Management's Discussion and Analysis

March 16, 2009

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, 2008. 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 local plantation land owners and/or plantation land use rights holders, 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 commercial forestry plantation operator in the PRC. As at December 31, 2008, we had approximately 347,000 hectares of forestry plantations located in southern and eastern 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 Operations** is the major revenue contributor, while our **Manufacturing & Other Operations** enable us to add value to our fibre by producing downstream products.

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

Plantation Fibre

- we acquire, cultivate and sell standing timber or harvested logs from our purchased, integrated and planted plantation business models in seven provinces and regions across China.

Other Fibre

- *Wood logs* – we source logs from PRC suppliers and sell them in the domestic PRC market; and
- *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 Operations include:

- Particleboard manufactured in Guangdong Province;
- Engineered wood flooring produced in Jiangsu Province and sold through over 200 stores nationwide in the PRC;
- Oriented strand board manufactured in Heilongjiang Province;
- Sawn timber produced in Yunnan Province;
- Finger joint board, block board and particleboard produced in Hunan Province; and
- Greenery & nursery operation based in 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.

Our strategy is to build on our competitive strengths and seize business opportunities in the PRC in order to become a leading plantation developer and wood resource supplier with established operations in or close to PRC regional markets, providing wood fibre to downstream consumers in the wood panel, furniture, construction, interior decoration and pulp and paper industries. The following are the key elements for executing our strategy:

- expand geographically, invest in additional tree plantations to gain access to long-term supplies of wood fibre, and develop regional wood fibre markets in the PRC by providing quality logs and value-added manufacturing products;
- build integrated manufacturing operations to supply value-added, wood-based products to the PRC market and further diversify our revenue streams;
- improve the yields of our tree plantations by continued investment in research and development and application of advanced forestry management techniques;
- practice sustainable and environmentally responsible forestry and manufacturing; and
- strengthen management processes and information systems to support the growth of our multi-faceted businesses.

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. Market prices and demand for standing timber, wood logs and wood products 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 decoration 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, 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 local plantation land owners and/or plantation land use rights holders, authorized intermediaries, key customers, suppliers and third party service providers for our forestry plantations and trading activities. 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

Costs 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) and 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 continuing 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, 2008 and to the date of this report were as follows:

Sino-Forest Updated the Valuation of its 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. A copy of such valuation is available on SEDAR at www.sedar.com.

Sino-Forest Donates $2 million to Sichuan Earthquake Relief Effort

In June 2008, the Company announced plans to donate $2 million in support of the relief and reconstruction efforts in China’s Sichuan province following the devastating earthquake which hit the region on May 12, 2008.

Sino-Forest Completed a Convertible Senior Notes Offering

In July 2008, the Company announced and closed an offering for $300 million convertible senior notes (the "Notes") to international investors. The Notes bear interest at a rate of 5.0% per annum, payable semi-annually and will mature on August 1, 2013 (unless converted prior to such date). The Notes are convertible into common shares of the Company at a conversion price of $20.29 (Cdn$20.32) per share, equivalent to a conversion rate of 49.2974 shares per $1,000 principal amount of Notes, subject to customary adjustments. The Company intends to use the net proceeds of the offering as follows: approximately $230 million, to acquire commercial plantation forests in the Fujian Province of the PRC; approximately $15 million to lease land and plant with Jatropha trees, and the balance of the net proceeds will be employed for general corporate purposes.

In August 2008, the Company announced the full exercise of the over-allotment option granted to the underwriters in connection with the offering. Pursuant to the over-allotment option, the Company sold an additional $45 million of the Notes.

Sino-Forest Signed a Long-term Tree Acquisition Agreement in Fujian Province

In August 2008, the Company signed an agreement to acquire 200,000 hectares of non-state-owned, plantation trees in Fujian Province. The Master Agreement for Acquisition of Pine, Chinese Fir and Eucalyptus Forest is with Zhangzhou Lu Sheng Forestry Development Company Limited, which will act as the authorized agent for the individual holders of original plantation rights. Under this agreement, Sino-Forest will purchase the trees at a price not to exceed RMB350 per m^3 or approximately $51.40 per m^3 over a 10-year period. The plantations under this agreement include mature trees with an estimated wood fibre yield of 100 to 120 m^3 per hectare, or an aggregate of 20 to 24 million m^3 of wood fibre. Sino-Forest has pre-emptive rights to lease land at a price not to exceed RMB450 per hectare per annum for 30 years.

Omnicorp Purchase

In February 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21.6 million (equivalent to HK$168 million) 4% secured convertible bonds of Omnicorp Limited ("Omnicorp") from various vendors. The purchase price consisted of cash of $4.3 million and approximately 2,700,000 common shares of the Company at a price of Cdn$10 per share. Total consideration was approximately $25.8 million (equivalent to HK$201 million). Among the vendors were a director of the Company and an entity controlled by such director the aggregate value of whose Omnicorp ordinary shares and convertible bonds represented approximately 5.5% of the aggregate value of the overall transaction.

Selected Annual Financial Information

The following selected financial information has been derived from our consolidated financial statements for the three years ended December 31, 2008, 2007 and 2006:

	Years ended December 31,		
	2008	2007	2006
	$	$	$
	(in thousands, except earnings per share and common shares outstanding)		
Operating Results			
Revenue	**901,295**	713,866	555,480
Cost of sales	**(536,557)**	(470,825)	(380,508)
Gross profit [(1)]	**364,738**	243,041	174,972
Net income from continuing operations	**216,393**	142,431	92,212
Net income	**228,593**	152,273	113,480
EBITDA [(2)]	**592,541**	487,640	316,850
Earnings per share from continuing operations [(3)]			
Basic	**1.18**	0.85	0.67
Diluted	**1.17**	0.84	0.66
Earnings per share [(3)]			
Basic	**1.25**	0.91	0.82
Diluted	**1.24**	0.90	0.81
Financial Position			
Current assets	**783,869**	527,028	333,609
Non-current assets	**1,820,055**	1,310,469	873,646
Total assets	**2,603,924**	1,837,497	1,207,255
Current liabilities (including current portion of long-term debt)	**285,478**	197,003	179,048
Long-term debt (net of current portion)	**714,468**	441,985	450,000
Total shareholders' equity (net assets)	**1,598,764**	1,187,298	578,207
Cash dividends declared per share	**Nil**	Nil	Nil
Common shares outstanding	**183,119,072**	182,592,961	137,999,548

Over the past three fiscal years, we have focused on growing our wood fibre operations. Revenue has grown over these periods primarily due to increased sales of fibre from our plantation operation. Our revenue from plantation fibre operations increased from $521.5 million (9.9 million m^3 of fibre) in 2007 to $685.4 million (10.2 million m^3 of fibre) in 2008.

During these periods, our gross profit increased accordingly. Gross profit margin, being gross profit expressed as a percentage of revenue, increased to 40.5% in 2008 from 34.0% in 2007 due to a higher proportion of sales from wood fibre operations which earn 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 area under management. As at December 31 of each year, we had the following plantation area under management:

2006	352,000 hectares
2007	312,000 hectares
2008	347,000 hectares

According to the recent forest asset valuation conducted by Poyry, the estimated volume of our merchantable standing timber increased 20% to approximately 37.6 million m^3 by year end 2008.

In 2008, we completed an issuance of $345.0 million convertible senior notes. In 2007, we completed equity financings of $388.5 million through a private placement and a public offering. The proceeds from these financings have been or will be used mainly for the acquisition of plantation assets.

Results of Operations – 2008 vs 2007

Revenue

The following table sets forth the breakdown of our total revenue for the years ended December 31, 2008 and 2007:

	2008		2007	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**685,404**	**76.0**	521,489	73.1
Other Fibre	**153,517**	**17.0**	153,964	21.5
Manufacturing and Other Operations	**62,374**	**7.0**	38,413	5.4
Total	**901,295**	**100.0**	713,866	100.0

Our revenue increased 26.3% to $901.3 million in 2008. The increase in revenue was due primarily to the increase in sales of plantation fibre and manufacturing and other operations.

Wood Fibre Operations Revenue

Plantation Fibre

The following table sets forth revenue from plantation fibre sales for the years ended December 31, 2008 and 2007:

		2008			2007	
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total Revenue
Plantation Model		**$**	**$'000**		$	$'000
Purchased plantations	**86,067**	**6,040**	**519,872**	138,365	3,686	509,953
Integrated plantations	**14,071**	**11,313**	**159,185**	—	—	—
Planted plantations	**3,807**	**1,667**	**6,347**	7,672	1,504	11,536
Total	**103,945**	**6,594**	**685,404**	146,037	3,571	521,489

Revenue from sales of plantation fibre increased 31.4% to $685.4 million in 2008, mainly due to sales of logs harvested from 14,071 hectares of integrated plantations in 2008 compare to none in 2007.

The total volume of fibre sold in 2008 was approximately 10.2 million m^3 with approximately 8.6 million m^3 from purchased and planted plantations, and approximately 1.6 million m^3 from integrated plantations. In 2007, we sold a total of approximately 9.9 million m^3 from purchased and planted plantations.

The average yield of fibre sold under the purchased and planted plantations in 2008 was 96 m^3 per hectare compared to 68 m^3 per hectare last year and obtained an average selling price of \$61 per m^3 compared to \$53 per m^3 – an increase of 16.3% (including 10.3% appreciation of the Renminbi versus US dollars).

The average yield of harvested logs sold under the integrated plantations was 111 m^3 per hectare and it commanded an average selling price of \$102 per m^3.

Plantation fibre sales comprised 76.0% of total revenue in 2008, compared to 73.1% in 2007.

Other Fibre

Revenue from sales of imported wood products decreased 7.3%, from \$150.7 million in 2007 to \$139.7 million in 2008. This decrease was primarily as a result of a lower average selling price due to a change of product mix from expensive wood logs to lower cost wood logs.

Revenue from sales of wood logs increased to \$13.8 million in 2008 from \$3.2 million in 2007, due primarily to the increased volume of PRC-sourced wood logs sold.

Other fibre sales comprised 17.0% of total revenue in 2008, compared to 21.5% of total revenue in 2007.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 62.4% from \$38.4 million in 2007 to \$62.4 million in 2008, mainly due to higher revenue from the sales of engineered wood flooring and relatively new processing facilities in southern China.

Gross Profit

Gross profit increased 50.1%, from \$243.0 million in 2007 to \$364.7 million in 2008. Gross profit margin, being gross profit expressed as a percentage of revenue, increased from 34.0% in 2007 to 40.5% in 2008, mainly due to the higher proportion of sales from plantation fibre operations which earn a higher gross profit margin than our other business segments.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of purchased and planted plantations increased from 45.4% in 2007 to 56.8% in 2008, mainly due to a higher selling price and the improved yield per hectare sold resulting in a lower fibre cost per m^3.

The gross profit margin for sales of logs under the integrated plantations operations was 36.0% or \$37 per m^3 in 2008.

Gross profit margin from sales of imported wood products increased from 2.9% in 2007 to 3.8% in 2008.

Gross profit margin from sales of wood logs increased from 8.8% in 2007 to 18.8% in 2008 as a result of the change in mix of species of wood logs sold as compared to 2007.

Manufacturing and Other Operations Gross Profit

Gross margin from our manufacturing and other operations decreased from 4.6% in 2007 to 1.3% in 2008, primarily due to increased production costs at our manufacturing plants.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 41.1%, from \$40.2 million in 2007 to \$56.7 million in 2008, due primarily to additional staff complement.

Depreciation and Amortization

Depreciation and amortization decreased 13.7%, from $5.4 million in 2007 to $4.6 million in 2008, mainly due to the impairment charge taken on certain manufacturing facilities, partially offset by the increased capital assets.

Income from Operations

Income from operations increased 53.6%, from $197.5 million in 2007 to $303.4 million in 2008, due to the factors explained above. Our income from operations as a percentage of revenue increased from 27.7% in 2007 to 33.7% in 2008.

Interest Expense

Interest expense increased 19.0%, from $44.0 million in 2007 to $52.3 million in 2008, due primarily to the interest on the 5% convertible senior notes issued in 2008.

Interest Income

Our interest income decreased 26.7%, from $15.2 million in 2007 to $11.1 million in 2008, due primarily to the decrease in the interest rate earned on deposits in 2008.

Exchange (Losses) Gains

The Company incurred an exchange loss of $5.3 million in 2008 due to the weakening of the U.S. dollar against the Hong Kong dollar and Renminbi, compared to an exchange gain of $12.4 million in 2007.

Impairment of Capital Assets

The impairment of capital assets amounted to $18.2 million in 2008 and $20.8 million in 2007, representing a write-down of certain manufacturing facilities to fair market value due to continued losses over the years.

Loss on Changes in Fair Value of Financial Instrument

In 2008, the Company recorded a loss of $1.8 million related to changes in fair value of financial instruments, resulting from a loss of $2.9 million on the embedded conversion option of the convertible bonds issued by Omnicorp Limited, offset by a gain of $1.1 million on the foreign currency swap.

EBITDA

EBITDA increased 21.5%, from $487.6 million in 2007 to $592.5 million in 2008, as a result of the increase in revenue in 2008.

Provision for Income Taxes

In 2008, the provision for income taxes was $24.1 million compared to $18.0 million in 2007; the increase was due primarily to the higher income earned for the year.

Net Income for the Year

As a result of the foregoing, net income for the year increased 50.1%, from $152.3 million in 2007 to $228.6 million in 2008. Overall net income for the year as a percentage of revenue increased from 21.3% in 2007 to 25.4% in 2008.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the years ended December 31, 2007 and 2008:

Years ended December 31, *(in millions)*	**2008** **$**	2007 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations [4]	**541.7**	455.5
Net change in working capital [5]	**(58.6)**	27.0
Total	**483.1**	482.5
Cash flows from operating activities of discontinued operations	—	3.8
Cash flows used in investing activities	**(704.0)**	(692.3)
Cash flows from financing activities	**331.8**	376.9
Effect of exchange rate changes on cash and cash equivalents	**1.6**	4.9
Net increase in cash and cash equivalents	**112.5**	175.8

Cash Flows from Operating Activities of Continuing Operations

Net cash provided from operating activities increased from $482.5 million in 2007 to $483.1 million in 2008. The increase was due to the increase in cash provided by operations, offset by the decrease in cash provided by working capital that mainly resulted from the increase in accounts receivables of wood fibre operations.

Cash Flows Used in Investing Activities

In 2007 and 2008, cash flows used in investing activities were primarily used for capital expenditures to obtain additional forestry plantations, investments in manufacturing facilities and other assets. Our cash outlays for our forestry plantations amounted to $640.3 million in 2007 and $656.7 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $12.6 million in 2007 and $30.2 million in 2008. Our cash outlays for other assets amounted to $31.2 million in 2007 and $9.6 million in 2008. The increase in non-pledged short-term deposits was $8.7 million in 2007 and $5.6 million in 2008. In addition, we paid $0.8 million in 2007 and $1.9 million in 2008 in business acquisitions.

Cash Flows From Financing Activities

In 2008, cash flows from financing activities consisted of net proceeds of $335.9 million from the issuance of convertible senior notes, an increase in bank indebtedness of $15.6 million and net proceeds from the issuance of shares of $1.6 million, offset by payment on derivative financial instruments of $4.9 million and the increase of pledged short-term deposits of $16.3 million. In 2007, cash flows from financing activities consisted of primarily net proceeds from issuance of shares of $389.9 million and a decrease in pledged short-term deposits of $6.2 million, offset by a decrease in bank indebtedness of $17.0 million and payment on derivative financial instruments of $2.2 million.

Results of Operations – Q4 2008 vs Q4 2007

The following table sets forth the selected financial information for the three months ended December 31, 2008 and 2007:

	Three months ended December 31,	
		[Restated]
	2008	2007
	$	$
	(in thousands, except earnings per share)	
Revenue	**282,485**	310,850
Cost of sales	**(159,448)**	(212,522)
Gross profit [1]	**123,037**	98,328
Net income from continuing operations	**79,918**	42,690
Net income	**95,490**	55,470
EBITDA [2]	**192,039**	247,055
Earnings per share from continuing operations [3]		
Basic	**0.44**	0.23
Diluted	**0.43**	0.23
Earnings per share [3]		
Basic	**0.52**	0.30
Diluted	**0.51**	0.30

Revenue

The following table sets forth the breakdown of our total revenue in the fourth quarters of 2008 and 2007:

	Three months ended December 31,			
	2008		2007	
	$'000	**%**	$'000	%
Wood Fibre Operations				
Plantation Fibre	**211,907**	**75.0**	260,359	83.8
Other Fibre	**51,960**	**18.4**	34,569	11.1
Manufacturing and Other Operations	**18,618**	**6.6**	15,922	5.1
Total	**282,485**	**100.0**	310,850	100.0

Revenue declined slightly in the fourth quarter of 2008 compared to the same quarter of 2007 due to lower volume in cubic metres of fibre sold as demand slowed in China after the global economic slowdown started in the second half of 2008. Given uncertainty during these current economic times, some customers were reluctant to make large purchases of fibre in the fourth quarter of 2008.

Wood Fibre Operations Revenue

Plantation Fibre

For the fourth quarters ended December 31, 2008 and 2007, plantation fibre sales were as follows:

	Three months ended December 31,					
	2008			2007		
	Hectares	**Sales per hectare**	**Total revenue**	Hectares	Sales per hectare	Total revenue
Plantation Model		**$**	**$'000**		$	$'000
Purchased plantations	**35,796**	**5,708**	**204,331**	75,827	3,335	252,853
Integrated plantations	**438**	**11,384**	**4,986**	—	—	—
Planted plantations	**2,131**	**1,215**	**2,590**	5,668	1,324	7,506
Total	**38,365**	**5,523**	**211,907**	81,495	3,195	260,359

Plantation fibre revenue decreased 18.6% in the fourth quarter 2008. This decrease was mainly due to lower sales of purchased and planted plantations in 2008.

The total volume of fibre sold during the fourth quarter 2008 was approximately 3.4 million m^3, with approximately 3.3 million m^3 from purchased and planted plantations, and approximately 48,000 m^3 from integrated plantations. In the same quarter last year, we sold a total of approximately 4.9 million m^3 from purchased and planted plantations.

The average yield of fibre sold under the purchased and planted plantations in 2008 was 88 m^3 per hectare compared to 60 m^3 per hectare in the same quarter last year and obtained an average selling price of $62 per m^3 compared to $53 per m^3 – an increase of 16.9% (including 10.4% appreciation of the Renminbi versus US dollars).

The average yield of harvested logs sold under the integrated plantations was 110 m^3 per hectare and it commanded an average selling price of $104 per m^3.

Plantation fibre sales comprised 75.0% of total revenue in 2008, compared to 83.8% in 2007.

Other Fibre

Revenue from sales of imported wood products increased 19.3%, from $34.3 million in 2007 to $40.9 million in 2008. This increase was primarily due to higher volume of imported logs sold.

Revenue from sales of wood logs increased to $11.1 million in 2008 from $0.3 million in 2007, due primarily to the increased volume of PRC-sourced wood logs sold.

Other fibre sales comprised 18.4% of total revenue in 2008, compared to 11.1% of total revenue in 2007.

Manufacturing and Other Operations Revenue

Revenue from our manufacturing and other operations increased 16.9% from $15.9 million in 2007 to $18.6 million in 2008 mainly due to higher revenue from sales of engineered wood flooring and relatively new processing facilities in southern China.

Gross Profit

Gross profit increased 25.1%, from $98.3 million in 2007 to $123.0 million in 2008. Gross profit margin, being gross profit expressed as a percentage of revenue, increased from 31.6% in 2007 to 43.6% in 2008 mainly due to the sales of plantation fibre and sales of wood logs which earn a higher gross profit margin compared to other business segments.

Wood Fibre Operations Gross Profit

Gross profit margin from sales of purchased and planted plantations increased from 36.9% in 2007 to 56.1% in 2008, due to higher selling prices and the improved yield per hectare sold resulting in a lower fibre cost per m^3.

The gross profit margin for sales of logs from the integrated plantation operations was 37.8% or $39 per m^3.

Gross profit margin from sales of imported wood products increased from 3.1% in 2007 to 3.5% in 2008.

Gross profit margin from sales of wood logs decreased from 23.3% in 2007 to 19.0% in 2008 as a result of the change in mix of species of wood logs sold as compared to the same quarter last year.

Manufacturing and Other Operations Gross Profit

Gross profit margin from our manufacturing and other operations increased from 7.6% in 2007 to 8.3% in 2008, primarily due to the improvement from nursery segments and the suspension of certain manufacturing facilities during the quarter.

Selling, General and Administration Expenses

Our selling, general and administration expenses increased 48.6%, from $15.6 million in 2007 to $23.2 million in 2008, due primarily to additional staff complement.

Depreciation and Amortization

Depreciation and amortization decreased 30.0%, from $1.9 million in 2007 to $1.3 million in 2008, due to the impairment charge taken on certain manufacturing facilities, partially offset by the increased capital assets.

Income from Operations

Income from operations increased 21.9%, from $80.8 million in 2007 to $98.5 million in 2008, due to the factors explained above. Our income from operations as a percentage of revenue increased from 26.0% in 2007 to 34.9% in 2008.

Interest Expense

Interest expense increased 56.7%, from $10.7 million in 2007 to $16.7 million in 2008, due primarily to the interest on the 5% convertible senior notes issued in 2008.

Interest Income

Interest income decreased 22.6%, from $4.0 million in 2007 to $3.1 million in 2008, due primarily to the decrease in interest rate earned on deposits in 2008.

Exchange Losses

The Company incurred an exchange loss of $1.1 million in 2008 due to weakening of the U.S. dollar versus the Hong Kong dollar and Renminbi, compared to $4.2 million in 2007.

Impairment of Capital Assets

Impairment of capital assets amounted to $20.8 million in 2007, representing the write-down of certain manufacturing facilities to fair market value due to continued losses as a result of increasing input cost of production.

Loss on Changes in Fair Value of Financial Instruments

During the quarter, the Company recorded a loss of $0.7 million related to changes in fair value of financial instruments, resulting from a loss of approximately $0.8 million on the foreign currency swap, offset by a gain of approximately $0.1 million on the embedded conversion option of the convertible bonds issued by Omnicorp Limited.

EBITDA

EBITDA decreased 22.3%, from $247.1 million in 2007 to $192.0 million in 2008, as a result of lower revenue in 2008.

Provision for Income Taxes

In 2008, the provision for income taxes was $4.2 million compared to $6.6 million in 2007; the decrease was primarily due to lower PRC income tax rates in 2008 and the impact of accounting policy for uncertainty in income tax.

Net Income for the Period

As a result of the foregoing, net income for the period increased 72.1%, from $55.5 million in 2007 to $95.5 million in 2008. Overall net income for the period as a percentage of revenue increased from 17.8% in 2007 to 33.8% in 2008.

Cash Flows

The following table sets forth a condensed summary of our statement of cash flows for the three months ended December 31, 2008 and 2007:

Three months ended December 31, *(in millions)*	**2008** **$**	2007 $
Cash flows from operating activities of continuing operations		
Net cash provided by operations (4)	**178.4**	222.8
Net change in working capital (5)	**33.2**	20.8
Total	**211.6**	243.6
Cash flows used in operating activities of discontinued operations	—	(0.4)
Cash flows used in investing activities	**(261.0)**	(320.0)
Cash flows (used in) from financing activities	**(9.9)**	18.1
Effect of exchange rate changes on cash and cash equivalents	**(0.6)**	(11.8)
Net decrease in cash and cash equivalents	**(59.9)**	(70.5)

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities decreased 13.1% to $211.6 million in 2008. The decrease was mainly due to decrease in cash provided by operations.

Cash Flows Used in Investing Activities

In 2007 and 2008, 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 $296.2 million in 2007 and $242.5 million in 2008. Our cash outlays for our manufacturing facilities and other capital assets amounted to $6.2 million in 2007 and $5.1 million in 2008. Increase in non-pledged short-term deposits in 2007 amounted to $5.4 million and $3.1 million in 2008. Our cash outlays for other assets amounted to $12.6 million in 2007 and $10.3 million in 2008. In addition, the Company paid $0.8 million in a business acquisition in 2007.

Cash Flows (Used in) From Financing Activities

In 2008, cash flows used in financing activities consisted of an increase in pledged short-term deposits of $13.9 million, offset by an increase in bank indebtedness of $4.0 million. In 2007, cash flows from financing activities consisted of an increase in bank indebtedness of $14.5 million, a decrease in pledged short-term deposits of $2.5 million and net proceeds from the issuance of shares of $1.1 million.

Issued and Outstanding Share Capital

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preference shares issuable in series, of which 183,119,072 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 203,590,683 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,464,008 outstanding stock options and the issuance of 17,007,603 shares upon the conversion of the $345,000,000 convertible senior notes.

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 in the form of standing timber 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.

The Company begins 2009 with a strong financial position. Cash and cash equivalents of $441.2 million allows Sino-Forest to manage the pace of its vision and strategies during the current global recession, the duration of which is difficult to predict. Sino-Forest continually assesses the quality of its accounts receivable, cash and cash equivalent and other assets and will take appropriate actions in response to changing market conditions.

Financing Arrangements and Contractual Obligations

As of December 31, 2008, we had secured and unsecured short-term borrowings of $73.2 million, comprising $38.6 million of short-term bank loans and $34.6 million of trust receipt loans. We had long-term debt of $714.5 million. Our borrowings were denominated in U.S. dollars and Renminbi.

Short-Term Borrowings

As of December 31, 2008, we had $189.5 million short-term credit facilities with banks in Hong Kong and the PRC to fund short-term working capital requirements. Pursuant to the non-convertible senior notes' covenants, the maximum amount of the short-term borrowings allowed is $100 million. As of December 31, 2008, $73.2 million in respect of bank indebtedness and $25.5 million in respect of other bank instruments were utilized. Interest is payable on these short-term borrowings at a weighted average rate of 6.4% per annum, and the borrowings are either repayable on demand or due in less than one year. As of December 31, 2008, 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 $20.7 million and certain bank deposits of $16.6 million.

Other Contractual Obligations

As of December 31, 2008, we had other contractual obligations relating to: (1) approximately $75.0 million in respect of capital contributions to our Wholly Foreign Owned Enterprises ("WFOEs"); (2) $15.0 million of capital commitments with respect to buildings and plant and machinery; (3) $6.4 million of purchase commitments mainly regarding logs; (4) commitments under operating leases of approximately $56.1 million; and (5) $714.5 million long-term convertible and 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, 2008:

	Payment Due by Period				
	Total $'000	Within one year $'000	In the second and third year $'000	In the fourth and fifth year $'000	After the fifth year $'000
Long-term debt [6]	714,468	—	443,898	270,570	—
Capital contributions	75,000	750	4,250	70,000	—
Capital commitments [7]	15,020	15,020	—	—	—
Purchase commitments	6,400	6,400	—	—	—
Operating leases [8]	56,074	3,164	4,857	4,657	43,396
Total contractual cash obligations	866,962	25,334	453,005	345,227	43,396

Under the master agreement entered in July 2006 to secure at least 1.5 million m^3 of wood fibre annually over a 12-year period in Inner Mongolia, the Company has acquired 17,000 m^3 of wood fibre as at December 31, 2008.

Under the master agreements entered in September and December 2006 to acquire 400,000 hectares of plantation trees over a 14-year period in Hunan, the Company has acquired 70,834 hectares of plantation trees for $299.0 million as at December 31, 2008.

Under the master agreement entered in March 2007 to acquire 200,000 hectares of plantation trees over a 10-year period in Yunnan, the Company has acquired 39,502 hectares of plantation trees for $232.5 million as at December 31, 2008.

Under the master agreement entered in December 2007 to acquire 150,000 hectares of plantation trees over a 5-year period in Guangxi, the Company has acquired 75,111 hectares of plantation trees for $343.5 million as at December 31, 2008.

Under the master agreement entered in August 2008 to acquire 200,000 hectares of plantation trees over a 10-year period in Fujian, the Company has not acquired any hectares of plantation trees as at December 31, 2008.

Guarantees

We also periodically issue guarantees to third parties in relation to the debt of our subsidiaries. As of December 31, 2008, we had provided guarantees of approximately $131.4 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, 2008:

	Three months ended December 31, 2008		**Twelve months ended December 31, 2008**	
(in millions)	**Hectares**	**$**	**Hectares**	**$**
Tree acquisition – Purchased plantations	**64,302**	**271.3**	**127,834**	**646.4**
Re-planting and maintenance of plantations		**10.7**		**26.1**
Panel manufacturing and other operations		**5.0**		**30.1**
Total		**287.0**		**702.6**

Capital expenditures incurred at our plantations were for the acquisition of a variety of mature and immature trees, and various plantation management costs, including land lease costs, the costs of planting, developing seedlings, fertilization, insecticide, labor and plantation maintenance service fees. Capital expenditures for manufacturing plants included the costs of constructing the facilities and purchasing and installing production line equipment. The difference between the cash outlays for our forestry plantations in the consolidated statements of cash flows and the above capital expenditure on plantations was due to non-cash transactions movement of accounts payable and capitalization of deposit paid for acquisition of plantations from other assets to timber holdings.

For 2009, capital expenditures are expected to be around $700 million for plantation acquisitions, replanting and maintenance, and approximately $30 million for the development of manufacturing facilities integrated with plantation operations. These acquisition levels will be adjusted as necessary given future changes in the economic climate in the PRC.

Independent Valuation of our Forest Assets by Poyry

According to the forest asset valuation conducted by independent forestry consultants, Poyry, the valuation of the Company's existing forest assets as at December 31, 2008 based on a single rotation was $1.64 billion, and on a perpetual rotation was $1.69 billion (using a pre-tax discount rate of 11.5%). Poyry's original 2007 valuation, based on a perpetual rotation, included forest assets assumed to be acquired under the three master agreements in Hunan, Yunnan and Guangxi Provinces (the "Master Agreements"). Poyry's revised 2007 valuation, based on a perpetual rotation, excluding forest assets assumed to be acquired under the three Master Agreements, was $1.47 billion. Poyry's 2008 valuations represent increases of 32% based on a single rotation and 15% based on a perpetual rotation, compared to the revised 2007 valuations.

A full copy of the valuation report will be posted on our website www.sinoforest.com under "Investor Relations, Filings" and also filed on www.sedar.com on or about March 31, 2009.

Aging of Accounts Receivable

Plantation Fibre Operations

We recognize revenue from plantation fibre when the buyer has signed the sales contract and the significant risks and rewards of ownership have been transferred to the buyer. After the buyer has entered into the sales contract, we generally give the buyers of standing timber extended credit terms to log and haul the timber from the plantations. Based on a twelve-month period, on average, customers repay outstanding balances in around three months.

		Aging Analysis					
	Total Accounts Receivable	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	Over One Year
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At December 31, 2008	**182,307**	**73,527**	**74,586**	**14,653**	**19,489**	**52**	—
At December 31, 2007	72,139	69,689	268	175	2,004	3	—

Other Fibre Operations, Manufacturing and Other Operations

We recognize revenue from the sale of logs and other products when the significant risks and rewards of ownership of the logs and other products have been transferred to the customer, usually on the delivery of the goods. Revenue from wood product and nursery contracts are recognized based on percentage-of-completion method.

		Aging Analysis					
	Total Accounts Receivable	0-30 Days	31-60 Days	61-90 Days	91-180 Days	181-360 Days	Over One Year
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At December 31, 2008	**44,149**	**23,002**	**8,787**	**4,457**	**2,975**	**2,320**	**2,608**
At December 31, 2007	33,190	12,291	5,738	13,185	1,700	276	—

Currently, there is no indication that the Company's accounts receivables are non-collectible thus, an allowance has not been set up. To mitigate the risk on these receivables, the Company has established relationships with customers who have a very good credit rating and solid reputation.

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 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively.

Taxation

PRC 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 Enterprise Income Tax Laws effective January 1, 2008 ("New EIT Law"), WFOEs, Sino-Foreign Equity and Co-operative Joint Venture Enterprises ("CJV") are subject to PRC enterprise income tax at an effective rate of 25% [2007 – 24% to 33%] on taxable income as reported. Pursuant to the old Income Tax Laws, qualifying PRC WFOEs and CJVs engaged in agriculture and manufacturing could be eligible for an exemption from PRC enterprise 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 had not yet commenced, it will be deemed to begin on January 1, 2008. Pursuant to the New EIT Law, the PRC WFOEs and CJVs engaged in forestry plantation if eligible could apply for an exemption from PRC enterprise income tax.

Sino-Forest's tax charges for the years ended December 31, 2008 and 2007 were $24.1 million and $18.0 million, respectively, which represented effective tax rates of 10.0% and 11.2%, respectively. 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, 2008. 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 the Chairman and Chief Executive Officer and the President of the Company in the form of consultancy fees to companies controlled by the noted executive officers. The consultancy fees incurred in 2008 amounted to $5,960,000 [December 31, 2007 - $4,587,000] and were recorded at an exchange amount as agreed by the related parties.

In addition, as at December 31, 2008, we had an aggregate amount of $4,900,000 accrued [December 31, 2007 - $3,000,000] for consultancy fees payable to these related companies.

As described above under "Significant Business Activities – Omnicorp Purchase", Simon Murray, a director of the Company and an entity controlled by Mr. Murray were among the vendors in the February 6, 2009 Omnicorp transaction.

Non-GAAP Measures

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included at the end of this MD&A are tables calculating or reconciling these non-GAAP measures where applicable.

EBITDA, gross profit, sales per hectare, price per m^3 and gross margin per m^3 are included in this MD&A because these statistics are key performance indicators that management uses to monitor performance. Management uses these statistics to assess how well the Company is performing compared to budget and to make strategic decisions. Management believes that the inclusion of these statistics in the MD&A helps investors and analysts to assess the Company's ability to grow its timber holdings, to forecast future results, to assess our current and future operating results and to make investment decisions. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

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, 2008:

	Revenue	Net Income	[Restated] Earnings Per Share [3] Basic	Diluted
	$	$	$	$
	(in thousands, except per share amounts)			
2008				
December 31	**282,485**	**95,490**	**0.52**	**0.51**
September 30	295,548	75,175	0.41	0.40
June 30	187,125	43,401	0.24	0.24
March 31	136,137	14,527	0.08	0.08
2007				
December 31	310,850	55,470	0.30	0.30
September 30	161,475	63,383	0.35	0.35
June 30	128,764	21,910	0.13	0.13
March 31	112,777	11,510	0.08	0.08

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 63.5% of the Company's consolidated total assets as at December 31, 2008. 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

Our principal operating subsidiaries incorporated in the British Virgin Islands (the "BVI Subsidiaries") are engaged in the sale of standing timber and earning income ("Authorized Sales Activities") in the PRC through authorized intermediaries ("AI") that are domestic enterprises of the PRC. In accordance with the PRC laws and regulations relating to PRC enterprise income tax, foreign companies such as the BVI Subsidiaries, deriving income from sources in the PRC are subject to enterprise income tax. This also applied to income and commission revenue that the BVI Subsidiaries received from the sale of wood chips in prior years. The wood chips and commission operations were discontinued in 2007.

Under the terms of the master agreements, relevant sales and purchase contracts and commission agreements ("AI Agreements") made with the AI, the AI are responsible for remitting relevant PRC taxes that arise from the Authorized Sales Activities. It is a question of fact whether the PRC tax authorities may be successful in establishing that the BVI Subsidiaries are subject to enterprise income tax due to the Authorized Sales Activities. Management has concluded that based upon all available evidence it is appropriate to record in the accounts a reserve for tax benefits representing management's estimate, based upon cumulative probabilities, of the amount the PRC tax authorities might seek to recover.

Included in accounts payable and accrued liabilities including discontinued operations as at December 31, 2008 is the balance of the tax provision for the tax related contingency amounting to $89,909,000 [2007 – $80,165,000] 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.

Management evaluates the provision for tax related liabilities on a quarterly basis or as necessary and believes that an adequate provision for tax related liabilities has been recognized in the financial statements.

Changes in Accounting Policies

On January 1, 2008, the Company adopted the following new and amended Canadian Institute of Chartered Accountants ("CICA") accounting standards:

Section 3862 Financial Instruments — Disclosure, describes the required disclosures related to the significance of financial instruments on the Company's financial position and performance and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks and Section 3863 Financial Instruments — Presentation, describes the standards for presentation of financial instruments and non-financial derivatives and carries forward, unchanged, the presentation requirements of Section 3861 Financial Instruments — Disclosure and Presentation. Additional disclosure has been provided in note 16 to the consolidated financial statements.

Section 1535 Capital Disclosures, establishes standards for disclosing information about the Company's capital and how it is managed to enable users of financial statements to evaluate the Company's objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, as discussed further in note 17 to the consolidated financial statements.

Section 3031 Inventories, which replaced Section 3030 Inventories, establishes standards on the definition of 'cost' to include all costs of purchase (net of supplier payment discounts), costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead costs that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. Additional disclosure has been provided in note 5 to the consolidated financial statements.

Section 1400 General Standards of Financial Statement Presentation, describes the requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The above noted new and amended standards have no material impact on the classification and measurement in the consolidated financial statements.

Future Accounting Standards

The CICA has issued the following Handbook Section, which applies commencing with the Company's 2009 fiscal year.

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, replacing Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. The new Section establishes standards on the recognition, measurement, presentation and disclosure for goodwill and intangible assets subsequent to their initial recognition. This new standard is applicable to interim and annual financial statements of the Company beginning on January 1, 2009. The Company has evaluated the new section and determined that adoption of these requirements will have no impact on the Company's consolidated financial statements.

In January 2009, the CICA issued EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to the Company's 2009 fiscal year with retrospective without restatement of prior periods. The Company is in process of evaluating the impact of this new guidance.

In January 2009, the CICA issued Section 1601 Consolidations and Section 1602 Non-controlling Interests. CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are applicable to interim and annual financial statements of the Company beginning on January 1, 2011. The Company is in the process of evaluating the impact of these standards.

In January 2009, the CICA issued Section 1582, Business Combinations replacing Section 1581 Business Combinations. The new section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. The section is applicable to the annual and interim financial statements of the Company beginning on or January 1, 2011, with early adoption permitted. The Company is in the process of evaluating the impact of this standard.

International Financial Reporting Standards

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") effective January 1, 2011. Reporting issuers will be required to provide IFRS comparative information for the previous year. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible assets", thus mitigating the impact of adopting IFRS at the changeover date.

The Company commenced its IFRS conversion project in 2008. The project consists of four phases: diagnostic, design and planning, solution development and implementation. The Company will invest in training and resources throughout the transition period to facilitate a timely conversion.

The diagnostic phase was completed during the later part of 2008. This work involved a high-level review of the major differences between current Canadian GAAP and IFRS. While a number of differences have been identified, the areas of highest potential impact are as follows: timber holdings, property, plant and equipment; impairment of assets; income taxes and foreign exchange accounting. The Company expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

During the coming year, the Company will initiate the design and planning phase that will involve establishing issue-specific work teams to focus on generating options and making recommendations in the identified risk areas. During the design and planning phase, the Company will establish a staff communications plan, begin to develop staff training programs, and evaluate the impacts of the IFRS transition on other business activities.

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-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 which will expire in 2009. 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 2008 and 2007, 86.2% and 81.6% of the sales were received in Renminbi respectively and 13.8% and 18.4% of the sales were received in U.S. dollars and Euro respectively. We translate our results of self-sustaining foreign operations into U.S. dollars using the current rate method. It is expected in the future that substantially all of the sales will be received in Renminbi. The majority of the our operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on our net investment in self-sustaining foreign operations, for which foreign currency translation gains or losses have been recorded under accumulated other comprehensive income.

A portion of our revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. We have a substantial amount of indebtedness denominated in U.S. dollars. Foreign currency-based earnings are translated into U.S. dollars each period. As a result, fluctuations in the value of the U.S. dollar relative to other currencies will impact reported net income. Such exchange rate fluctuations have historically not been material year over year relative to our overall earnings or financial position. A fluctuation of +/-1%, provided as an indicative range in currency movement, on financial instruments that are denominated in foreign currency other than U.S. dollars, would, everything else being equal, have an effect on net income after tax and other comprehensive income in 2008 of approximately $4.0 million and $nil, respectively.

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. 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, 2008, we had Renminbi denominated bank accounts of RMB531.5 million (equivalent to $77.8 million) [2007 – RMB454.6 million, equivalent to $62.0 million], U.S. dollar denominated bank accounts of $403.1 million [2007 – $275.2 million], Canadian dollar denominated bank accounts of Cdn$5.4 million (equivalent to $4.4 million) [2007 – Cdn.$10.1 million, equivalent to $10.2 million], Hong Kong dollar denominated bank accounts of HK$0.8 million (equivalent to $0.1 million) [2007 – HK$13.6 million, equivalent to $1.7 million] and Euro denominated bank accounts of €1.1 million (equivalent to $1.6 million) [2007 – €1.2 million, equivalent to $1.7 million]. We also had U.S. dollar and Renminbi denominated accounts receivable of $15.2 million [2007 – $16.3 million] and RMB1,444.0 million (equivalent to $211.3 million) [2007 – RMB652.2 million, equivalent to $89.0 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.

Credit Risk

We are exposed to credit risk with respect to accounts receivable from customers. Accounts receivable as at December 31, 2008 included $79,058,000 due from three customers [December 31, 2007 – $40,132,000 due from three customers] representing 34.9% [2007 – 38.1%] of outstanding receivables. We undertake credit evaluations on customers as necessary and have monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically we have made arrangements with our debtors to settle amounts payable with respect to the purchase of standing timber on our behalf. As at December 31, 2008, $27,444,000 [2007 – $3,983,000] or 12.1% [2007 – 3.8%] of accounts receivable, were aged more than 90 days. We have no allowance for doubtful accounts in 2008 and 2007.

We are exposed to credit risk with respect to cash equivalents and accounts receivable. The carrying amount of assets included on the balance sheet represents the maximum credit exposure.

The cash equivalents consist mainly of short-term investments, such as money market deposits. None of the cash equivalents were in asset backed commercial paper products. We have deposited the cash equivalents in banks that meet minimum requirements for quality and liquidity as stipulated by our Board of Directors. We believe our risk of loss to be remote.

Liquidity Risk

Liquidity risk is the risk that we may encounter difficulties in meeting obligations associated with financial liabilities. Our growth strategy requires significant financial resources which are derived from cash flows provided by operations, additional debt, the issuance of equity or a combination thereof. As at December 31, 2008, we were holding cash and cash equivalents of $441.2 million. We have determined that continued cash flow from operations in 2009 together with the cash and cash equivalents from previous financings will be more than sufficient to fund our requirements for investments in working capital, timber holdings and capital assets.

Interest Rate Risk

We are exposed to interest rate risk resulting from fluctuations in interest rates on our debts, primarily on our bank indebtedness and syndicated notes. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings and financial instruments. As at December 31, 2008, $183.2 million or 23.3% of our total debt is subject to variable in interest rates. A +/-1% change in interest rates, which is indicative of the change in the prime lending rate over the preceding twelve-month period, would have an impact on income after taxes for the year of approximately $1.8 million. We do not currently use any derivative instruments to modify the nature of our debts so as to manage interest rate risk. We minimize interest rate risk by managing our portfolio of variable and fixed rate debt, as well as managing the term to maturity.

We are also exposed to interest rate risk on cash equivalents. We do not use financial instruments to mitigate this risk.

Commodity Price Risk

We are exposed to fluctuations in the prices of standing timber 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 and wood-based products are made at market prices. Therefore, fluctuations in the prices of standing timber 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 or purchases of standing timber 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 designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. As at December 31, 2008, the CEO and CFO have evaluated the effectiveness of the Company's DC&P and ICFR using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, the CEO and CFO have concluded that the design and effectiveness of the Company's DC&P and ICFR are ineffective due to the weakness discussed below with respect to ICFR.

The success of the Company's vision and strategy of acquiring and selling forestry plantations and access to a long-term supply of wood fibre in the PRC is dependent on senior management. As such, senior management plays a significant role in maintaining customer relationships, negotiating and finalizing the purchase and sale of plantation fibre contracts and the settlement of accounts receivable and accounts payable associated with plantation fibre contracts. This concentration of authority, or lack of segregation of duties, creates risk in terms of measurement and completeness of transactions as well as the possibility of non-compliance with existing controls, either of which may lead to the possibility of inaccurate financial reporting.

As disclosed in the previous quarter, the Company did not maintain appropriate information systems controls and procedures in areas such as system changes, logic access and spreadsheets. This creates a risk of inaccurate, unauthorized and incomplete financial data which would impact the Company's financial reporting. During the fourth quarter of 2008, the Company implemented further changes in roles and responsibilities within the information technology department and implemented policies and procedures to help standardize and manage system change processes, user access and security, user access review, to enhance the overall control environment and to document its internal control processes and procedures.

As a result, management believes one of the material weaknesses previously disclosed has been effectively remediated. The one remaining weakness, being the lack of segregation of duties, continues to exist. Management continues to evaluate remediation plans for the above control deficiency and expects to continue these efforts to further strengthen our internal controls in 2009 and beyond.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

Outlook

We remain conservative when it comes to predicting wood fibre consumption and log prices but steady demand for wood fibre is prevalent. Although prices for harvested log are experiencing some downward pressure, prices for standing timber remain strong, reflecting sustainable buoyancy in this sector in the mid/long-term.

We anticipate positive effects from China's $586 billion stimulus plan, which includes infrastructure development and low-income housing construction.

We continue to focus on executing our long-term contracts at integrated plantation operations and acquiring wood fibre at competitive prices. Sino-Forest remains well capitalized, with strong liquidity of approximately half a billion dollars of cash. Continuous cash flow from the sale of logs will provide capital for large-scale replanting programs, which we anticipate will begin early this year. Our integrated plantation ramp-up is currently on track and we are confident that Sino-Forest will further strengthen its market position by developing a significant and sustainable long-term supply of fibre.

(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,	
	2008	2007	2006	**2008**	2007
	$'000	$'000	$'000	**$'000**	$'000
Income from continuing operations	**303,382**	197,468	135,145	**98,471**	80,791
Plus: depreciation and amortization	**4,627**	5,364	3,975	**1,337**	1,910
depletion of timber holdings	**284,532**	284,808	177,730	**92,231**	164,354
	592,541	487,640	316,850	**192,039**	247,055

(3) Earnings per share is calculated using the weighted average number of common shares outstanding during each period.

(4) 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, impairment of capital assets, changes in fair value of financial instrument and other assets, exchange gains and others.

(5) 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.

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

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

(8) These represent mainly leases of plantation land.