Management's Discussion and Analysis

March 18, 2008

Management's Discussion and Analysis (MD&A) relates to the financial condition and results of Sino-Forest Corporation's operations for the year ended December 31, 2007. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with Sino-Forest's audited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

Additional information relating to our company, including our annual information form and other statutory reports are available on SEDAR at www.sedar.com.

Forward-looking Statements

This MD&A contains forward-looking statements which reflect management's expectations regarding Sino-Forest's future growth, results of operations, performance, business prospects and opportunities. Words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or similar expressions, are forward-looking statements within the meaning of securities laws. Forward-looking statements include, without limitation, the information concerning possible or assumed future results of operations of Sino-Forest. These statements are not historical facts but instead represent only Sino-Forest's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve assumptions and risks and uncertainties that are difficult to predict. Therefore, actual results may differ materially from what is expressed, implied or forecasted in such forward-looking statements. In addition to the factors Sino-Forest currently believes to be material such as, but not limited to, our ability to acquire rights to additional standing timber, our ability to meet our expected plantation yields, the cyclical nature of the forest products industry and price fluctuation in and the demand and supply of logs, our reliance on 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

About Sino-Forest

We are a leading, foreign-owned, commercial forestry plantation operator in the People's Republic of China (PRC). As at December 31, 2007, we had approximately 312,000 hectares of forestry plantations located in southern, south-western and eastern China.

We began operations in 1994 as the first, foreign and privately managed company involved in forest products in China. Our principal businesses include the ownership and management of forestry plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

Strategic Business Units

Sino-Forest's operations are comprised of two core business segments - **Wood Fibre Continuing Operations** are the major revenue contributor, while our **Manufacturing & Other Continuing Operations** enable us to add value to our fibre by producing downstream products.

Revenue from Wood Fibre Continuing Operations is derived from the following sources:

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased and planted tree plantations and integrated plantations in six provinces and regions across China;

Other Fibre

- *Wood logs* – we source logs from PRC suppliers and sell them in domestic market.
- *Imported wood products* – we source logs, veneer, sawn timber and other wood-based products globally and sell them in the domestic PRC market.

Our Manufacturing & Other Continuing Operations include:

- Particleboard is manufactured in Gaoyao, Guangdong Province;
- Engineered wood flooring is produced in Suzhou, Jiangsu Province and sold through over 200 stores nationwide in the PRC;
- Oriented strand board is manufactured in Muling City, Heilongjiang Province;
- *F*inger joint board, block board and particleboard are produced in Dongkou, Huaihua, Xiangxi and Yuanling in Hunan Province; and
- Greenery & nursery operation are based in Suzhou, Jiangsu Province.

Our Vision and Strategy

Our vision is to become the leading, commercial forestry plantation operator and preferred supplier of wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries in the PRC.

To achieve our vision, we strive to be at the forefront of our industry by creating regional "wood baskets" that ensure a sustainable and quality supply of wood fibre to downstream manufacturing operations. We also plan to introduce new technologies to improve productivity, quality and economic viability of China's engineered-wood products.

We focus on the following strategies that have made Sino-Forest successful:

- acquire additional forestry plantations and access to long-term supply of wood fibre in the PRC where regional markets with growing demand will be located;
- improve the yields of our forestry plantations by continued investment in research and development;
- practice environmentally responsible forestry management;
- strengthen our management processes and information systems to support the growth of our multi-faceted businesses;
- strengthen our engineered-wood manufacturing business to complement our plantation operations with an aim to increase the value of our wood fibre; and
- widen and diversify our investor base and enhance our corporate image and profile.

Other Key Factors Affecting Our Business

Our results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. 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 is 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;
- government regulations and policies;
- population growth and changing demographics; and
- seasonal weather cycles (e.g. dry or hot summers, wet or cold winters) and other factors affecting tree growth.

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

Our decisions and abilities to develop and operate future forestry plantations are 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 a number of large suppliers for a significant percentage of our timber supply. We rely to a significant extent on third party service providers for day-to-day operations of our plantations.

We are heavily dependent on the expertise of our senior management 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 major customers and others.

We are subject to regulation under a variety of PRC national and local laws and regulations. Violations of PRC laws or regulations, 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 dollars, Canadian dollars or otherwise, of our revenue and net income.

Significant Accounting Policies and Interpretation

Cost of Sales

Our costs of sales consist of: (1) depletion of timber holdings as they are sold; (2) the costs of logs acquired in the domestic PRC market; (3) the costs of imported logs and wood-based products acquired in our sales and trading activities of these products; and (4) the costs incurred at our manufacturing plants.

Depletion of Timber Holdings

Timber holdings include acquisition costs for standing timber (young and mature trees), planting and maintenance costs, which are capitalized at cost in our financial statements until the trees are sold. Planting and maintenance costs include the following: planning, operations design, site preparation, terracing, fertilization, planting, thinning, tending, protection, 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.

EBITDA

Defined as income from operations for the period after adding back depreciation and amortization, 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.

Significant Business Activities

Significant activities that have occurred during the year ended December 31, 2007 and to the date of this report were as follows:

Updated Valuation of Forest Plantation Assets in China

In March 2008, the Company announced that it had 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, Poyry Forest Industry Ltd ("Poyry") estimates that the existing forest plantation (single rotation only) as at December 31, 2007 had a value of approximately \$1.2 billion and on a perpetual rotation basis, a value of approximately \$3.2 billion.

Acquisition of 150,000 hectares of Standing Timber in Guangxi Province

In December 2007, the Company entered into a master agreement with Zhanjiang Bo Hu Wood Company Limited, which will act as the authorized agent for the original plantation rights holders to acquire 150,000 hectares of plantation trees in Guangxi Province with a price not to exceed RMB380 per cubic meter (m^3) or approximately US\$51.40 per m^3 over a 5-year period. The agreement also provides the Company with pre-emptive rights to lease the land at a price not to exceed RMB525 per hectare per annum for 30 years.

Appointment of Director

In August 2007, the Company announced the appointment of Mr. Peter Wang to its Board of Directors. Mr. Wang's distinguished background and nationwide contacts accumulated over several decades working for numerous state-owned enterprises in the PRC are expected to benefit the Company, especially in regard to his valuable network and knowledge of protocol for working with mainland Chinese officials.

$189 million Public Offering

In June 2007, the Company completed a public offering of 15,900,000 common shares at Cdn.$12.65 per share for gross proceeds of Cdn.$201.1 million (equivalent to $188.5 million at June 12, 2007).

$200 million Strategic Placement

In April 2007, the Company closed a private placement in which 25,355,191 common shares were issued at Cdn.$9.15 per share for gross proceeds of Cdn.$232.0 million (equivalent to $200.0 million at April 10, 2007).

Acquisition of 200,000 hectares of Standing Timber in Yunnan Province

In March 2007, the Company entered into a master agreement with Gengma Dai and Wa Tribes Autonomous Region Forestry Company Ltd to acquire approximately 200,000 hectares of standing timber in Yunnan Province for a total of approximately $0.7 billion to $1.4 billion over a ten-year period. The agreement also provides the Company with a first right of refusal to lease the land for 50 years after harvesting.

Selected Annual Financial Information

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2007, 2006 and 2005:

	Years ended December 31,		
		[Restated]	
	2007	2006	2005
	$	$	$
	(in thousands, except earnings per share and common shares outstanding)		
Operating Results			
Revenue [1]	**713,866**	555,480	341,260
Cost of sales [1]	**(470,825)**	(380,508)	(237,222)
Gross profit [2]	**243,041**	174,972	104,038
Net income from continuing operations	**142,431**	92,212	48,743
Net income	**152,273**	113,480	81,687
EBITDA [3]	**487,640**	316,850	223,631
Net earnings from continuing operations per share [4]			
Basic	**0.85**	0.67	0.35
Diluted	**0.84**	0.66	0.35
Net earnings per share [4]			
Basic	**0.91**	0.82	0.59
Diluted	**0.90**	0.81	0.59

If the new policy for accounting for uncertainty in income taxes was adopted on January 1, 2005, this would have resulted in a decrease in net income of $5,535,000 in the year 2005.

Financial Position

Current assets	**527,028**	333,609	277,340
Non-current assets	**1,310,469**	873,646	617,931
Total assets	**1,837,497**	1,207,255	895,271
Current liabilities (including current portion of long-term debt)	**197,003**	179,048	127,262
Long-term debts (net of current portion)	**441,985**	450,000	300,000
Total shareholders' equity (net assets)	**1,187,298**	578,207	468,009
Cash dividends declared per share	**Nil**	Nil	Nil
Common shares outstanding	**182,592,961**	137,999,548	137,789,548

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 increased from $352.6 million (sold 111,367 hectares, 63.5% of revenue) in 2006 to $521.5 million (sold 146,037 hectares, 73.1% of revenue) in 2007.

During these periods, our gross profit increased accordingly. Gross profit margin, being gross profit expressed as a percentage of revenue, increased to 34.0% in 2007 from 31.5% in 2006 due to a higher proportion of sales of standing timber which earned a higher gross profit margin than our other business segments.

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

2005	324,000 hectares
2006	352,000 hectares
2007	312,000 hectares

According to the recent forest asset valuation conducted by Poyry, the estimated volume of our merchantable standing timber increased 14.2% to approximately 31.3 million cubic meter by year end 2007, excluding trees less than 4 years of age.

In 2006, we obtained a 5-year and one day $150 million syndicated loan for acquisition of additional standing timber and logs. In 2007, we completed financing of $388.5 million through private placement and public offering.

Results of Operations – 2007 vs 2006

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2007 and 2006:

	2007		2006	
	$'000	**%**	$'000	%
Wood Fibre Continuing Operations				
Plantation Fibre	**521,489**	**73.1**	352,574	63.5
Other – Imported wood products	**150,731**	**21.1**	178,379	32.1
Other – Wood logs	**3,233**	**0.4**	495	0.1
Manufacturing and Other Continuing Operations	**38,413**	**5.4**	24,032	4.3
Total Revenue	**713,866**	**100.0**	555,480	100.0

Our revenue increased 28.5% to $713.9 million in 2007. The increase in revenue was due primarily to the increase in sales of standing timber and manufacturing and other continuing operations, offset by a decrease in the sales of imported wood products.

Wood Fibre Continuing Operations Revenue

Standing Timber

The following table sets forth revenue from standing timber sales for the years ended December 31, 2007 and 2006:

	2007			2006		
Standing Timber	**Hectares**	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total Revenue
		$	**$'000**		$	$'000
Purchased plantations	**136,396**	**3,713**	**506,466**	73,665	3,959	291,650
Heyuan Pine Undertaking	**1,969**	**1,771**	**3,487**	32,426	1,692	54,864
Planted plantations	**7,672**	**1,504**	**11,536**	5,276	1,149	6,060
Total	**146,037**	**3,571**	**521,489**	111,367	3,166	352,574

Revenue from sales of standing timber increased 47.9% to $521.5 million in 2007. In 2007, we sold 146,037 hectares of standing timber, or 31% more than the previous year. The increase was mainly due to the sales of an additional 65,127 hectares of purchased and planted tree plantations, offset by a decrease of 30,457 hectares of standing timber sales from the Heyuan Pine Undertaking. The average selling price per hectare increased 12.8% to $3,571 in 2007; this increase was primarily attributable to the higher proportion of sales of purchased plantations to total sales, which had a higher yield and therefore higher selling price per hectare.

Included in standing timber sales were the sales of logs harvested from our plantations in Hunan in the amount of $6.2 million.

Standing timber sales comprised 73.1% of total revenue in 2007, compared to 63.5% in 2006.

Wood Logs

Revenue from sales of wood logs increased 553.1% to $3.2 million in 2007, which was mainly due to sales of logs from Inner Mongolia.

Wood logs sales comprised 0.4% of total revenue in 2007, compared to 0.1% of total revenue in 2006.

Imported Wood Products

Revenue from sales of imported wood products decreased 15.5%, from $178.4 million in 2006 to $150.7 million in 2007. This decrease was primarily due to lower sales volume arising from higher Russian log export duties.

Manufacturing and Other Continuing Operations Revenue

Revenue from our manufacturing and other continuing operations increased 59.8% from $24.0 million in 2006 to $38.4 million in 2007 mainly due to higher revenue from the flooring operation.

Cost of Sales

Cost of sales increased 23.7%, from $380.5 million in 2006 to $470.8 million in 2007, due primarily to higher sales volumes of standing timber, wood logs and manufacturing products.

Wood Fibre Continuing Operations Cost of Sales

Standing timber cost of sales increased 54.5%, from $184.4 million in 2006 to $284.8 million in 2007. The increase reflected primarily the 17.8% increase in cost of sales per hectare of standing timber from $1,656 per hectare in 2006 to $1,950 per hectare in 2007, because we sold substantially more hectares of purchased tree plantations in 2007 which had a higher average cost per hectare, compared to 2006.

Wood logs cost of sales increased 508.9%, from $0.5 million in 2006 to $2.9 million in 2007, as a result of sales of logs from Inner Mongolia.

Imported wood products cost of sales decreased 15.5%, from $173.3 million in 2006 to $146.4 million in 2007, primarily reflecting the decrease in the sales volumes of our imported log trading business.

Manufacturing and Other Continuing Operations Cost of Sales

The cost of sales of manufacturing and other continuing operations increased 64.1% from $22.3 million in 2006 to $36.7 million in 2007, primarily due to an increase in the sales from the flooring operation.

Gross Profit

Gross profit increased 38.9%, from $175.0 million in 2006 to $243.0 million in 2007. Gross profit margin (gross profit as a percentage of total revenue) increased from 31.5% in 2006 to 34.0% in 2007 mainly due to the higher proportion of sales of standing timber which earn a higher gross profit margin than our other business segments.

Wood Fibre Continuing Operations Gross Profit

Gross profit margin from sales of standing timber decreased from 47.7% in 2006 to 45.4% in 2007 due to lower yield of plantations sold in 2007 compared to 2006.

Gross profit margin from sales of wood logs increased from 2.2% in 2006 to 8.8% in 2007 as a result of sales of logs from Inner Mongolia which commanded higher margin.

Gross profit margin from sales of imported wood products remained flat at 2.9% for both years.

Manufacturing and Other Continuing Operations Gross Profit

Gross margin from our manufacturing and other continuing operations decreased from 7.1% in 2006 to 4.6% in 2007, primarily due to increased cost of production of manufacturing plants.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 12.2%, from $35.9 million in 2006 to $40.2 million in 2007, due primarily to additional staff complement and set up of new companies.

Depreciation and Amortization

Depreciation and amortization increased 34.9%, from $4.0 million in 2006 to $5.4 million in 2007, reflecting the increase in depreciation charges for our manufacturing plants.

Income from Operations

Income from operations increased 46.1%, from $135.1 million in 2006 to $197.5 million in 2007, due to the factors explained above. Our income from operations as a percentage of revenue increased from 24.3% in 2006 to 27.7% in 2007.

Interest Expense

Interest expense increased 17.7%, from $37.3 million in 2006 to $44.0 million in 2007, due primarily to partial draw-down of the syndicated loans in the second quarter of 2006 and to the reclassification of amortization of deferred financing cost to interest expense in 2007.

Interest Income

Our interest income increased 134.1%, from $6.5 million in 2006 to $15.2 million in 2007, due to higher cash and cash equivalents and short-term deposits from the financings completed last year and interest income earned on the loan to Mandra Holdings.

Exchange Gains

Exchange gains increased 237.6% from $3.7 million in 2006 to $12.4 million in 2007 due to appreciation of the Canadian dollar against the US dollar in 2007.

Write-down of capital assets

The write-down of capital assets in 2007 amounted to $20.8 million representing write-down of certain manufacturing facilities to fair market value due to continued losses over the years.

Other Income

Other income increased 144.4% from $1.3 million in 2006 to $3.2 million in 2007 mainly as a result of the gain on disposal of investment in Greenheart Resources Holding Limited ("Greenheart").

Provision for Income Taxes

In 2007, the provision for income taxes was $18.0 million compared to $13.2 million in 2006; the increase was due to the higher income earned.

Net Income from continuing operations

As a result of the foregoing, net income from continuing operations for 2007 increased 54.5%, from $92.2 million in 2006 to $142.4 million in 2007. Overall net profit margin from continuing operations increased from 16.6% in 2006 to 20.0% in 2007.

Results of Operations – Q4 2007 vs Q4 2006

The following table sets forth the selected financial information for the three months ended December 31, 2007 and 2006:

	Three months ended December 31,	
	2007	2006
	$	$
	(in thousands, except earnings per share)	
Revenue (1)	**310,850**	233,261
Cost of sales (1)	**(212,522)**	(151,167)
Gross profit (2)	**98,328**	82,094
Net income from continuing operations	**41,255**	40,102
Net income	**47,397**	42,528
EBITDA (3)	**246,222**	148,258
Net earnings from continuing operations per share (4)		
Basic	**0.23**	0.29
Diluted	**0.22**	0.29
Net earnings per share (4)		
Basic	**0.26**	0.31
Diluted	**0.26**	0.30

The quarterly financial information has not been restated to reflect the adoption of a new accounting policy for uncertain income tax positions as the effect of the change on net income is insignificant.

The following table sets forth the breakdown of our revenue in the fourth quarters of 2007 and 2006:

	Three months ended December 31,	
	2007	2006
Revenue	**$'000**	$'000
Wood Fibre Continuing Operations		
Plantation Fibre	**260,359**	167,869
Other – Imported wood products	**34,268**	55,528
Other – Wood logs	**301**	64
Manufacturing and Other Continuing Operations	**15,922**	9,800
Total Revenue	**310,850**	233,261

Revenue in the fourth quarter ended December 31, 2007 increased by 33.3% to $310.9 million compared to $233.3 million in the fourth quarter of 2006. The increase was primarily due to higher sales of standing timber and manufacturing and other continuing operations partially offset by a decline in imported wood products revenue.

In the fourth quarters of 2007 and 2006, standing timber sales were as follows:

	Three months ended December 31,					
	2007			2006		
Standing Timber	**Hectares**	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
		$	**$'000**		$	$'000
Purchased plantations	**75,055**	**3,350**	**251,407**	40,987	3,923	160,811
Heyuan Pine Undertaking	**772**	**1,873**	**1,446**	2,768	1,756	4,861
Planted plantations	**5,668**	**1,324**	**7,507**	1,821	1,206	2,197
Total	**81,495**	**3,195**	**260,360**	45,576	3,683	167,869

In the fourth quarter of 2007, sales of standing timber increased to 81,495 hectares, primarily due to increased sales of standing timber from our purchased plantations. The decrease in the average selling price of standing timber was due to lower yield of purchased plantations sold compared to 2006.

In the fourth quarter of 2007, revenue from our imported wood products business amounted to $34.3 million, compared to $55.5 million in the fourth quarter of 2006. The decrease was primarily attributable to lower volume arising from higher Russian log export duties.

In the fourth quarter of 2007, increase in revenue from manufacturing and other continuing operations was mainly due to the increase in the sale of flooring products.

Costs and expenses were $230.9 million in the fourth quarter of 2007, an increase of 34.6% compared to $171.6 million in the fourth quarter of 2006, largely attributable to an increase in sales. Selling, general and administration expenses decreased 14.6% to $16.5 million in the fourth quarter in 2007, primarily due to a $5.4 million termination payment made to an officer in the fourth quarter of 2006.

Net income from continuing operations increased 2.9% from $40.1 million to $41.3 million. Diluted earnings per share from continuing operations per share decreased 22.0% from $0.29 to $0.22.

Issued and Outstanding Share Capital

The authorized capital of the Company consists of an unlimited number of common shares, of which 182,592,961 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 186,541,414 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,948,453 outstanding stock options.

Liquidity and Capital Resources

Our primary sources of funding have been short-term and long-term borrowings, equity offerings and cash provided by operating activities. Our primary uses of funding have been to 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,	
	2007	2006
(in millions)	**$**	$
Cash flows from operating activities of continuing operations		
Net cash provided by operations [5]	**455.5**	280.7
Net change in working capital [6]	**27.0**	(16.5)
Total	**482.5**	264.2
Cash flows from operating activities of discontinued operations	**3.8**	26.2
Cash flows used in investing activities	**(692.3)**	(423.0)
Cash flows from financing activities	**376.9**	176.2
Effect of exchange rate changes on cash and cash equivalents	**4.9**	0.9
Net increase in cash and cash equivalents	**175.8**	44.5

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities increased 82.6% to $482.5 million in 2007. The increase was the result of an increase in cash provided by operations as a result of the stronger sales of standing timber.

Cash Flows Used in Investing Activities

In 2006 and 2007, 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 $415.1 million in 2006 and $640.3 million in 2007. Our cash outlays for our manufacturing facilities and other capital assets amounted to $10.0 million in 2006 and $12.6 million in 2007. Increase in non-pledged short-term deposits in 2007 amounted to $8.7 million compared to a decrease in non-pledged short-term deposits of $11.9 million in 2006. In addition, Sino-Forest invested $6.0 million to acquire approximately 13% equity interest in Greenheart and $1.8 million to acquire certain convertible bonds issued by Omnicorp Limited in 2007. Sino-Forest also paid $23.6 million as prepaid plantation land leases in 2007.

Cash Flows From Financing Activities

In 2007, cash flows from financing activities consisted of net proceeds from the issuance of shares of $389.9 million and decrease in pledged short-term deposits of $6.2 million offset by the payment on derivative financial instrument of $2.2 million and a decrease in bank indebtedness of $17.0 million. In 2006, cash flows from financing activities consisted of an increase in bank indebtedness of $29.2 million and long-term debt of $150.0 million and decrease in pledged short-term deposits of $0.4 million and net proceeds from the issuance of shares of $0.5 million offset by an increase in deferred financing costs of $3.0 million and payment on derivative financial instrument of $0.9 million.

Financing Arrangements and Contractual Obligations

As of December 31, 2007, we had secured and unsecured short-term liabilities of $55.4 million, comprising $27.5 million of short-term bank loans and $27.9 million of trust receipt loans. We had long-term debts of $442.0 million. Our borrowings were denominated in US dollars and Renminbi.

Short-Term Borrowings

As of December 31, 2007, we had $133.9 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements of which $55.4 million was being utilized. Interest is payable on these short-term borrowings at a weighted average rate of 6.2% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2007, 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 $11.4 million and certain bank deposits of $0.3 million.

Other Contractual Obligations

As of December 31, 2007, we had other contractual obligations relating to: (1) approximately $18.6 million in respect of capital contributions to our Wholly Foreign Owned Enterprises (WFOEs); (2) $16.5 million of capital commitments with respect to buildings, timber holdings, and plant and machinery; (3) $21.5 million of purchase commitments mainly regarding logs, (4) commitments under operating leases of approximately $68.1 million; and (5) $442.0 million non-convertible guaranteed senior notes and syndicated loans.

Scheduled Maturity of Contractual Obligations

The following table presents the scheduled maturities of our contractual obligations as of December 31, 2007:

	Anticipated Payment Dates						
Contractual Obligations	Total	2008	2009	2010	2011	2012	Thereafter
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Long-term debt (7)	441,985	—	—	37,500	404,485	—	—
Capital contributions	18,600	18,600	—	—	—	—	—
Capital commitments (8)	16,523	16,523	—	—	—	—	—
Purchase commitments	21,470	21,470	—	—	—	—	—
Operating leases (9)	68,123	22,548	2,281	2,033	1,754	1,790	37,717
Total contractual cash obligations	566,701	79,141	2,281	39,533	406,239	1,790	37,717

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees for fourteen years in Hunan, the Company has acquired 79,910 hectares of plantation trees for $250.0 million as at December 31, 2007.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of standing timber for ten years in Yunnan, the Company has acquired 10,438 hectares of standing timber for $88.1 million as at December 31, 2007.

Under the master agreement entered in July 2006 to secure at least 1.5 million cubic meters of wood fibre for twelve years in Mongolia, the Company has acquired 17,000 cubic meters of wood fibre as at December 31, 2007.

Under the master agreement entered in December 10, 2007, to acquire 150,000 hectares of plantation trees for 5-year in Guangxi, the Company has not acquired any wood fibre as at December 31, 2007.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2007, we had provided guarantees of approximately $112.1 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 fourth quarter and year ended December 31, 2007:

	Three months ended December 31, 2007		Twelve months ended December 31, 2007	
(in millions)	**Hectares**	**$**	**Hectares**	**$**
Tree acquisition – Purchased plantations	**41,477**	**271.5**	**104,517**	**623.7**
Re-planting and maintenance of plantations		**10.1**		**23.3**
Panel manufacturing and other operations		**6.2**		**12.6**
Total		**287.8**		**659.6**

Capital expenditures incurred in relation to 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 2008 are expected to exceed $700 million. Capital expenditures in 2008 relating to the manufacturing operations are expected to be approximately $30 million.

It is expected that 2008 capital expenditures will be funded primarily by cash flows from operations.

Independent Valuation of our Forest Assets by Poyry

Poyry Forest Industry Ltd ("Poyry") has determined the valuation of our forest assets as at December 31, 2007 to be $1,245.3 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. As at year end 2007, the book value of our timber holdings was $1,174.2 million.

Poyry 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 rotation valuation). Sino-Forest has an option to lease the land at purchased tree plantations for future rotations, the terms of which have yet to be agreed. Poyry has determined the valuation of our forest assets based on a perpetual rotation (including the planned expansion in Hunan, Yunnan and Guangxi Province) using a pre-tax discount rate of 11.5% to be $3,205.2 million as at December 31, 2007.

The complete valuation report by Poyry will be available on our website at www.sinoforest.com under 'Filings' or filed with SEDAR at www.sedar.com on or about March 31, 2008.

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, 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 on customers as necessary and have 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 30 to 120 days with respect to domestic sales of imported logs and 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 2007 and 2006:

	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, 2007	**105,329**	**81,980**	**6,006**	**13,360**	**3,704**	**279**	—
At December 31, 2006	124,784	84,216	33,651	5,118	1,610	189	—

Inflation

Inflation in the PRC has not had a significant impact on Sino-Forest's 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 1.8%, 1.5% and 4.8% in 2005, 2006 and 2007, respectively.

Taxation

PRC wholly foreign-owned enterprises ("WFOEs") are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Corporate Income Tax Laws effective January 1, 2008 ("New CIT Law"), WFOEs, Sino-foreign equity and co-operative joint venture enterprises ("CJV") are subject to corporate income tax at an effective rate of 25% [2007 – 24% to 33%] on income as reported in their statutory financial statements. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing are eligible for an exemption from state income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward from prior years, followed by a 50% exemption for the next three years. If the tax holiday has not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New CIT Law, the PRC WFOEs and CJVs engaged in plantation are eligible for an exemption from income taxes.

Sino-Forest's tax charges for the years ended December 31, 2007 and 2006 were $18.0 million and $13.2 million, respectively, which represented effective tax rates of 11.2% and 12.5%, respectively. Such effective tax rates are significantly lower than applicable corporate income tax rates because the majority of income remitted to Sino-Forest from authorized intermediaries was already taxed. We believe we have made adequate tax provisions to meet Sino-Forest's tax liabilities as they become due.

Off-Balance Sheet Arrangements

Sino-Forest does not have any outstanding derivative financial instruments or off-balance sheet guarantees. In addition, we are not otherwise engaged in hedging activities and had no forward exchange contracts outstanding as of December 31, 2007. In the ordinary course of business, we enter into operating lease commitments, capital commitments and other contractual obligations. These transactions are recognized in our financial statements in accordance with Canadian GAAP and are more fully discussed above.

Transactions with Related Parties

Pursuant to the respective service agreements, Sino-Forest pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred in 2007 amounted to $4,587,000 [December 31, 2006 - $4,136,000].

In addition, as at December 31, 2007, we had an aggregate amount of $3,950,000 [December 31, 2006 - $3,150,000] owed to these related companies.

Quarterly Financial Information

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

The following table is a summary of our selected quarterly financial information for each of the eight quarters ended December 31, 2007:

	Revenue	Net Income	Earnings Per Share (3) (4) Basic	Diluted
	$	$	$	$
	(in thousands, except per share amounts)			
2007				
December 31	**310,850**	**47,397**	**0.26**	**0.26**
September 30	161,475	67,024	0.37	0.37
June 30	128,764	24,994	0.15	0.15
March 31	112,777	12,858	0.09	0.09
2006				
December 31	233,261	42,528	0.31	0.30
September 30	150,818	45,104	0.33	0.32
June 30	84,173	14,360	0.10	0.10
March 31	87,228	9,464	0.07	0.07

The quarterly financial information has not been restated for the adoption of a new accounting policy for uncertain income tax positions as the effect of the change on net income for the year is insignificant.

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, asset impairment of timber holdings, and capital assets and income tax provision.

Asset Impairment

Timber Holdings

Timber holdings represented 63.9% of the Company's consolidated total assets as at December 31, 2007. Timber holdings are carried on the Company's consolidated balance sheet at cost which includes cost of young trees, standing timber, and planting and maintenance costs. The Company reviews the recoverability of the carrying value of its timber holdings on an annual basis or whenever events or changes in circumstances indicate that the 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 a discounted cash flow valuation model. If management's best estimate of key assumptions were to change significantly and the associated estimated future cash flows were to materially decrease, Sino-Forest could potentially experience future impairment charges and such charges could be material.

Capital Assets

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

The Company believes that estimates related to capital assets impairment assessments are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward looking assumptions regarding the impact of improvement plans on current operations, other new business opportunities, 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 of recognition of revenue from standing timber sales is dependent on the terms and conditions of the Company's contractual arrangements with its customers. To date, substantially all of the Company's standing timber revenue has been recognized when the Company and the buyer enter into a binding sales agreement. Typically, prior to entering into the agreement, the Company and the buyer will have negotiated the approximate timber volume and the expected harvest yield associated with a specified plantation area. The sales agreement typically provides the buyer with a fixed period of time over which the buyer is entitled to harvest the timber on the specified plantation area and amounts due from the buyer are fixed at the time of entering into the agreement and are not subject to adjustment based on the actual amount of timber harvested by the buyer. Harvesting and all related costs have to date been the responsibility of the buyer and the Company has not been responsible for any further significant acts of performance under the sales agreement. The buyer has borne all risks and rewards related to the timber on the specified plantation area over the harvest period.

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

Provision for Tax Related Liabilities

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 earn 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 foreign enterprise income tax. 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 PRC taxes on behalf of the BVI subsidiaries that arise from the Authorized Sales Activities. Accordingly, the BVI Subsidiaries do not pay any PRC taxes with respect to the profits earned in the PRC.

If PRC tax authorities were to determine that the AI did not pay applicable PRC taxes 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 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.

Included in accounts payable and accrued liabilities including discontinued operations as at December 31, 2007 is the balance of the provision for these tax related liabilities amounting to $80,165,000 [2006 – $66,558,000] provided on the profits of the Authorized Sales Activities earned by the BVI Subsidiaries in the current and in the three previous years.

Contingencies for Tax Related Liabilities

The provision for income taxes and tax related liabilities and whether tax filings are required is subject to a number of different factors, estimates and judgment made by management. A change in the facts and these estimates and judgment could have a material effect on the Company's tax expense. The Company has operations in various countries (mainly in the PRC, Canada and Hong Kong) that have different tax laws and rates. Income tax and other taxes are subject to audit by all relevant tax authorities. The effective tax rate may change from year to year based on the mix of income among the different tax jurisdictions in which the Company operates, changes in tax laws in these jurisdictions, and changes in tax treaties between various tax jurisdictions in which the Company operates. It is possible that profits already taxed by one tax jurisdiction could be taxed by another tax jurisdiction or multiple jurisdictions. Should the PRC tax authorities recover income tax, business tax and value-added tax directly from the BVI Subsidiaries, they might do so together with related tax surcharges and tax penalties on applicable income or profits of the Authorized Sales Activities from the BVI Subsidiaries for a period from three to five 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 including prior periods.

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that an adequate but not excessive provision for tax related liabilities has been recognized in the financial statements.

Change in Accounting Policies

Financial Instruments and Comprehensive Income

On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections, Section 3855 Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation, Section 3865 Hedges, Section 1530 Comprehensive Income and Section 3251 Equity. These accounting standards introduce new requirements for recognition and measurement of financial instruments, the application of hedge accounting, the reporting and display of comprehensive income as well as the recognition of certain transition adjustments. The adoption of these Sections is done retroactively without restatement of the consolidated financial statements of the prior period except for the presentation of unrealized foreign currency translation adjustments arising from self-sustaining foreign operations which are presented as part of other comprehensive income retroactively.

Deferred financing costs relating to the non-convertible senior notes and the syndicated loan facility amounting to $8,713,000 as at January 1, 2007 that were previously reported in other assets, are now recorded against the carrying value of the related debt and amortized into interest expense using the effective interest method. Prior to the adoption of the new standards, the amortization of deferred financing costs was reported as a separate line in the consolidated statement of income. Deferred financing costs will no longer be amortized using the straight-line method, and will be taken into the income statement and recorded as interest expense using the effective interest method over the term of the related debt. Effective January 1, 2007, a cumulative adjustment was made to account for the difference between the accumulated amortization of deferred financing costs using the effective interest method and the straight-line method. This resulted in a decrease in long-term debts and an increase in equity of $1,097,000 net of tax of nil.

Upon adoption of CICA Section 3865, the Company determined that its foreign currency swap [note 9] did not qualify for hedge accounting treatment. As a result, the fair value of the swap as at January 1, 2007 was included as a liability on the balance sheet through an adjustment to equity, decreasing it by $9,786,000.

The effect of these changes in accounting policies on net income for the three month and twelve month periods ending December 31, 2007 is not significant.

Income Taxes

On January 1, 2007, the Company voluntarily adopted a new policy for accounting for uncertainty in income taxes. As a result of this change in accounting policy, the Company recorded a non-cash charge of $28,094,000 in equity as of January 1, 2006 with an offset to current liabilities. Under its previous policy, the Company would reserve for tax contingencies if it was probable that an uncertain position would not be upheld, the amount of the reserve being the single best estimate that could be reasonably estimated.

Under its new accounting policy, the Company evaluates a tax position using a two-step process.

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

Step 2 – Measurement, which is only addressed if the recognition threshold has been met, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis, that is greater than 50% likely of being realized upon ultimate settlement.

The Company believes that this new policy will provide reliable and more relevant information because all uncertain tax positions of the Company will be affirmatively evaluated for recognition and derecognition using a consistent threshold of more-likely-than-not, based on the technical merits of a tax position.

The Company recognizes interest and penalties related to unrecognized tax benefits as an income tax expense.

The reader is referred to Note 2 in the accompanying consolidated financial statements for the year ended December 31, 2007 for further details regarding the adoption of these standards.

Accounting Changes

In July 2006, the CICA reissued CICA Handbook Section 1506, "Accounting changes". CICA 1506 requires that voluntary changes in accounting policy are only made if they result in the financial statements providing reliable and more relevant information. In addition, the standard establishes the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The revised standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2007.

Future Accounting Standards

During the fourth quarter of 2006, the CICA issued three new accounting standards: CICA Handbook Section 1535 "Capital Disclosure", CICA Handbook Section 3863 "Financial Instruments – Presentation" and CICA Handbook Section 3862 "Financial Instruments – Disclosure". These standards are effective for interim and annual financial statements for the Company's reporting period beginning on January 1, 2008.

The Capital Disclosures section describes the standards for disclosing information about a company's objectives, policies and processes for managing capital, quantitative data about what a company regards as capital and whether a company has complied with any capital requirements and, if not, the consequences of such non-compliance. Financial Instruments – Presentation carries forward the guidance under Section 3861 with little change and Financial Instruments – Disclosures requires disclosure on the face of the balance sheet of each of the financial instrument categories as well as additional disclosure regarding credit, market and liquidity risk faced by the Company.

In March 2007, the CICA approved Handbook Section 3031 Inventories, which replaces the existing Section 3030 Inventories. This standard is effective for the Company's reporting period beginning on January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Company is currently assessing the impact of these new accounting standards on its financial statements.

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 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 debts, 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 five 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 2007 and 2006, 81.6% and 68.9% of our sales were received in Renminbi respectively and 18.4% and 31.1% of our sales were received in U.S. dollars and Hong Kong dollars respectively. We translate our results of foreign operations in U.S. dollars. We expect in the future that 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 obligations denominated in currencies other than Renminbi. 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 until a revaluation against the U.S. dollar since 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, 2007, we had Renminbi denominated bank accounts of RMB454.6 million (equivalent to $62.0 million) [2006 – RMB250.3 million, equivalent to $32.0 million], U.S. dollar denominated bank accounts of $275.2 million [2006 – $127.6 million], Canadian dollar denominated bank accounts of Cdn$10.1 million (equivalent to $10.2 million) [2006 – Cdn.$10.6 million, equivalent to $9.1 million], Hong Kong dollar denominated bank accounts of HK$13.6 million (equivalent to $1.7 million) [2006 – HK$0.6 million, equivalent to $0.1 million] and Euro denominated bank accounts of €1.2 million (equivalent to $1.7 million) [2006 – €2.0 million, equivalent to $2.7 million]. We also had U.S. dollar and Renminbi denominated accounts receivable of $16.3 million [2006 – $40.2 million] and RMB652.2 million (equivalent to $89.0 million) [2006 – RMB661.5 million, equivalent to $84.6 million] respectively.

We incurred foreign currency denominated debts for capital expenditures primarily relating to the development and acquisition of our forestry plantations and investment in our manufacturing plants. If the U.S. dollar devalues against any of these currencies, it would correspondingly increase our acquisition costs.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debts, primarily on our bank indebtedness. Our debts consist 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 carried at fixed rate. We do not currently use any derivative instruments to modify the nature of our debts 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 and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Senior Vice President and Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting. An evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under Multilateral Instrument 52-109, was conducted as of December 31, 2007 to provide reasonable assurance that material information relating to the Company and its subsidiaries would have been summarized and reported on a timely basis and communicated to the Disclosure Committee and senior management. Additionally, the CEO and CFO, together with management, have designed internal controls over financial reporting in accordance with GAAP.

Based on that evaluation, the CEO and CFO have concluded that the design and operation of Sino-Forest's disclosure controls and procedures are effective except as outlined below. It should be noted that while the CEO and CFO have evaluated disclosure controls and procedures for the year ended December 31, 2007 and concluded that they are being maintained as designed, they expect that the disclosure controls and procedures or internal control over financial reporting may not prevent all errors and fraud. A control system, no matter how well designed or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

The Company identified certain material weaknesses and the need for improvement of controls and procedures in areas such as: (i) segregation of duties, (ii) the Company does not have the optimum complement of financial personnel with the technical accounting knowledge in the foreign subsidiaries to address all complex and non-routine transactions that may arise, (iii) completeness, accuracy and timeliness of the period close process including reviewing and monitoring the recording of recurring and non-recurring of journal entries and translation of foreign currency transactions and subsidiary company results, and (iv) information systems are subject to general control deficiencies including lack of effective controls over spreadsheets.

Over the past year, the Company has made improvements to its financial processes and information systems. Management expects to continue these efforts to further strengthen our internal controls in 2008 and beyond. During Q4 2007, improvements were made to our internal control systems as follows:

- implemented compensating review and monitoring controls by corporate accounting staff on a quarterly basis;
- added a qualified senior financial resource with oversight responsibility for the financial statement close process; and
- implemented changes in roles and responsibilities within the senior finance group

As a result, management believes two of the four material weaknesses previously disclosed have been effectively remediated. Two remaining control weaknesses, being segregation of duties and information systems are subject to general control deficiencies including lack of effective controls over spreadsheets, continue to exist. During 2007, management has taken steps to address these deficiencies and will continue to monitor and mitigate these weaknesses which are expected to be completed in 2008.

(1) The results have been revised to reflect the classification of wood chips and commission operations as discontinued operations.

(2) 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.

(3) 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,	
	2007	2006	2005	**2007**	2006
	$'000	$'000	$'000	**$'000**	$'000
Income from continuing operations	**197,468**	135,145	80,328	**79,958**	61,710
Plus: depreciation	**5,364**	3,975	3,099	**1,910**	1,103
depletion of timber holdings	**284,808**	177,730	140,204	**164,354**	85,445
	487,640	316,850	223,631	**246,222**	148,258

(4) Net Income per share is calculated using the weighted average number of common shares outstanding during each period.

(5) Represents net income as adjusted for depletion of timber holdings, interest earned from Mandra, depreciation and amortization, amortization of deferred financing costs, stock-based compensation, write-down and loss on disposal of capital assets, gain on disposal of other assets, changes in fair value of financial instrument and other assets, exchange gains and others.

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

(7) Represents the U.S. dollar denominated debts (after deduction of unamortized deferred financing costs) due in 2010 and 2011.

(8) Represents commitments to invest in buildings, plant and machinery for investments in the manufacturing plants and timber holdings.

(9) These represent mainly leases of plantation land.