,945
Income (loss) from operations before interest, exchange gains, other income and amortization and write-off of deferred financing costs	**125,763**	**(4,696)**	**(8,460)**	**112,607**	91,414	(8,683)	(9,342)	73,389
Identifiable assets	**659,815**	**154,589**	**80,867**	**895,271**	441,842	133,244	180,963	756,049
Interest income	**1,151**	**302**	**2,726**	**4,179**	11	52	1,303	1,366
Interest expense	**83**	**1,536**	**27,375**	**28,994**	1,273	1,119	13,483	15,875
Depreciation and amortization	**268**	**2,823**	**8**	**3,099**	105	2,357	8	2,470
Provision for (recovery of) income taxes	**7,016**	**240**	**–**	**7,256**	5,348	(306)	2	5,044
Depletion of timber holdings included in cost of sales	**140,204**	**–**	**–**	**140,204**	45,158	–	–	45,158
Additions to timber holdings and capital assets	**283,801**	**15,844**	**6**	**299,651**	173,908	4,689	5	178,602

Revenue from the Company's largest customer for the year amounted to approximately 18% [2004 – 23%] of total revenue. During the year, there were three [2004 – three] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 42% [2004 – 58%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 20% [2004 – 26%] of total purchases. During the year, four [2004 – two] vendors who each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 64% [2004 – 51%] 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 $483,561,000 [2004 – $316,634,000] and $nil [2004 – $301,000], respectively.

As at December 31, 2005, approximately $36,954,000 [2004 – $13,003,000] of the Company's cash and cash equivalents were denominated in Renminbi.

As at December 31, 2005, all of the Company's timber holdings and approximately $80,520,000 [2004 – $65,829,000] of the Company's capital assets were located in the PRC.

17. CAPITAL CONTRIBUTIONS AND COMMITMENTS

The Company's principal business activities include the management and operation of tree plantations in the PRC and sale 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 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. In 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, 2005, the Company has made total contributions of $10,000,000 [2004 – $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, 2005, SFR China has made contributions of $8,475,000 [2004 – $6,475,000]. In December 2005, the Company has obtained approval to convert part of the IFC projects loans repaid $6,525,000 by the Company on behalf of Jiafeng as capital contributions for the remaining balance.

In May 2005, Sino-Panel (North East China) Limited ("Sino-Panel"), an indirectly wholly-owned subsidiary established a WFOE (the "Jiamu WFOE"). The principal business activity of the Jiamu WFOE is to manufacture wood-based products. The Jiamu WFOE was formed for a period of 50 years and Sino-Panel is required to contribute $3,500,000 for its 100% equity interest. As of December 31, 2005, Sino-Panel has made total contributions of $3,500,000. Subsequent to year end, the registered capital of Jiamu WFOE was increased to $5,500,000 which was fully paid up.

In November 2005, the Commission of Foreign Trade and Economic Co-operation has approved the registered capital of our WFOE, Guangdong Jia Yao Wood Products Development Co. Ltd. to increase from $24,000,000 to $49,000,000. The increase in capital contribution will be in the form of machinery and 15% of the capital contribution to be contributed within three months and the remaining 85% within eighteen months.

[c] Operating Leases

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

	$
2006	1,720
2007	1,173
2008	1,001
2009	942
2010	943
2011 and thereafter	30,032
	35,811

18. CONTINGENCIES FOR TAX RELATED LIABILITIES

The provision for income taxes and tax related liabilities is subject to a number of different estimates and judgment made by management. A change in these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by both domestic and foreign tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, changes in tax treaties between various tax jurisdictions in which the Company operates. Due to the absence of a tax treaty between the PRC and Hong Kong, it is probable that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for up to three years in practice. Under prevailing PRC tax rules, the tax surcharge is calculated at 0.05% per day on the tax amount overdue while the tax penalties can range from 50% to 500% of taxes underpaid. Under the Hong Kong tax regulations, assessments are open for up to six years in practice and tax penalties can be up to treble amount of the tax underpaid.

Significant estimates and judgment are applied by management to determine the appropriate amount of tax related liabilities and contingencies for tax related liabilities to be recognized and disclosed in the financial statements respectively. Changes in the amount of the estimates could materially increase or decrease the provision for tax related liabilities and the extent of disclosures of contingencies for tax related liabilities in a period.

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

19. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $2,737,000 [December 31, 2004 – $1,491,000].

In addition, as at December 31, 2005, the Company had an aggregate amount of $2,129,000 [December 31, 2004 – $1,019,000] owed to these related companies.

[b] 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 note of 5% per annum payable semi-annually in arrears.

In 2004, the balance of the Exchangeable Notes including interest was repaid. Interest expense for the year ended December 31, 2004 was $27,000. One of the directors of the Company is an officer and shareholder in a company that provides certain advisory, management and general administrative services to the entity that ultimately held the Exchangeable Notes.

[c] On March 5, 2003, Sino-Wood entered into an exchange agreement whereby the holder of the Exchangeable Notes exchanged $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 instruments ("Convertible Instruments"). The Convertible Instruments were issued at par value, bore interest at a rate of 4% per annum payable in semi-annual installments and had a maturity of 18 months. Since Sino-Wood was not listed prior to the maturity date, the Convertible Instruments were to be redeemed on the maturity date at 106.24% of the subscription price plus unpaid interest.

In 2004, the balance of the Convertible Instruments was repaid. Interest expense and redemption premium for the year ended December 31, 2004 was $433,000. One of the directors of the Company is an officer and shareholder in a company that provides certain advisory, management and general administrative services to the entity that ultimately held the Convertible Instruments.

20. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.

21. SUBSEQUENT EVENT

On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 1.30% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. As at March 27, 2006, $50 million of the available facility has been drawn down.

INDEPENDENT DIRECTORS

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

Director since 2004, chair of the Audit Committee and member of the Corporate Governance Committee; previously Vice President Finance and Chief Financial Officer, GSW Inc., Partner, Ernst & Young LLP and Senior Vice President, Ernst & Young Corporate Finance Inc.

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 & 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.

W. JUDSON MARTIN
Toronto

Director since 2006, member of Audit, Corporate Governance and Compensation Committees; corporate director; previously Senior Executive Vice President & Chief Financial Officer, Alliance Atlantis Communications Inc., Senior EVP, CFO & Chief Operating Officer, MDC Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance, Trizec Corporation Ltd.

DIRECTORS AND OFFICERS

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

Director since 1994, after co-founding Sino-Forest in 1992; 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

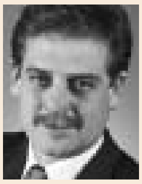
Director since 1994, after co-founding Sino-Forest in 1992; previously worked 15 years with Guangdong Forestry Bureau as engineer engaged in forest product trading and manufacturing.

KEE Y. WONG
FCA, Vice Chairman, 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

DAVID J. HORSLEY
CA, CBV, Senior Vice President and Chief Financial Officer, Toronto



Joined Sino-Forest in 2005; was Independent Director since 2004, member of Audit, Compensation, and Corporate Governance Committees and Senior Vice President and CFO, Cygnal Technologies Corporation; previously Senior Vice President and Corporate Secretary, Canadian General Capital Limited.

ALFRED C.T. HUNG
CFA, FRM, MSc Finance, Vice President, Corporate Planning, Banking and Sales, Hong Kong

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

JAY LEFTON
LLB, Corporate Secretary, Toronto

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

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.

ALBERT IP
Vice President, Project, 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.

ALVIN LIM
CPA, 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 Operations, 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.

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

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

THOMAS M. MARADIN
CA, Vice President, Risk Management, Toronto

Joined Sino-Forest in 2005; previously worked five years for several multi-national corporations in financial reporting and internal control, regulatory compliance and system upgrading; previously worked 15 years for Ernst & Young LLP, providing professional services in audit, taxation, risk management, strategic and business planning.

TEN-YEAR FINANCIAL HIGHLIGHTS

US$ millions except margin and per share amounts	**2005 $**	2004 $	2003 $	2002 $	2001 $	2000 $	1999 $	1998 $	1997 $	1996 $
Revenue	**493.3**	330.9	265.7	200.7	137.3	126.7	141.6	92.7	41.8	32.4
Gross profit	**136.9**	101.5	64.9	42.7	30.2	38.6	39.8	30.0	24.4	18.5
Gross profit margin	**27.7%**	30.7%	24.4%	21.3%	22.0%	30.5%	28.1%	32.4%	58.4%	56.9%
Net income	**81.7**	52.8	30.2	20.6	18.6	28.6	28.2	21.4	15.3	8.2
Diluted earnings per share	**0.59**	0.43	0.32	0.27	0.21	0.31	0.31	0.26	0.19	0.14
Cash flow from operating activities	**196.5**	119.4	69.6	12.6	12.9	26.6	27.1	15.3	14.6	12.4
Capital Expenditures	**299.7**	178.6	96.6	44.2	45.3	54.4	37.7	30.7	31.7	14.2
Total assets	**895.3**	756.0	418.9	336.9	281.6	220.2	178.3	100.5	72.8	69.6
Cash and cash equivalents	**108.4**	201.2	6.9	1.2	1.7	18.2	39.6	0.9	5.7	6.7
Working capital	**150.1**	236.9	(2.3)	26.1	5.5	13.3	38.8	5.2	13.6	21.3
Timber holdings	**513.4**	359.6	232.5	172.4	156.1	118.5	91.7	67.3	38.4	15.7
Long-term liabilities	**300.0**	300.0	56.0	82.3	47.2	28.7	30.2	3.3	6.7	3.0
Shareholders' equity	**468.0**	372.3	245.0	180.1	172.8	152.3	126.2	85.2	60.0	42.9
Shares (millions)										
Shares outstanding at year-end	**137.8**	136.6	96.2	80.3	80.3	80.3	80.8	80.7	73.6	43.2
– Common shares	**137.8**	136.6	–	–	–	–	–	–	–	–
– Class A Subordinate-Voting Shares	**–**	–	96.2	74.3	74.3	74.3	74.8	74.7	67.6	37.2
– Class B Multiple-Voting Shares	**–**	–	–	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Note: On June 22, 2004, the Class A Subordinate-Voting Shares were reclassified as Common shares, and the Class B Multiple-Voting Shares were eliminated.

2005 QUARTERLY HIGHLIGHTS

US$ millions except margin, per share, hectare and BDMT amounts	1st Q $	2nd Q $	3rd Q $	4th Q $	Total $
Revenue	75.6	102.9	144.4	170.4	493.3
Gross profit	20.6	25.8	45.7	44.8	136.9
Gross profit margin	27.2%	25.1%	31.7%	26.3%	27.7%
EBITDA	36.3	51.6	71.9	96.1	255.9
Net Income	7.7	13.2	33.2	27.6	81.7
Diluted earnings per share	0.06	0.10	0.24	0.20	0.59
Cash flow from operating activities	38.4	50.5	48.8	58.8	196.5
Standing Timber					
Hectares sold	17,024	22,546	26,899	41,544	108,013
– Average selling price per hectare	2,080	2,043	2,362	2,307	2,230
Revenue	35.4	46.1	63.5	95.8	240.8
Gross profit margin	44.1%	35.6%	52.0%	37.1%	41.8%
Hectares purchased	54,800	37,200	33,400	49,814	175,214
– Average purchase price per hectare	1,434	1,417	1,611	1,656	1,527
Wood Chips & Logs					
Bone Dry Metric Tonnes (BDMT) sold	162,790	345,900	511,640	328,510	1,348,840
– Average price per BDMT	104	106	105	106	105
Revenue – Wood chips	16.9	36.6	53.9	34.9	142.3
Revenue – Wood logs	0.0	1.5	0.0	2.4	3.9
Revenue – Commissions	1.6	3.1	3.2	1.8	9.7
Total Revenue	18.5	41.2	57.1	39.1	155.9
– Gross profit margin (ex. commissions)	15.4%	15.7%	16.4%	15.8%	15.9%
Wood-Based Products					
Revenue – Imported logs	20.2	13.6	22.0	28.3	84.1
Revenue – other wood-based products	1.5	2.0	1.8	7.2	12.5
Total Revenue	21.7	15.6	23.8	35.5	96.6
– Gross profit margin	3.7%	1.9%	2.6%	4.6%	3.4%
Common Shares Prices (Cdn.$)					
High	4.34	3.74	3.37	5.40	5.40
Low	3.38	2.46	2.54	3.15	2.46
Close	3.57	2.76	3.37	4.94	4.94
Trading volume (millions)	34.4	16.5	16.3	46.3	113.4

CORPORATE AND SHAREHOLDER INFORMATION

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EXCHANGE LISTING

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

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ANNUAL SHAREDHOLDERS MEETING

4:00 p.m.
Monday, June 5, 2006
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 world-wide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products; and changes in wood and timber costs.

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