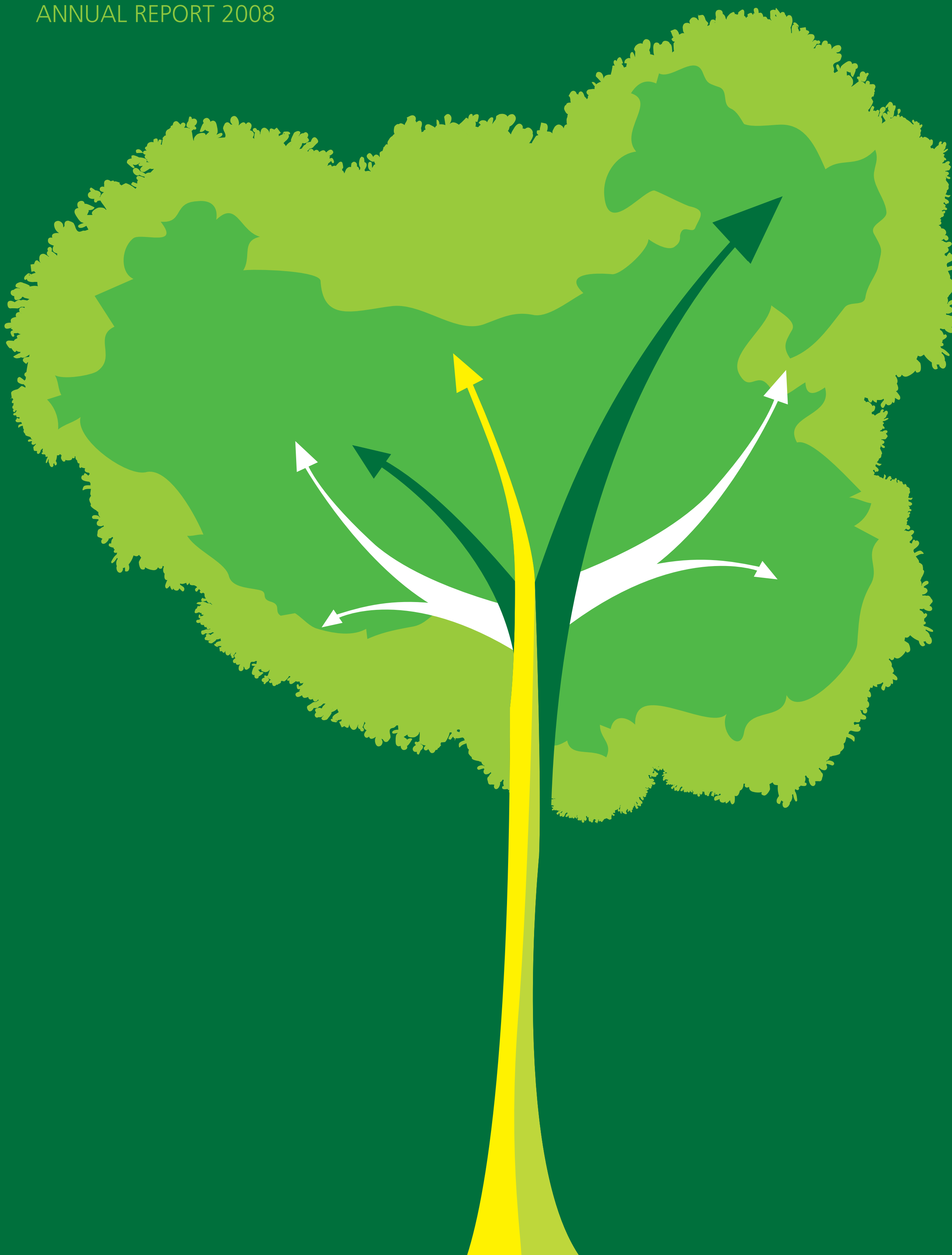
Sino-Forest Corporation

Growing with China

ANNUAL REPORT 2008



Business Profile

We are a leading commercial forest plantation operator in the People's Republic of China ("PRC"). Our principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and logs, and the complementary manufacturing of downstream engineered-wood products. Our common shares have traded on the Toronto Stock Exchange under the symbol TRE since 1995. Learn more at www.sinoforest.com.

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Note: Unless otherwise indicated, all dollar amounts in this annual report are expressed in U.S. dollars.

We apply R&D to develop genetically superior seedlings that make our trees more resistant to frost and pests.

“Growing with China”

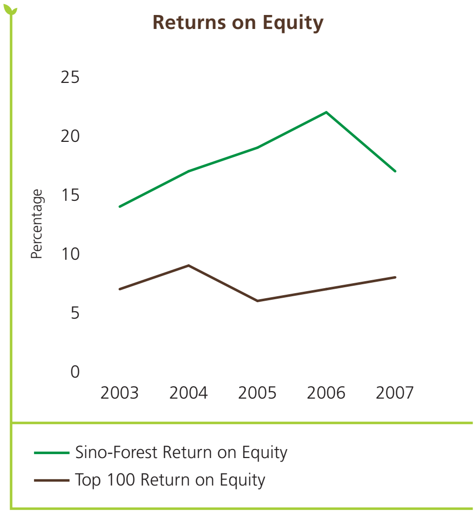
Sino-Forest represents a unique investment opportunity in the forestry sector in China:

- We cultivate trees that continuously grow in size and increase in market value, so our forest assets appreciate every day. As our trees grow in diameter and height, so do their selling price per cubic metre.
- Our fibre is sold in China, which has one of the most robust growth economies in the world.
- China’s demand for wood products and wood fibre remains strong, therefore a deficit of domestic wood fibre continues to exist.
- We are augmenting our portfolio of plantation trees, through both scientific enhancement of their natural growth and through expansion across China.
- We align our business plans with the Central Government’s Five-Year Plan in regard to forest coverage and productivity, and with government financial incentives to support the forestry sector.

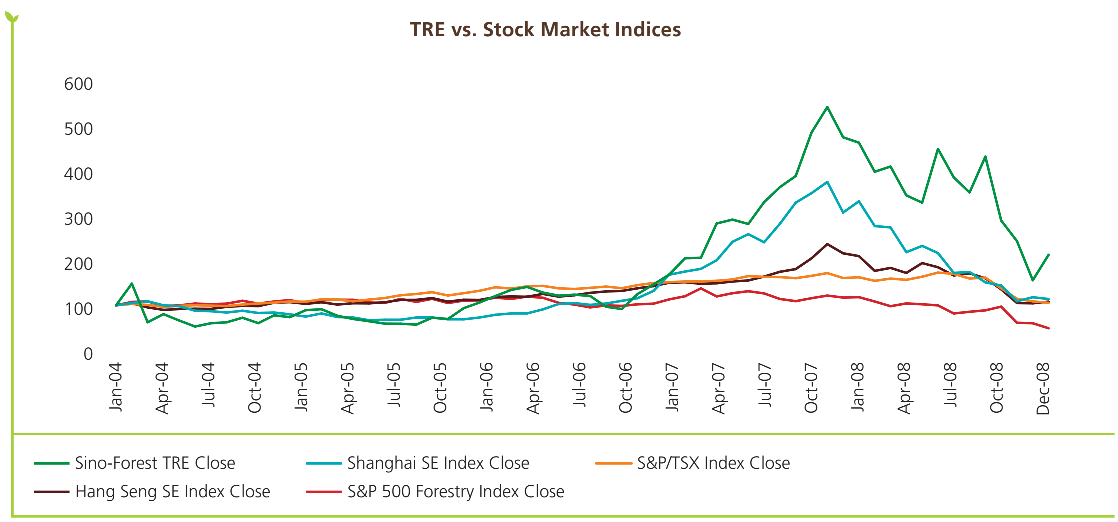
An Attractive Investment in China

Sino-Forest appeals to investors globally because the company has unique and compelling attributes that distinguish it from its forestry peers.

- We have established a strong position as a large, leading supplier of commercial wood fibre in fast-growing China. Our plantation trees are strategically located near major manufacturing hubs and large consumer markets.
- With a 14-year track record of exceptional prosperity and growth, our capable and well connected management team has developed forest industry insight and foresight, as well as technical expertise in cultivating trees, in managing large plantations sustainably and selling forest products.
- Our growing streams of income are broadly diversified by type of forest product and by geographic region.
- We have a strong cash position and balance sheet, and a proven capability to raise capital in global markets.



Source: PricewaterhouseCoopers Global Survey of Top 100 companies in Forest, Paper & Packaging sector



Source: Bloomberg

Diversified Operations in Growing Markets

A Growing Industry Leader

Since 1994, our management team has strategically and systematically expanded Sino-Forest so that it has become a leading commercial plantation operator with integrated manufacturing facilities spanning nine provinces and regions across China.

Our Business Model

Plantation Fibre

- At our purchased-tree plantations, we purchase young trees and cultivate them to maturity for sale as standing timber.
- At our planted-tree plantations, we lease land on a long term basis, apply superior scientific techniques to increase the fibre yield, sell the standing timber, and then replant.
- At our integrated plantations, we purchase mostly mature trees, and either sell the harvested logs or use the fibre at our manufacturing mills, and lease the underlying land for replanting.

Other Fibre

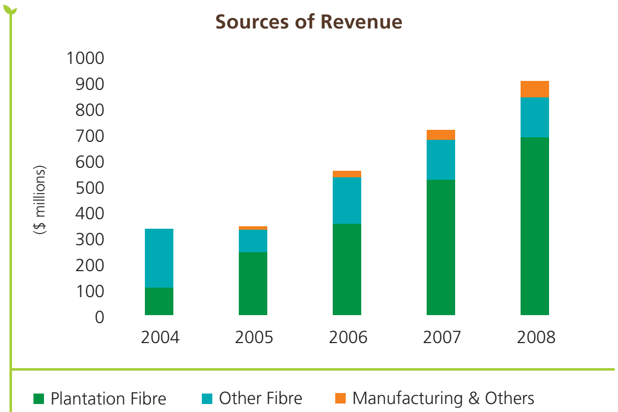
- We act as a trader, sourcing wood logs from other domestic suppliers and selling them in China.
- We source and import large-diameter logs, veneer, sawn timber and other wood-based products globally, and sell them in Chinese markets. We hold an equity interest in a South American tropical forest operator to secure quality, large-diameter logs.

Manufacturing and Other Operations

- We produce block board and oriented strand board.
- We fabricate engineered wood flooring and sell it at over 200 Sino-Maple branded stores nationwide.
- We provide nursery, greenery and other forest product services.

Diversified and Growing Revenues

Although commercial forest plantation management has always been our core business, our sources of revenue have evolved over the past several years. We focus primarily on the cultivation, sale and processing of wood fibre for a variety of customers across China.



End Users

Our consumers utilise our fibre supply for:

- Furniture and interior decoration products.
- Infrastructure construction materials.
- Residential and commercial building materials.
- Production of pulp and paper.

Growth in Key Performance Indicators

2008 Operating Highlights

- Began selling harvested logs from integrated plantations in Hunan and Yunnan Provinces.
- Signed a fourth long-term fibre acquisition agreement, covering 200,000 hectares of plantation trees in Fujian Province.
- Total hectares of trees under management increased to 347,000 hectares, up 11%.

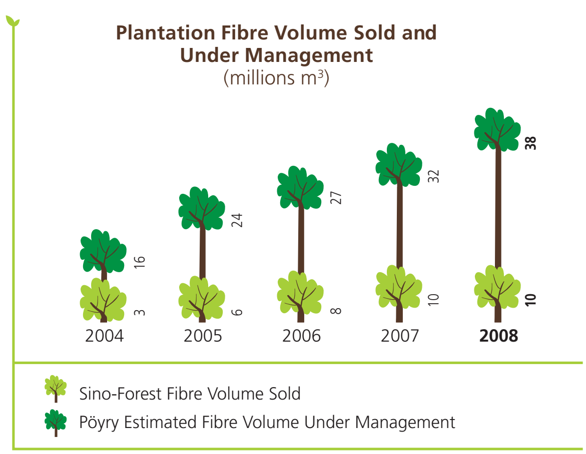
2008 Financial Highlights

- Revenue surpassed $900 million milestone.
- Raised gross proceeds of $345 million by issuing convertible guaranteed senior notes.
- Increased net income by 50% and diluted EPS by 37%.
- Strong liquidity with cash & cash equivalents and short-term deposits of $487 million.

US dollars in millions, except EPS and share price	**2008**	2007	Change (%)	3-year CAGR* (%)
Revenue	$901.3	$713.9	26%	38%
Gross profit	$364.7	$243.0	50%	52%
Gross profit margin	40.5%	34.0%	19% pts	-
EBITDA	$592.5	$487.6	22%	38%
Net income	$228.6	$152.3	50%	44%
Diluted earnings per share	$1.24	$0.90	37%	31%
Cash flow from operating activities	$483.1	$482.5	0%	47%
Capital expenditures	$702.6	$659.6	7%	33%
Cash and cash equivalents	$441.2	$328.7	34%	60%
Assets	$2,603.9	$1,837.5	42%	43%
Share price at year end (CAD$)	$9.87	$21.44	(54%)	26%
Total volume of fibre sold ('M m^3)**	10.9	10.5	4%	
Plantation fibre - vol. of wood fibre sold ('M m^3)	10.2	9.9	3%	17%
Hectares of trees acquired	127,834	104,517	22%	(10%)
- average purchase price (per ha)	$5,056	$5,967	(15%)	49%
Hectares of trees sold	103,945	146,037	(29%)	(1%)
- average selling price (per m^3)				
purchased & planted plantation model	$61	$53	15%	(17%)
integrated plantation model	$102	-	-	-
Hectares of trees under management at year end	347,000	312,000	11%	2%

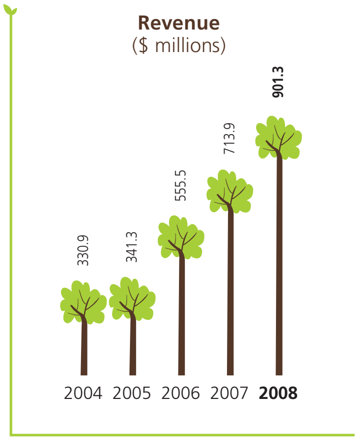
* Compound average annual growth rate from 2005 to 2008

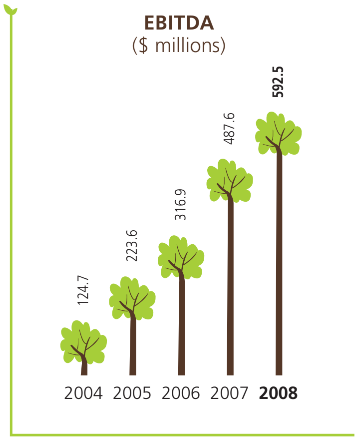
** Total volume sold includes standing timber, harvested logs and imported fibre. Sino-Forest's goal is to reach annual fibre sold of 18 million m^3 by 2011

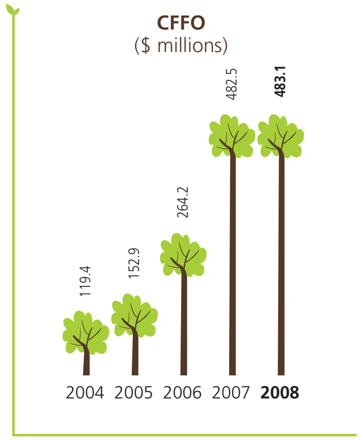


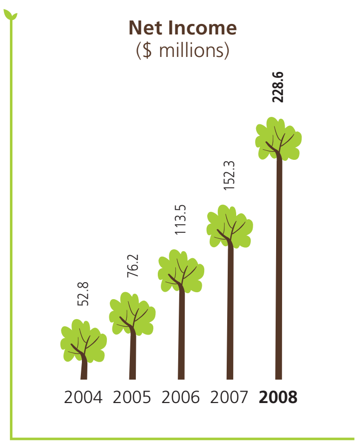
Our seedlings grow quickly in the tropical climates at most of our plantations.

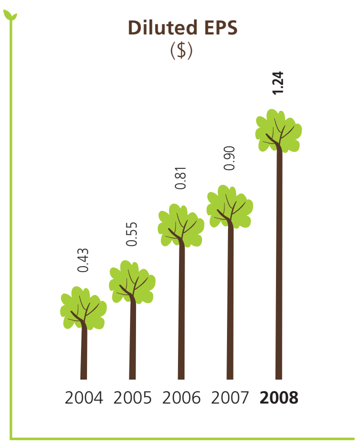
We continue to extend our strong track record of profitable growth.

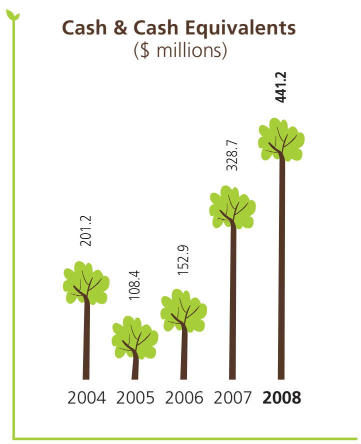












Forest Asset Valuation

Sino-Forest has commissioned Pöyry Forest Industry Ltd. ("Pöyry") to conduct a yearly market valuation of its forestry assets at its plantations. According to the recent annual valuation, the total volume of tree fibre under Sino-Forest management grew at a compound annual growth rate of 16% from 2005 to 2008, while its market value increased at a CAGR of 31% assuming a single rotation basis and 20% assuming a perpetual rotation basis. Pöyry's full report is available at www.sino-forest.com and www.sedar.com.

	2008#	2007#	Change (%)
Hectares of trees under management at year end	347,000	312,000	11%
Value of existing forest assets* ($ billions)	1.64	1.24	32%
Value with perpetual rotation** ($ billions)	1.69	1.47	15%
Total volume (millions m^3)	37.6	32.2	17%
Average yield (m^3 per hectare)	112	103	9%

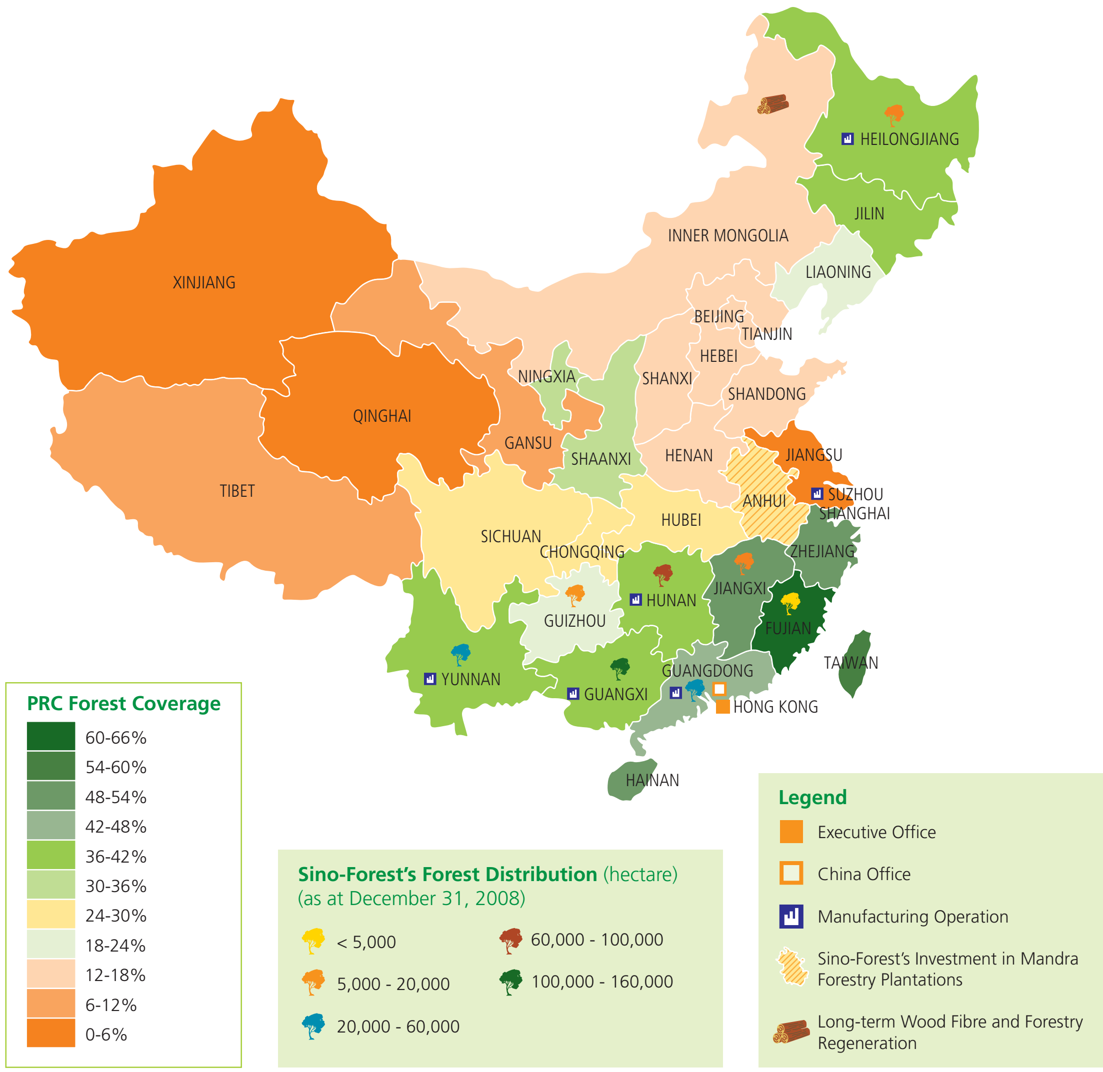
* Based on a single rotation - a one-off harvesting of standing timber

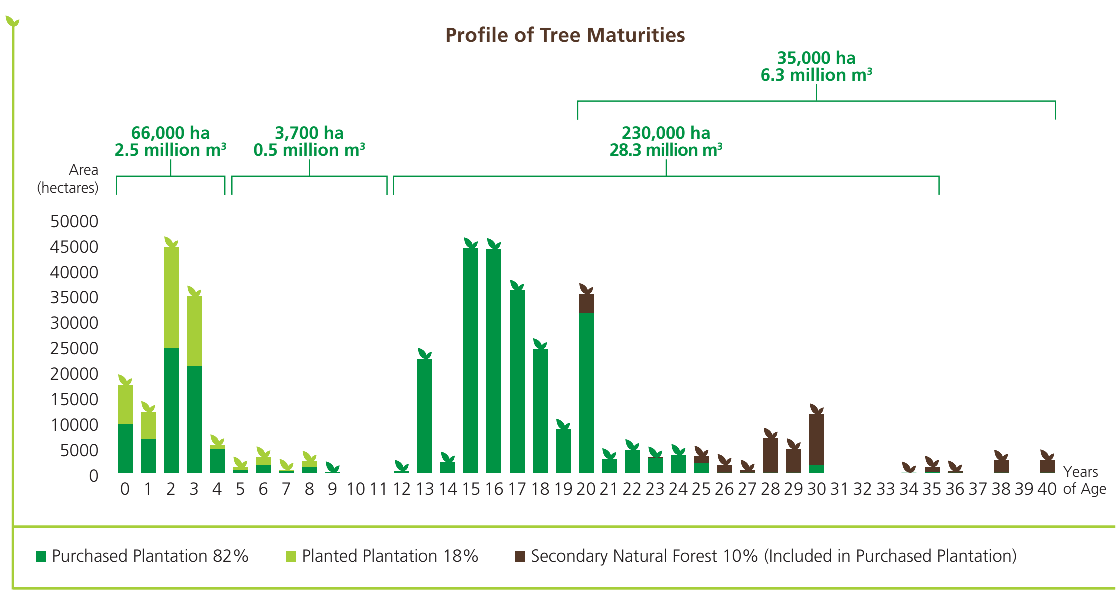
** Based on perpetual rotation (re-planting and cultivation of plantation land after harvesting) over a 60-year period; excluding forest assets assumed to be acquired under long-term master agreements

\# Discount rate of 11.5% applied to future cash flows generated from sale of forest assets

Our operating results are growing along with our portfolio of trees and management expertise.

Our operations are located in regions of China where the forest is most dense, and near highly populated areas and commercial hubs.





Source: Pöyry Forest Industry

Growth in Fibre Value

Sino-Forest creates value, not only by effectively buying, selling and processing fibre, but also by enhancing its physical growth using sophisticated research and development and plantation management best practices. Over the last three years, our fibre inventory has grown with a compound average annual rate of 16% due to:

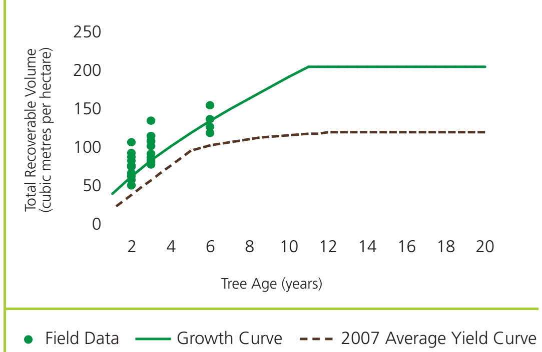
- Continuous growth of our trees in height, diameter and volume.
- Acquisition of trees through strategic long-term agreements.
- The astute acquisition of trees when they are approaching maturity.
- Investment in R&D and best silviculture practices that enhance both the quality of fibre and the harvest yield.

Unlike the assets of other industrial sectors, which depreciate over time, our fibre assets appreciate daily. If fibre market prices decline, we have the flexibility to either acquire more trees or let our trees continue their natural growth until prices recover.

Valuation of a tree is based on its growth potential – trees with larger diameters are more valuable because they contain more volume and can be used as sawlogs and veneer logs, therefore command higher selling prices.

The following tree growth curves were derived from data collected at Sino-Forest plantations, which indicated that trees continue to grow in fibre volume, even after they have reached the age of maturity for harvesting.

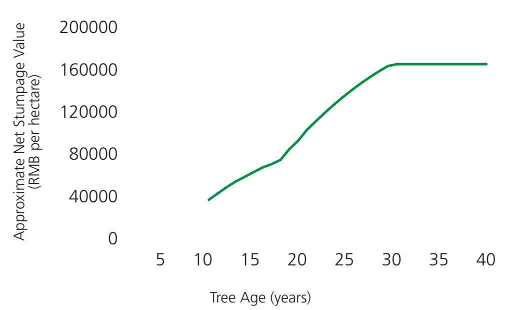
Eucalyptus 2008 Inventory Plots and Average Yield Curve



Eucalyptus 2008 Approximate Stumpage Value Increment

Chinese Fir 2008 Inventory Plots and Average Yield Curve

Chinese Fir 2008 Approximate Stumpage Value Increment

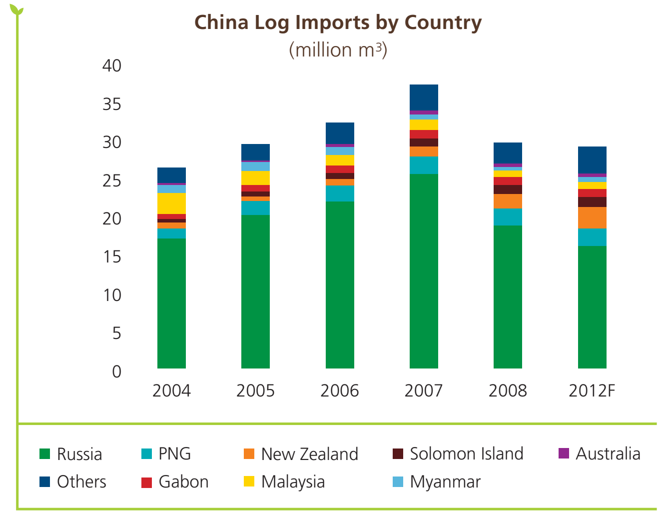


Source: Pöyry Forest Industry

Sino-Forest is in a strong position to benefit from the numerous economic and environmental factors that are affecting the demand for wood products in China.

Economic Growth and Construction Spending

The global credit crisis in 2008 sparked an economic recession in many countries around the world. After expanding approximately 9% last year, China's economy – the world's third largest – is expected to grow at a slower but still relatively high pace compared to other countries. Economic slowdown largely affects coastal regions as they rely on export markets. This has prompted Central and Provincial Governments to implement significant fiscal initiatives to maintain employment levels and economic growth in both urban and rural areas.



Source: Pöyry Forest Industry

The stimulus initiatives include funding of infrastructure development and building new roads, railways and housing, especially in inner provinces to help narrow the gap between urban and rural regions. Following the devastating earthquake in Sichuan and flooding across China over the past years, there is a massive need for reconstruction. At the same time, the urban middle class consisting of several hundred million people is increasing its purchasing power. As home ownership increases, so does spending on and production of wood furniture, cabinets, flooring, doors, window trimming, decorative fixtures and building materials.

Government Support for Forest Industry

China's Central Government and its State Forestry Administration have plans to increase the country's forest coverage and productivity, and enhance employment in rural areas:

- The goal is to double the area of fast-growing, high-yield (FGHY) plantations to 13.3 million hectares by 2015.
- To spur forestry sector growth, the Ministry of Finance is instituting a tax reform decree that includes lower timber levies and corporate income tax exemptions for domestic timber plantation companies.
- Privatisation of state-owned tree farm operations is encouraged if it improves yield and use of wood fibre.

These plans and incentives are meant to encourage the private sector to fund and lead development of FGHY plantations to reduce the chronic wood deficit in China.

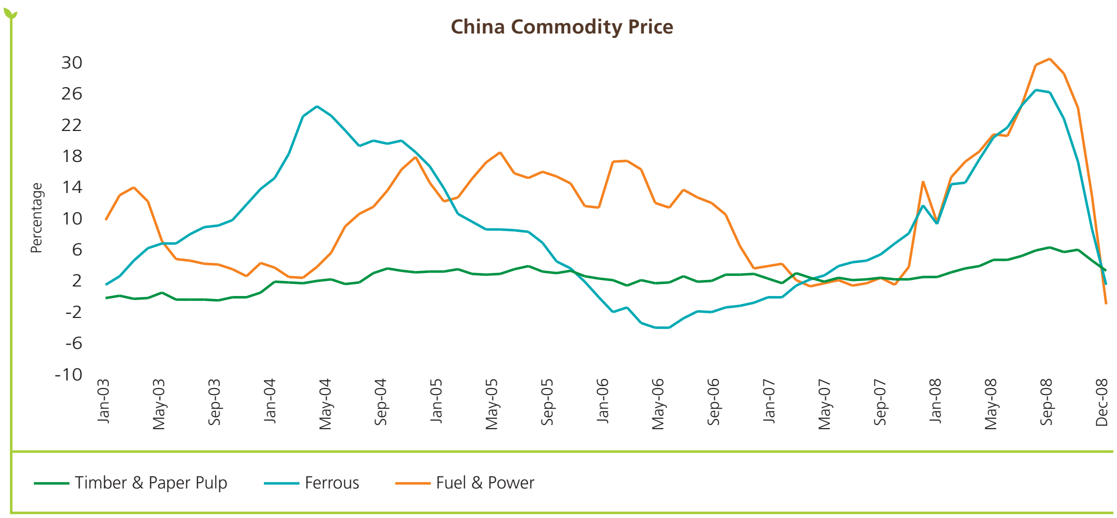
We apply effective silviculture techniques to maximize fibre growth, quality and value.

Declining Log Imports

Demand for domestic wood fibre has remained strong as the importation of wood logs into China dropped by 20% in 2008 for primarily two reasons. First, the country's largest foreign supplier, Russia, is substantially increasing its export tariffs on logs to encourage its own domestic timber processing industry. Second, logging of natural forests in other south-east Asian countries has been significantly curbed or banned, therefore exports of round wood logs have been significantly reduced.

Domestic Log Pricing

Commodity prices experienced double-digit growth in China during the first half of 2008, then decreased dramatically as a result of the financial and economic downturn in the latter part of the year. Domestic timber prices, however, fluctuated in a range of 3 to 7% in 2008 as demand for wood fibre was comparatively less affected by the financial turmoil.



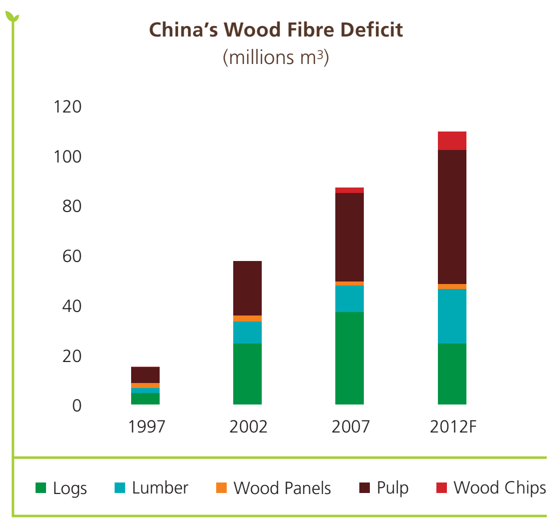
Source: Bloomberg

Ongoing Wood Fibre Deficit

China has imposed restrictions on the logging of natural forests in certain regions since 1998. Roundwood imports have not been sufficient to close the gap between demand and domestic supply, so the country's huge wood deficit has gradually increased.

Wood Manufacturing Transition

With a slowdown in exports of wood products, the wood processing sector is consolidating. The government wishes to replace inefficient and obsolete mills with more modern, technology driven operations. In addition, with an increasing scarcity and cost of large-diameter logs in China, domestic wood product manufacturers have gradually modified their facilities to use more domestic, smaller-diameter logs.



Source: RISI, Inc.

CEO's Letter to Sino-Forest Stakeholders

Progress Over the Past Year

2008 was marked by an unprecedented credit crisis and volatility in global capital markets – fortunately these had little impact on Sino-Forest's operating and financial performance. We had a productive and rewarding year, thanks to an insightful strategy laid out in 2006 to expand into inner regions of China and to initiate the integrated plantations model.

After securing three long-term timber acquisition agreements in 2007, we have significantly augmented our wood fibre inventory, and increased the number of manufacturing mills located close to our plantations. This has broadened and strengthened our base of operations.

Last year, we commenced execution of our integrated operations by harvesting and selling 1.6 million m^3 of logs under fibre acquisition agreements in Hunan and Yunnan Provinces, and achieved attractive returns on investment. We are proud of that initial success with vertically integrating upstream and downstream operations and enhancing the value of our fibre along the supply chain. These operations will serve as a strong platform for sustainable growth in the future. Sino-Forest now has plantations in coastal provinces (close to manufacturing hubs and major ports) and several inland provinces (with dense forests and lower-cost trees and labour).

Factors Driving Up Fibre Demand and Prices

As the previous section of this report illustrates, our markets are both formidable and emergent. Despite the recent slowdown, the country's economy continues to grow at a relatively high pace compared to most other countries.

Governments in China are implementing stimulus packages and other supportive measures to help sustain employment and economic growth. We anticipate that much of this spending will stimulate construction of infrastructure and low-income housing. Accordingly, we expect domestic demand for our logs and wood panels will remain strong.

Another factor that aggravates China's wood deficit is the declining volume of imported logs due to a curb on the logging of natural forests and an increase in export tariff. However, measures are being taken to manage the gap. Wood processors are switching from imported large-diameter logs to domestic small-diameter logs, which are primarily what we harvest at our plantations. The Central Government is also providing significant financial incentives to support the development of more fast-growing, high-yield plantations – our core business.

2009 will be a challenging year in China, but we remain hopeful that the economy will gradually pick up in the second half of 2009. Meanwhile, the panel and furniture manufacturing sectors are being affected by the slowdown in exports. Many small and mid-size mills are consolidating or closing down in various regions, especially along the coastal areas. This consolidation and the tightening of credit availability, however, present attractive opportunities for Sino-Forest. With our strong financial position, we will continue to seek and acquire high quality timber and processing mills at attractive prices.

A Strategy Geared to Growth

Sino-Forest's success is founded on its core competencies and a proven strategy. We have worked hard over the past 14 years to establish valuable business relations and a strong market position. Now these competitive advantages serve not only as barriers to entry into our marketplace, but also as springboards to new opportunities and growth.

Our planted eucalyptus trees generally grow to maturity within only 5 to 6 years.

Our strategy remains as always to enhance the physical growth and market value of our standing timber and to maximize the usage of our fibre. We re-invest proceeds from the sale of standing timber and logs to acquire more trees and lease land for replanting. To satisfy an ever increasing customer base, we are improving and expanding our portfolio of fast-growing plantations and integrated manufacturing facilities.

As an industry leader and corporate citizen, we are aligning our strategy with government plans to increase forest coverage and productivity and enhance rural employment. The Central Government aims to double the area of FGHY plantations, and enrich the lives of rural communities in the process. We have the experience, superior technology and techniques and financial liquidity to help accomplish this goal. In 2009, we plan to initiate larger-scale replanting in Hunan and Guangxi, and gradually expand our replanting programme to other regions.

Fibre Agreements Assure Long-Term Supply

Last year, we secured a fourth fibre agreement, this time is in Fujian Province covering 200,000 hectares over a ten-year period, further strengthening our core business in integrated operations. To help finance the acquisition of trees, we issued convertible guaranteed senior notes, which raised gross proceeds of $345 million. We now have access to a long-term supply of timber covering 950,000 hectares of forest plantations. All the agreements provide flexibility with the timing of execution, and access to a variety of mature trees as well as the rights to lease for decades the underlying land for replanting.

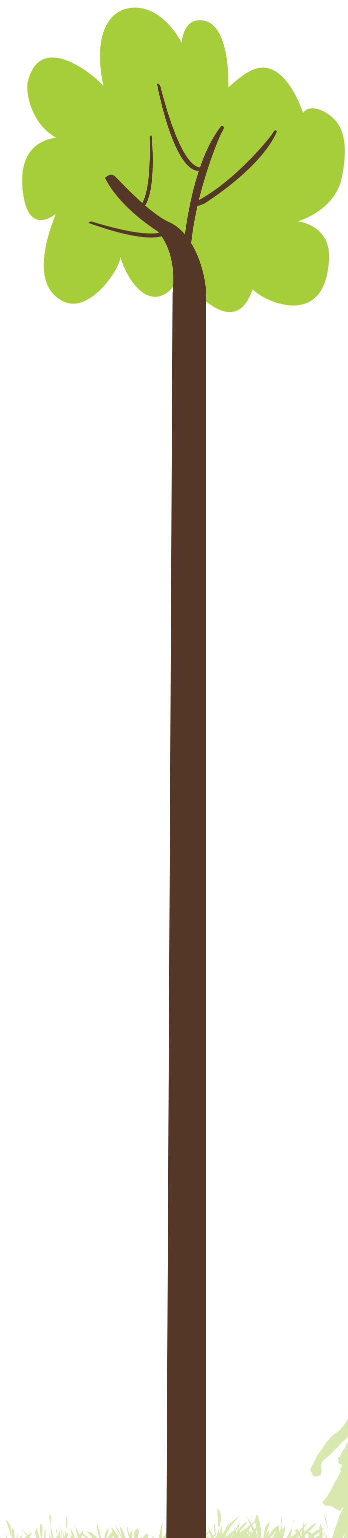
Our plan is to execute these agreements in a rational and sustainable manner: acquire trees at competitive prices, harvest mature trees, lease the land on a long-term basis, regenerate secondary forest with original species or replant plantation forest with improved seedlings, apply our advanced techniques to boost the next harvest yield, minimize residual waste, and maximize the value of our fibre with complementary wood product manufacturing and astute sales.

Building Value as We Grow

We estimate that our plantation trees grow at an overall annual rate of about 10 to 12%. All it takes is sunshine, rain and our professional management. With the size of our portfolio of plantations increasing, and our long-term fibre agreements, we are well on track to reach our medium-term goal of producing 18 million m^3 of annual output by 2011.

Sino-Forest remains well capitalized, with a solid financial position and continuous cash flow from the sale of wood fibre, we will have sufficient financial resources to fund our operational growth.

Allen Chan
Chairman and CEO



As we look out to the horizon, we see more challenging market conditions in China and overseas. But we also see supportive government policies, strong fibre demand and abundant acquisition opportunities. With our strong management team, proven operating experience and industry knowledge, and a strong balance sheet, we are in a unique position to make additional tree and manufacturing facility investments.

We look forward to stronger collaboration with government authorities and local communities to develop forestry operations with the best practices in China. We will continue to add value to our fibre throughout the multiple stages of the supply chain. Our shareholders can rest assured that we will remain vigilant, agile and prudent as we invest in Sino-Forest's growth.

These concluding words are for our many stakeholders. We are uniquely positioned to create and enhance value from growing trees, to enrich the lives of our employees and people in rural communities where we operate, and to deliver attractive returns to our investors. Thank you to those who have contributed to Sino-Forest's success: our management team, our Board of Directors and our employees. The company's many notable achievements are a tribute to their knowledge and commitment.

Allen Chan
Chairman and Chief Executive Officer
March 31, 2009

Our plantation operations enrich the lives of people in the rural communities in which we operate.

Growing Our Business with Research and Development

For over a decade, Sino-Forest's research and development (R&D) team has worked diligently, often in collaboration with third-party academics and industry experts, on a wide variety of R&D projects aimed at significantly improving plantation yield and management techniques.

Making Eucalyptus Grow Better

In order to improve the sustainable growth and yield of our Eucalyptus tree seedlings, we choose biotechnology R&D at our plantations.

Tree biotechnology has brought major advances to the forest industry. Genomic technologies have been applied to better understand and identify genes that determine the major chemical and physical features of the wood properties of Eucalyptus species, and will eventually identify "elite" clones derived from hybrid breeding programs. Recognizing the economic impact of these technologies on operational breeding of Eucalyptus species, we are incorporating improvements in genotyping and sequencing methods and major advances in bioinformatics into its breeding tools. Our goal is to responsibly create new Eucalyptus strains with improved growth, cold tolerance and biomass properties, lower cultivation costs, and increased capacity to capture atmospheric carbon.

In 2009, Sino-Forest will participate in the International Eucalyptus Genome Consortium (IEuGC), which will give its members access to a draft of the Eucalyptus genome sequence when it becomes available. Strategic alliances will also be formed between plant genomic organizations, which we expect will further strengthen our R&D programme.

Developing Biofuel from Jatropha

As a founding member of the China Green Carbon Foundation, Sino-Forest is collaborating with the Hong Kong University of Science & Technology and the State Forestry Administration to research and develop elite Jatropha cultivars suitable for large-scale propagation in China.

Jatropha is a drought-resistant and fast-growing oil seed bush that can grow on marginal, less arable land. It produces a relatively high biofuel yield, increases the fertility of the planted land, and helps prevent soil erosion. Jatropha plantations also absorb large amounts of carbon dioxide from the atmosphere, and can therefore earn carbon credits.

We plan to invest approximately $15 million in R&D for nursery propagation and to lease land to plant Jatropha cultivars. Our goal is to grow Jatropha on under-utilized forest or non-agricultural land as a source of biofuel, creating additional jobs in rural communities in the process.

Plantation forest mitigates human exploitation of China's natural forests

By continuously improving the science of silviculture, we significantly increase the yield of land we replant

Environmental Stewardship

The Sustainable Forestry Initiative is a fully independent, non-profit organization dedicated to promoting sustainable and responsible forest management. Based in the United States, it works with conservation groups, local communities, resource professionals, landowners and other organizations and individuals. Its forest certification standard is based on principles, is used widely across North America and has strong acceptance in the global marketplace. Below is a table describing our practices related to each principle.

Sustainable Forestry Initiative Principles	Sino-Forest Practices
Sustainable Forestry: To practice a land stewardship ethic that integrates reforestation and the managing, growing, nurturing and harvesting of trees for useful products with the conservation of soil, air and water quality, biological diversity, wildlife and aquatic habitat, recreation and aesthetics.	Our sustainable forestry strategy is developed in accordance with national and international standards for plantation forests. In 2003, we obtained Forest Stewardship Council ("FSC") certification for our plantations in Gaoyao City, Guangdong Province. We have been making progress since then on expanding this certification to all of our plantations. FSC certification is globally one of the most highly regarded forest certification systems endorsing sustainably managed forests.
Responsible Practices: To use and promote among other forest landowners sustainable forestry practices that are both scientifically credible and economically, environmentally and socially responsible.	Sino-Forest contributes to local employment and economic development; respects local culture and tradition; protects employees' health and safety; improves wood production; promotes non-wood product fabrication; harvests forests sustainably; and enhances forest ecological function and environment conservation. All operating practices at our certified plantations have passed strict annual inspection and assessment by SmartWood, an FSC-authorized and US-based auditor.
Reforestation and Productive Capacity: To provide for regeneration after harvest and maintain the productive capacity of the forestland base.	Our original tree planting was primarily on barren or abandoned lands, which greatly contributed to local reforestation and forest resources. We develop optimal regeneration plans for harvested sites, either replanting with better genetic materials, or with fast-early-growth coppices or naturally seeded saplings. Our regenerated forests normally perform better than the previous stands in terms of wood yield, overall ecological function and environmental conservation. We maintain our forestland's productive capacity by effectively controlling soil and nutrition erosion, and prescriptively fertilizing.
Forest Health and Productivity: To protect forests from uncharacteristic and economically or environmentally undesirable wildfire, pests, diseases and other damaging agents, and thus maintain and improve long-term forest health and productivity.	Our systematic management continuously improves forest wood yield and protects our forests from failure or loss associated with biotic and climatic stress such as fire, pest, disease, drought, frost and snow. We use the best genetic materials, optimal prescribed fertilizer and integrated silvicultural technology. We deploy efficient forest protection by deploying disease/insect-resistant species such as eucalyptus and Chinese fir, stress-tolerant varieties, high technology such as satellite sensing, and systematic damage prevention and control systems.
Long-Term Forest and Soil Productivity: To protect and maintain long-term forest and soil productivity.	We effectively sustain the productivity of our long-term-leased forestland by properly managing sites, conserving vegetation, controlling soil and nutrition erosion, improving soil condition, prescriptively fertilizing, switching to back-up species if needed, etc.
Protection of Water Resources: To protect water bodies and riparian zones.	Our "Management Technical Guidelines for Ecologically Sensitive Areas" are designed to avoid or minimize the potential adverse environmental impacts of forest management on adjacent water bodies and riparian zones, and steep hill slopes. We ensure that commercial plantations are far enough away from reservoirs or other sources of drinking water, and use conservation areas or buffer zones as barriers between ponds/riparian zones and plantations.
Protection of Special Sites and Biological Diversity: To manage forests and lands of special significance (biologically, geologically, historically or culturally important) in a manner that takes into account their unique qualities and to promote a diversity of wildlife habitats, forest types and ecological or natural community types.	We have ecological conservation procedures: to conserve wildlife and plants at our plantations; to identify and protect special habitats that may benefit plant and wildlife diversity; and to apply appropriate technical measures in these special habitats. We strictly limit our tree planting to the forestlands that are designated for commercial plantation development. Local cultural sites such as fengshui and recreation areas within our plantations are fully respected and protected for local community enjoyment. In addition, we help local communities manage certain areas of forests for public ecological benefit.
Legal Compliance: To comply with applicable federal, provincial, state and local forestry and related environmental laws, statutes and regulations.	Our plantation management and operations fully conform to all forestry and environmental laws and regulations at national, provincial and local levels. Our in-house legal counsel and environmental team monitor the development and implementation of new policies and ensure they are well communicated to department and operational heads.
Continual Improvement: To continually improve the practice of forest management, and monitor, measure and report performance in achieving the commitment to sustainable forestry.	We have been improving our forest practices through timely updating of our environmental management systems, silvicultural technology, and personnel knowledge and skills. Our management system effectively coordinates field operation, performance monitoring, information feedback, and operation improvement, with a goal of ensuring sustainable plantation management.

Community Activities

Sino-Forest is dedicated to the improvement of the forestry sector and to the enrichment of lives in the communities in which we operate. This commitment to corporate citizenship was exemplified through a variety of benevolent activities we carried out over the past year.

Support for Victims of the Earthquake

After the massive earthquake in Sichuan Province, Sino-Forest and its subsidiaries undertook various initiatives to help the countless victims. We announced plans to donate $2 million to rebuild schools, replace education materials, and help treat sufferers of severe trauma resulting from the tragedy. Employees of Sino-Maple, our flooring subsidiary, raised approximately $8,000 to help the people in Wenchuan County, and donated and delivered 300 special tents to the An County, Mianyang disaster area for emergency use.

Sponsorship of Education

Sino-Forest is an avid believer in providing the next generation with valuable learning opportunities. For the past several years, we have sponsored scholarships, built elementary schools in rural areas and provided educational materials for students. This year, our contributions to education extend to students enrolled at the Beijing Forestry University and Nanjing Forestry University. In addition to scholarships, students will receive first-hand practical training and be exposed to employment opportunities at our processing operation in Suzhou.

Advocacy of Ecological Living

With the PRC Central Government advocating scientific and technological development, the State Forestry Administration ("SFA") is developing a modern forestry management philosophy, including a push for forestry reform. The SFA aims to develop a holistic and eco-friendly forestry system for a harmonious society. To raise awareness of this new forestry initiative and to cultivate ecological culture, the SFA and the Chinese Artists Association jointly organized a nationwide art campaign entitled "Live a Green Life, Build the Ecological Civilization – Sino-Forest National Artwork", sponsored by Sino-Forest with financial support of approximately $1.7 million. This campaign takes place between October 2008 and May 2009.

Tents donated by Sino-Maple employees being delivered for earthquake victims

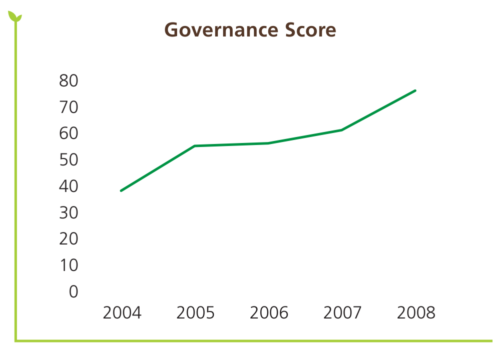
Message from the Board's Lead Director

Despite the economic malaise experienced around the world during 2008, Sino-Forest continued to expand its portfolio of plantations and deliver strong financial results. Of vital importance to management, the Board of Directors and our investors, the company's liquidity is very strong and its capital base has never been larger. This success is founded on well-entrenched competitive advantages and an effective strategy executed by our capable management team. Sino-Forest is well positioned to prudently pursue long-term growth opportunities that will present themselves.

To ensure that we attract, retain and engage our top executives and qualified Directors, the Board undertook with the assistance of Mercer as our expert consultant a comprehensive compensation review in 2008. We carefully benchmarked our compensation levels and plans against industry norms for base salary, short-term and long-term incentive plans. One of the modifications we made for 2009 was to replace stock option grants for non-employee Directors with deferred share units ("DSUs") and provide such Directors the ability to receive DSUs with a value equal to their annual retainer fees.

In accordance with the new rules on executive compensation disclosure adopted by the Canadian Securities Administrators, in this year's Management Information Circular, we will disclose all direct and indirect compensation paid to "named executives officers" and Directors, and include a new Compensation Discussion and Analysis that explains the significant factors underlying Sino-Forest's compensation policies and practices. Further, in accordance with National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, in our Annual Management's Discussion and Analysis for the year ended December 31, 2008, we have disclosed an area relating to Sino-Forest's internal controls over financial reporting that require remediation work during 2009. Not surprisingly, the deficiency relates to the fact that our business is conducted in the PRC; an environment where business is conducted based on trust and respect and centralization of authority is commonplace.

I am pleased to report that Sino-Forest's governance has steadily improved according to a methodical assessment by the leading national newspaper in Canada, where Sino-Forest is publicly listed. Despite increasingly stringent standards, the company's overall governance score increased from 38 in 2004 to 73 in 2008, during which its ranking rose from #216 to #76. Nevertheless, our Board will continue to adopt best practices as justified. This year, for example, we will begin scheduling at least one third-party presentation per year on both (1) financial accounting and tax issues and (2) the global forestry industry to further help our Directors make well informed, independent decisions.



Source: The Globe & Mail, Corporate Governance Rankings

Also this year, we will search for an additional independent Director. The ideal candidate would have financial experience (given the advent of International Financial Reporting Standards, more complex disclosure requirements and the demands of capital markets), as well as forestry sector experience.

On behalf of our Board of Directors, I wish to thank Sino-Forest management and employees for their excellent work and dedication, and our shareholders for their continued trust.

W. Judson Martin
Lead Director
March 31, 2009

Board of Directors

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

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

3. W. JUDSON MARTIN
Lead Director, Toronto
1, 2, 3 (chair)

4. JAMES (JAMIE) M.E. HYDE
Director, Toronto
1 (chair), 2 (chair), 3

5. EDMUND MAK
Director, Vancouver
1, 2

6. SIMON MURRAY
Director, Hong Kong
3

7. PETER WANG
Director, Hong Kong

Notes:
1. Audit Committee
2. Corporate Governance Committee
3. Compensation and Nominating Committee

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 the 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 (assuming trees to be acquired under the three master agreements). 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, (in thousands, except earnings per share and common shares outstanding)	2008 $	2007 $	2006 $
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 17% 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		
Plantation Model	**Hectares**	**Sales per hectare $**	**Total revenue $'000**	Hectares	Sales per hectare $	Total revenue $'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 compared 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 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, (in thousands, except earnings per share)	2008 $	[Restated] 2007 $
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:

	2008		2007	
Three months ended December 31,	$'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			Three months ended December 31, 2007		
Plantation Model	**Hectares**	**Sales per hectare $**	**Total revenue $'000**	Hectares	Sales per hectare $	Total revenue $'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)	**180.4**	222.8
Net change in working capital (5)	**33.2**	20.8
Total	**213.6**	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	**(57.9)**	(70.5)

Cash Flows from Operating Activities of Continuing Operations

Cash flows from operating activities decreased 12.3% to $213.6 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 185,779,062 common shares were issued and outstanding as of the date of this MD&A. On a diluted basis, the Company has 206,400,673 common shares outstanding as of the date of this MD&A, assuming the exercise of 3,614,008 outstanding stock options and the issuance of 17,007,603 common 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	
	Hectares	$'millions	Hectares	$'millions
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 planations 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 valuation.

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.

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 approximately three months.

		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, 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 $'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, 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:

			[Restated] Earnings Per Share [3]	
	Revenue	Net Income	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 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 $'000	2007 $'000	2006 $'000	**2008 $'000**	2007 $'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.

Management's Report

The consolidated financial statements contained in this Annual Report have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the Annual Report is consistent with the consolidated financial statements.

Management maintains systems of internal accounting and administrative controls to provide reasonable assurance as to the reliability of the financial records and the safeguarding of the Company's assets.

The Audit Committee, which is mainly comprised of outside directors, meets periodically with management to discuss the adequacy of the system of internal controls and the integrity of the Company's financial reporting.

The consolidated financial statements have been reviewed by the Audit Committee prior to submission to the Board of Directors. The consolidated financial statements have also been audited by Ernst & Young LLP, who have full access to the Audit Committee, with and without the presence of management.

Allen T.Y. Chan
Chairman and Chief Executive Officer
March 13, 2009

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

Auditors' Report

To the Shareholders of
Sino-Forest Corporation

We have audited the consolidated balance sheets of **Sino-Forest Corporation** as at December 31, 2008 and 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Vancouver, Canada,
March 13, 2009.

Consolidated Balance Sheets

As at December 31, [Expressed in thousands of United States dollars]	2008 $	2007 $
ASSETS		
Current		
Cash and cash equivalents	**441,171**	328,690
Short-term deposits [note 3(a)]	**45,784**	22,163
Accounts receivable [note 4]	**226,456**	105,329
Inventories [note 5]	**45,355**	46,661
Prepaid expenses and other [note 7(c)]	**25,103**	24,185
Total current assets	**783,869**	527,028
Timber holdings	**1,653,306**	1,174,153
Capital assets, net [note 6]	**91,292**	78,608
Other assets [note 7]	**75,457**	57,708
	2,603,924	1,837,497
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 3(b)]	**73,158**	55,383
Accounts payable and accrued liabilities [note 13(d)]	**181,504**	107,989
Income taxes payable	**8,883**	1,615
Liabilities of discontinued operations [note 19]	**21,933**	32,016
Total current liabilities	**285,478**	197,003
Long-term debt [note 9]	**714,468**	441,985
Derivative financial instrument [note 9]	**5,214**	11,211
Total liabilities	**1,005,160**	650,199
Commitments and Contingencies [notes 20 and 21]		
Shareholders' equity		
Equity portion of convertible senior notes [note 9(c)]	**70,462**	-
Share capital [note 10]	**539,315**	537,141
Contributed surplus [note 11]	**7,599**	3,906
Accumulated other comprehensive income [note 12]	**211,831**	105,287
Retained earnings	**769,557**	540,964
Total shareholders' equity	**1,598,764**	1,187,298
	2,603,924	1,837,497

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan
Director

James M.E. Hyde
Director

Consolidated Statements of Income and Retained Earnings

Years ended December 31, [Expressed in thousands of United States dollars, except for earnings per share information]	2008 $	2007 $
Revenue	**901,295**	713,866
Costs and expenses		
Cost of sales	**536,557**	470,825
Selling, general and administration	**56,729**	40,209
Depreciation and amortization	**4,627**	5,364
	597,913	516,398
Income from operations before the undernoted	**303,382**	197,468
Interest expense	**(52,321)**	(43,960)
Interest income	**11,128**	15,184
Exchange (losses) gains	**(5,268)**	12,409
Impairment of capital assets [note 6]	**(18,157)**	(20,846)
Loss on changes in fair value of financial instrument, net	**(1,839)**	(2,996)
Other income	**3,573**	3,206
Income before income taxes	**240,498**	160,465
Provision for income taxes [note 13]	**(24,105)**	(18,034)
Net income from continuing operations	**216,393**	142,431
Net income from discontinued operations [note 19]	**12,200**	9,842
Net income for the year	**228,593**	152,273
Earnings per share [note 14]		
Basic	**1.25**	0.91
Diluted	**1.24**	0.90
Earnings per share from continuing operations		
Basic	**1.18**	0.85
Diluted	**1.17**	0.84
Earnings per share from discontinued operations		
Basic	**0.07**	0.06
Diluted	**0.07**	0.06
Retained earnings		
Retained earnings, beginning of year	**540,964**	388,691
Net income for the year	**228,593**	152,273
Retained earnings, end of year	**769,557**	540,964

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended December 31, [Expressed in thousands of United States dollars]	2008 $	2007 $
Net income for the year	**228,593**	152,273
Other comprehensive income, net of tax:		
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	**(1,494)**	(738)
Unrealized gains on foreign currency translation of self-sustaining operations	**108,038**	73,435
Other comprehensive income	**106,544**	72,697
Comprehensive income	**335,137**	224,970

See accompanying notes

Consolidated Statements of Cash Flows

Years ended December 31, [Expressed in thousands of United States dollars]	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**228,593**	152,273
Net income from discontinued operations	**(12,200)**	(9,842)
Add (deduct) items not affecting cash		
Depletion of timber holdings included in cost of sales	**284,532**	284,808
Depreciation and amortization	**4,627**	5,364
Accretion of convertible senior notes	**4,769**	-
Stock-based compensation	**4,276**	2,898
Impairment of capital assets [note 6]	**18,157**	20,846
Loss on changes in fair value of financial instruments, net	**1,839**	2,996
Interest income from Mandra	**(1,200)**	(2,100)
Other	**2,656**	74
Exchange gains (losses)	**5,604**	(1,816)
	541,653	455,501
Net change in non-cash working capital balances [note 15]	**(58,528)**	27,000
Cash flows from operating activities of continuing operations	**483,125**	482,501
Cash flows from operating activities of discontinued operations	**-**	3,856
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to timber holdings	**(656,727)**	(640,257)
Increase in other assets	**(9,554)**	(31,225)
Additions to capital assets	**(30,204)**	(12,571)
Increase in non-pledged short-term deposits	**(5,604)**	(8,698)
Business acquisition [note 8]	**(1,928)**	(795)
Proceeds from disposal of capital assets	**8**	1,073
Proceeds from disposal of other assets	**-**	151
Cash flows used in investing activities	**(704,009)**	(692,322)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term debt	**335,865**	-
Increase (decrease) in bank indebtedness	**15,584**	(17,015)
Issuance of shares, net of issue costs [note 10]	**1,591**	389,912
(Increase) decrease in pledged short-term deposits	**(16,314)**	6,180
Payment on derivative financial instrument	**(4,919)**	(2,165)
Cash flows from financing activities	**331,807**	376,912
Effect of exchange rate changes on cash and cash equivalents	**1,558**	4,856
Net increase in cash and cash equivalents	**112,481**	175,803
Cash and cash equivalents, beginning of year	**328,690**	152,887
Cash and cash equivalents, end of year	**441,171**	328,690
Supplemental cash flow information		
Cash payment for interest charged to income	**38,644**	41,971
Interest received	**9,837**	12,693

See accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

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

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses for the periods reported. Areas where the nature of estimates makes it reasonably possible that the actual results could materially differ from amounts estimated include allowance for uncollectible accounts receivable, allowance for inventory obsolescence, product warranty, estimated useful lives of assets for depreciation, asset impairment assessments of timber holdings, capital assets and other assets, wood product contracts and provision for income taxes.

Revenue recognition

Revenue from standing timber is recognized when the contract is entered into which establishes a fixed and determinable price with the customer, collection is reasonably assured and the significant risks and rewards of ownership have been transferred to the customer.

Revenue from wood product contracts are recorded based on the percentage-of-completion method, determined based on total costs incurred to expected total cost of the project and work performed. Revenues and costs begin to be recognized when progress reaches a stage of completion sufficient to reasonably determine the probable results. Any losses on such projects are charged to operations when determined.

Revenue from the sale of logs and other products is recognized 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.

Foreign currency translation

The Company's reporting and functional currency is U.S. dollars. The assets and liabilities of subsidiaries denominated in their functional currencies other than U.S. dollars are translated into U.S. dollars at the year end exchange rate. Revenue and expense items are translated at average exchange rates for the year. The resulting net translation adjustment is included in the accumulated other comprehensive income account in shareholders' equity.

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

Financial instruments

Financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for financial assets classified as held-to-maturity on loans and receivables and other financial liabilities, which are measured at cost or amortized cost using the effective interest rate method.

The Company has made the following classifications:

- Cash and cash equivalents and short-term deposits are classified as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation are recorded in net income.
- Accounts receivable and subordinated loans are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

- Investments are classified as available for sale and are recorded at fair value based on quoted market prices. Gains or losses resulting from periodic revaluation are recorded in other comprehensive income. No revaluation is recorded where an investment does not have a quoted market price.

Derivative financial instruments

Derivative financial instruments are measured at their fair value upon initial recognition and on each subsequent reporting date. The fair value of quoted derivatives is equal to their positive or negative market value. If a market value is not available, the fair value is calculated using standard financial valuation models, such as discounted cash flow or option pricing models. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value are recorded in income at each reporting period. The Company does not enter into derivative financial agreements for trading or speculative purposes.

Convertible Bonds

Convertible bonds receivable contain embedded derivative instruments that are bifurcated and accounted for as assets. The total disbursement allocated to the convertible hybrid instrument is first allocated to the fair value of all the derivative instruments to be bifurcated determined using the Black Scholes model. The remaining disbursements, if any, are then allocated to the host instruments, usually resulting in those instruments being recorded at a discount from their face amount.

To the extent that the total disbursement paid exceeds the fair values of any bifurcated derivative instrument assets, an immediate charge to income is recognized in order to initially record the derivative instrument asset at their fair value. The bifurcated embedded derivatives are then revalued at each reporting date, with changes in the fair value reported as charges or credits to income.

The discount from the face value of the convertible bonds, together with the stated interest on the instrument, is amortized over the life of the instrument through periodic charges to income, using the effective interest rate method.

Convertible Senior Notes

The Company's convertible senior notes are segregated into their debt and equity components at the date of issue, in accordance with the substance of the contractual agreements. The debt component of the instruments is classified as a liability, and recorded as the present value of the Company's obligation to make future interest payments and settle the redemption value of the instrument. The carrying value of the debt component is accreted to the original face value of the instruments, over the term of the convertible senior notes, using the effective interest method. The value of the conversion option makes up the equity component of the instruments. The conversion option is recorded using the residual value approach.

Inventories

Raw materials, timber logs, finished goods and nursery are valued at the lower of cost, determined on a weighted average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value. Manufacturing cost includes the cost of raw materials, direct labour and applicable production overheads, excluding borrowing costs, based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Timber holdings

Timber holdings comprise planted and purchased plantations which include acquisition costs of young trees and standing timber, planting and maintenance which are capitalized over a period of 5 to 12 years based on the growth cycle of the type of tree. Timber holdings from plantations sales are depleted when the significant risks and rewards of ownership have been transferred to the buyer, based on the area of timber sold or harvested.

Investments

Investments where the Company does not have significant influence or control are accounted for on fair value or cost basis if there is no quoted market price available. Investments are written down only when there is evidence that a decline in value that is other than temporary has occurred.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting carrying value and tax basis of assets and liabilities. Future income tax liabilities and assets are calculated using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets are evaluated and, if realization is not considered more likely than not, a valuation allowance is provided.

The Company evaluates a tax position for uncertainty in income taxes 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 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 Step 1 has been satisfied, requires the Company to measure the tax benefit as the largest amount of benefit, determined on a cumulative probability basis that is more-likely-than-not to be realized upon ultimate settlement.

The Company recognizes interest and penalties as an income tax expense.

Capital assets

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

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

Asset impairment

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

Goodwill is subject to an annual assessment for impairment unless events or changes in circumstances indicate that the value may not be fully recoverable, in which case the assessment is done at that time. Goodwill is assessed primarily by applying a fair value-based test at the reporting unit level. The fair value is estimated using the present value of expected future cash flows.

Licenses

Licenses are recorded at fair value on the date of acquisition. Licenses with indefinite useful lives are not amortized and are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired and is not amortized.

Stock-based compensation plan

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

Basic and dilutive earnings per share

Basic earnings per share are computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method.

Deferred financing costs

Financing costs incurred in connection with long-term debt have been deferred and are recorded as a reduction to the principal amount of the associated long-term debt. The costs are amortized over the term of the related long-term debt using the effective interest rate method.

Offsetting of financial assets and financial liabilities

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

Cash and cash equivalents

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

2. 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 a 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. Reversals of previous write-downs are required when there is a subsequent increase in the value of the inventory. 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 Sections and Emerging Issues Committee ("EIC") abstracts, which apply commencing with the Company's fiscal years noted below.

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 application without restatement of prior periods. The Company is in the 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.

3. SHORT-TERM DEPOSITS AND BANK INDEBTEDNESS

[a] Short-term deposits

As at December 31, 2008, short-term deposits were made for varying periods less than twelve months [2007 – less than twelve months] depending on the immediate cash requirements of the Company, and earn interest at rates of 1.0% to 4.1% per annum [2007 – 1.4% to 5.6%].

[b] Bank indebtedness

Subsidiaries of the Company have established several credit facilities to a maximum of approximately $189,498,000 [2007 – $133,908,000]. Pursuant to the non-convertible senior notes' covenants, the maximum amount of short-term borrowings allowed was $100,000,000 [2007 – $100,000,000]. These credit facilities bear interest at a weighted average rate of 6.4% per annum as at December 31, 2008 [2007 – 6.2%] and are repayable on demand or due in less than one year.

As at December 31, the bank indebtedness were:

	2008 **$**	2007 $
Trust receipt loans	**34,560**	27,848
Bank loans	**38,598**	27,535
	73,158	55,383

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

[a] charges over certain of the Company's land-use rights, buildings and timber holdings which have an aggregate net book value at December 31, 2008 of $20,656,000 [2007 – $11,445,000]; and

[b] certain short-term deposits at December 31, 2008 of $16,608,000 [2007 – $260,000].

Total interest expense for the year was $3,857,000 [2007 – $4,770,000].

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

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when the collections are in doubt. Accounts receivable are substantially from companies located in the People's Republic of China ("PRC") and denominated in Renminbi and U.S. dollars. The Renminbi is not freely remittable out of the PRC and its conversion into other currencies is restricted under the current PRC foreign exchange regulations. As a result, the majority of the accounts receivable arising from sales of standing timber are realized through instructing the debtors to settle the amounts payable on standing timber and other liabilities denominated in Renminbi.

5. INVENTORIES

Inventories consist of the following:

	2008 **$**	2007 $
Raw materials	**3,651**	1,271
Work in progress	**6,481**	15,172
Finished goods	**6,596**	5,471
Timber logs	**21,429**	20,826
Nursery	**7,198**	3,921
	45,355	46,661

The amount of inventory recognized as an expense and included in cost of sales in 2008 was $252,025,000 [2007 – $186,017,000]. The amount charged to the income statement and included in selling, general and administration expenses for the write down of inventories for valuation issues in 2008 was $1,871,000 [2007 – $1,180,000].

6. CAPITAL ASSETS

Capital assets consist of the following:

	2008		2007	
	Cost **$**	**Accumulated depreciation, amortization and impairment** **$**	Cost $	Accumulated depreciation, amortization and impairment $
Machinery and equipment	**100,260**	**56,717**	90,471	34,897
Buildings	**37,900**	**3,106**	15,694	2,160
Land-use rights	**7,820**	**1,056**	5,816	842
Office furniture and equipment	**3,109**	**1,441**	2,203	1,060
Vehicles	**6,413**	**1,890**	4,692	1,309
	155,502	**64,210**	118,876	40,268
Less: accumulated depreciation, amortization and impairment	**(64,210)**		(40,268)	
Net book value	**91,292**		78,608	

Buildings, machinery and equipment of $37,301,000 [2007 – $25,841,000] are not being depreciated as the production facilities are under construction and have not yet been put into commercial operation. No interest was capitalized to capital assets in the current and prior period.

During 2008 and 2007, the Company completed impairment analyses for certain manufacturing facilities. These analyses indicated that estimated undiscounted future cash flows to be generated by the capital assets over their economic lives were less than their carrying values. The carrying values of the capital assets were therefore reduced to fair value resulting in capital assets impairment of $18,157,000 [2007 – $20,846,000]. The fair values of the assets subject to impairment were determined using discounted cash flow methodology and liquidation value.

7. OTHER ASSETS

Other assets consist of the following:

	2008 $	2007 $
Investment in Mandra Holdings [a]	**2**	2
Subordinated loan and interest receivable [a]	**19,366**	18,167
Prepaid plantation costs and lease rentals [b]	**40,380**	23,565
Investment in Omnicorp and Greenheart [c]	**2,872**	4,354
Convertible bond [c]	**-**	919
Derivative financial instrument [c]	**-**	3,149
Deposit for purchase of logs [d]	**8,000**	5,700
Other	**4,837**	1,852
	75,457	57,708

[a] The Company entered into a series of agreements with Mandra Resources Limited and certain of its subsidiaries (collectively, "Mandra") that are start-up companies formed to acquire, grow, harvest and replant standing timber on commercial forestry plantations (the "Plantations") located in Anhui province in the PRC (the "Mandra Project"). Subject to certain conditions, the Company will have an option to acquire all other outstanding shares of Mandra Forestry Holdings Limited ("Mandra Holdings") at their then fair market value.

The subordinated loan carries an interest rate of 8% per annum and will be repaid 30 days after the full repayment of Mandra's $195 million of debt securities due in May 2013. The subordinated loan is secured by a 75% equity interest in Mandra Holdings. Included in the balance of the subordinated loan and interest receivable is accrued interest of $4,367,000 [2007 – $3,167,000]. The Company's maximum exposure to loss from Mandra is limited to the Company's investment in Mandra and subordinated loan and related interest receivable.

[b] These represented prepaid land leases of plantation land in PRC and deposits paid for acquisition of plantations.

[c] In July 2007, the Company signed a master sale and purchase agreement with Greenheart Resources Holdings Limited ("Greenheart"), a natural forest concession owner and operator in Suriname, South America to secure 34,285 m^3 of logs from Suriname for $175 per m^3 up to January 31, 2009. In addition, the Company invested $6.0 million to acquire approximately 13% of the equity interests in Greenheart. In August 2007, Omnicorp Limited ("Omnicorp"), a listed company in Hong Kong, entered into an agreement with the existing shareholders of Greenheart to acquire approximately 60.3% of the equity interests in Greenheart with an option to acquire the remaining equity interests within 18 months after the completion of the sale. The transaction was completed on November 8, 2007 for consideration to the Company consisting of 7,860,000 Omnicorp ordinary shares, convertible bonds at a principal amount of $3,975,000 (equivalent to HK$31,047,000) issued by Omnicorp which mature on November 9, 2009 and cash of $302,000 (equivalent to HK$2,358,000) resulting in a gain of $3,369,000 being recorded in other income. In October 2007, the Company acquired convertible bonds issued by Omnicorp for $1,756,000 (equivalent to HK$13,650,000) from other bondholders. The bonds are convertible at HK$2.00 of face value per Omnicorp ordinary share.

The convertible bonds were assessed under CICA Handbook 3855 as containing an embedded derivative financial instrument. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The derivative asset was adjusted to its fair value of $249,000 using the Black Scholes model as at December 31, 2008 resulting in a charge of $2,917,000 [2007 – $1,816,000] recorded in the income statement.

The disbursements paid on receipt of the convertible bonds were first allocated to the fair value of the bifurcated embedded derivative financial instrument, with the remaining disbursement allocated to the convertible bonds, resulting in the discounted convertible bonds being recorded at $766,000 (equivalent to HK$5,912,000) on the completion date. This discount, together with the stated interest on the convertible bonds, is being accreted using the effective interest rate method over its remaining term. The Company recorded accretion income of $1,476,000 [2007 – $153,000] in the income statement.

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

The convertible bond and the derivative financial instrument were included in prepaid expenses and other as at December 31, 2008.

The following assumptions were used to estimate the fair value of the share purchase options at December 31:

	2008	2007
Risk-free interest rate	**0.49%**	3.26%
Expected option life (in years)	**0.85**	1.85
Dividend yield	**0.0%**	0.0%
Volatility	**146.21%**	111.76%

[d] The amount represents a refundable deposit of $10.0 million out of which $2.0 million has been reclassified to current assets, paid to a third party in connection with wood fibre to be purchased by the Company under the twelve-year wood fibre supply Master Agreement with Inner Mongolia Forest and Timber Resources Company Limited and Erlianhot Lianhe Forestry Bureau to secure an annual supply of at least 1.5 million m^3 of wood fibre by the Company. The deposit will be refunded in equal instalments over five years after commencement of operations under the contract.

8. BUSINESS ACQUISITION

On January 31, 2008, the Company completed the acquisition of 100% of the equity interests of a limited company incorporated in the PRC for cash, which is principally engaged in the greenery and nursery operations.

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were as follows:

	$
Cash and bank balances	**132**
Accounts receivable	**989**
Other receivables	**458**
Inventories	**751**
Capital assets	**318**
License [a]	**636**
Accounts payable and accrued liabilities	**(1,224)**
Purchase price	**2,060**

[a] The purchase price in excess of the net tangible assets acquired of $636,000 was allocated to the identified intangible asset, being the license. The license enables the Company to tender for greenery projects in the PRC. The fair value of the license was based on the related discounted cash flows. The license is not amortized as it does not have a definite useful life.

On October 31, 2007, the Company completed the acquisition of 100% of the equity interests of a limited company incorporated in the PRC for cash, which is principally engaged in the manufacturing of semi-finished flooring products.

The acquisition has been accounted for by the purchase method. The fair values of net assets acquired were as follows:

	$
Cash and bank balances	80
Accounts receivable	207
Inventories	703
Prepaid expenses and other	257
Capital assets	578
Accounts payable and accrued liabilities	(1,116)
	709
Goodwill	166
Purchase price	875

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2008 $	2007 $
Senior Notes [a]	**300,000**	300,000
Syndicated Loans [b]	**150,000**	150,000
Convertible senior notes [c]	**277,391**	-
Unamortized deferred financing costs	**(12,923)**	(8,015)
	714,468	441,985

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

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

On August 16, 2004, the Company entered into a currency swap contract. Under the terms of the contract, the Company hedged RMB113,290,070 on each of August 17 and February 17 in exchange for $13,687,500. The U.S. dollars will be used to fully pay the Company's interest payments on the $300,000,000 senior notes due on those dates. The term of the contract is five years. Management estimates that a loss of $5,214,000 [2007 – $11,211,000], being the fair value of the contract, would be realized if the contract was terminated on December 31, 2008. The increase in fair value of $1,078,000 [2007 – decrease of $1,425,000] has been recorded in changes in fair value of financial instruments in the income statement.

Total interest expense on the senior notes for the year was $28,689,000 [2007 – $28,616,000].

[b] On February 24, 2006, the Company entered into a $150 million 5-year and one day syndicated term loan facility. The facility carries an interest margin of between 0.80% and 1.50% over LIBOR per annum, depending on the Company's ratio of consolidated total debt to consolidated EBITDA, with the current margin bearing 0.8% per annum. EBITDA is defined as consolidated net income plus consolidated interest expense, income taxes, depreciation expense, amortization and all other non-cash items reducing consolidated net income (except depletion of timber holdings) less all non-cash items increasing consolidated net income. The facility is guaranteed by the Subsidiary Guarantors and ranks at least *pari passu* with the claims of all other unsecured, unsubordinated creditors of the Company and the Subsidiary Guarantors, subject to any priority rights pursuant to applicable law. The facility will be primarily used for the acquisition of additional standing timber and logs, and for general corporate purposes. The facility was fully drawn down in 2006. Principal of $37,500,000 will be repayable in 2010 and the remaining balance in 2011.

Total interest expense on the syndicated loans for the year was $7,376,000 [2007 – $10,573,000].

[c] On July 17, 2008 the Company closed an offering of convertible guaranteed senior notes ("notes") for gross proceeds of $300,000,000. The notes will mature on August 1, 2013 and bear interest at a rate of 5.0% per annum and payable semi-annually. The notes are convertible into common shares of the Company, at the option of the holder, at any time prior to the maturity date at an initial conversion rate of 49.2974 common shares per $1,000 principal amount of notes. If a Fundamental Change, as defined in the indenture which governs the notes, occurs prior to the maturity date, the Company will be required to make an offer to each holder to purchase for cash all or a portion of the notes at the holder's option and the conversion rate may be adjusted.

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

Upon conversion without a Fundamental Change, at the Company's option, the Company may elect to deliver, in lieu of common shares of the Company, cash or a combination of cash and common shares of the Company.

On August 5, 2008, the Company issued an additional $45,000,000 of the notes pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the offering, increasing the gross proceeds to $345,000,000. The Company has allocated $272,621,000 of the face value of the notes to the liability component and $72,379,000 to the equity component. The fair value of the liability component was estimated by discounting the future payments of interest and principal and will be accreted to the $345,000,000 face value using the estimated effective interest rate of 11.1%. The residual carrying value of $70,462,000, net of issue cost, attributed to the equity component of the notes was classified as equity component of convertible notes. The total issue cost of $9,135,000 has been prorated against the liability and equity components. The notes are:

- general senior unsubordinated obligations of the Company;
- guaranteed by the Subsidiary Guarantors (as defined in the indenture which governs the notes) on a senior basis subject to certain limitations;
- senior in right of payment to any existing and future obligations of the Company which are expressly subordinated in right of payment to the noteholders;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated indebtedness of the Company subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law; and
- effectively subordinated to all existing and future obligations of the Initial Non-Guarantor Subsidiaries (as defined in the indenture which governs the notes).

Total interest expense of the notes for the year was $12,399,000 [2007 – $nil].

[d] Under the terms of the above debt agreements in [a] and [b], the Company has met the financial and non-financial covenants affecting the Company and the restricted subsidiaries (as defined in the debt agreements), including limitation on dividend and other payment restrictions; short term borrowings and letters of credit or similar instruments not to exceed $100,000,000.

10. SHARE CAPITAL

Share capital consists of the following:

	2008		2007	
	Number of Common Shares	**Common Share Capital $**	Number of Common Shares	Common Share Capital $
Authorized				
Unlimited common shares, without par value				
Unlimited preference shares, issuable in series, without par value				
Issued				
Balance, beginning of year	**182,592,961**	**537,141**	137,999,548	143,511
Issue of shares	**-**	**-**	41,255,191	379,142
Exercise of options	**526,111**	**1,591**	3,338,222	10,770
Transfer from contributed surplus	**-**	**583**	-	3,718
Balance, end of year	**183,119,072**	**539,315**	182,592,961	537,141

The legal stated capital of the Company's common shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2008 is Cdn.$661,772,467 [2007 – Cdn.$659,374,196].

During the years ended December 31, 2007 and 2008, the movements in share capital were as follows:

[a] 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.$232,000,000 (equivalent to $200,000,000 at April 10, 2007) less share issue costs of $294,000.

[b] In June 2007, the Company completed a public offering of 15,900,000 common shares at Cdn.$12.65 for gross proceeds of Cdn.$201,135,000 (equivalent to $188,540,000 at June 12, 2007) less share issue costs of $9,104,000.

[c] During the year ended December 31, 2007, 3,338,222 stock options were exercised for proceeds of $10,770,000.

[d] During the year ended December 31, 2008, 526,111 stock options were exercised for proceeds of $1,591,000.

Authorized

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

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

Stock options

The Company's Stock Option Plan provides for the issuance of up to a maximum of 10,000,000 common shares at an exercise price equal to the market price of the Company's common shares on the date of the grant. The option period for the Stock Option Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option. As at December 31, 2008, options to purchase 8,371,675 common shares have been granted and options to purchase 1,628,325 common shares remain available to be granted under the Stock Option Plan.

In the second quarter of 2007, options to acquire 100,000 common shares granted on June 4, 2007 were cancelled.

In 2008, options to acquire 33,334 common shares granted on June 4, 2007 were cancelled.

During the year ended December 31, 2008, options to acquire 75,000 common shares [2007 – 1,570,417] were granted to employees and directors at exercise prices of Cdn.$17.70 in accordance with the Company's Stock Option Plan. The options granted will vest over one to three years and expire in five years. The fair value of the stock options granted was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions:

	August 13, 2008
Number of options	**75,000**
Exercise price (in Cdn. $)	**$17.70**
Dividend Yield	**0.0%**
Volatility	**55.9%**
Risk-free interest rate	**3.33%**
Option's expected life (in years)	**5.0**
Weighted average fair value of each option (in U.S. dollars)	**$9.06**

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

	November 23, 2007	August 21, 2007	June 4, 2007
Number of options	250,000	2,081	1,318,336
Exercise price (in Cdn. $)	$19.00	$14.01	$13.15
Dividend Yield	0.0%	0.0%	0.0%
Volatility	55.5%	56.4%	56.6%
Risk-free interest rate	4.22%	4.59%	4.11%
Option's expected life (in years)	5.0	5.0	5.0
Weighted average fair value of each option (in U.S. dollars)	$9.98	$7.00	$6.54

The compensation expense recorded for the year 2008 with respect to the above options granted amounted to $4,276,000 [2007 – $2,898,000].

The following table summarizes the changes in stock options outstanding during the years ended December 31, 2008 and 2007:

	2008		2007	
	Number of options	**Weighted average exercise price Cdn.$**	Number of options	Weighted average exercise price Cdn.$
Balance, beginning of year	**3,948,453**	**7.78**	5,816,258	3.69
Granted	**75,000**	**17.70**	1,570,417	14.15
Cancelled	**(33,334)**	**13.15**	(100,000)	13.15
Exercised	**(526,111)**	**3.10**	(3,338,222)	3.46
Balance, end of year	**3,464,008**	**8.65**	3,948,453	7.78
Exercisable at year-end	**2,142,340**	**6.23**	1,510,703	3.63

The following table summarizes the weighted average exercise price and the weighted average remaining contractual life of the options outstanding and exercisable as at December 31, 2008:

Range of exercise prices	**Options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable**	**Options Non-exercisable**	**Weighted average exercise price**
Cdn.$2.00 – Cdn.$3.00	**205,000**	**0.55 years**	**Cdn.$2.71**	**205,000**	**-**	**Cdn.$2.71**
Cdn.$3.00 – Cdn.$4.00	**871,000**	**1.23 years**	**Cdn.$3.70**	**871,000**	**-**	**Cdn.$3.70**
Cdn.$4.00 – Cdn.$5.00	**145,925**	**2.65 years**	**Cdn.$4.36**	**85,925**	**60,000**	**Cdn.$4.36**
Cdn.$5.00 – Cdn.$6.00	**750,000**	**2.62 years**	**Cdn.$5.50**	**500,000**	**250,000**	**Cdn.$5.50**
Cdn.$13.00 – Cdn.$14.00	**1,165,002**	**3.42 years**	**Cdn.$13.15**	**395,001**	**770,001**	**Cdn.$13.15**
Cdn.$14.00 – Cdn.$15.00	**2,081**	**3.64 years**	**Cdn.$14.01**	**2,081**	**-**	**Cdn.$14.01**
Cdn.$17.00 – Cdn.$18.00	**75,000**	**4.62 years**	**Cdn.$17.70**	**-**	**75,000**	**Cdn.$17.70**
Cdn.$19.00 – Cdn.$20.00	**250,000**	**3.89 years**	**Cdn.$19.00**	**83,333**	**166,667**	**Cdn.$19.00**

11. CONTRIBUTED SURPLUS

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

	2008 $	2007 $
Balance, beginning of year	**3,906**	4,726
Stock-based compensation	**4,276**	2,898
Transfer to share capital [note 10]	**(583)**	(3,718)
Balance, end of year	**7,599**	3,906

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The changes in accumulated other comprehensive income were as follows:

	2008	2007
	$	$
Balance, beginning of year	**105,287**	32,590
Other comprehensive income	**106,544**	72,697
Balance, end of year	**211,831**	105,287

As at December 31, 2008, accumulated other comprehensive income comprises the following amounts:

	2008	2007
	$	$
Unrealized gains on translation of financial statements of self-sustaining foreign operations	**214,063**	106,025
Unrealized loss on financial assets designated as available-for-sale, net of tax of nil	**(2,232)**	(738)
Balance, end of year	**211,831**	105,287

Unrealized translation adjustments arise on the translation to U.S. dollars of assets and liabilities of the Company's self-sustaining foreign operations. For the year ended December 31, 2008, the Company incurred unrealized foreign currency translation gains of $108,038,000 [2007 – $73,435,000], primarily from the strengthening of Renminbi against U.S. dollars.

13. PROVISION FOR INCOME TAXES

[a] Temporary differences

	2008 Future Income Tax Assets (Liabilities)	2007 Future Income Tax Assets (Liabilities)
	$	$
Tax losses carried forward	**3,875**	21,492
Unrealized foreign exchange on external debt	**13,138**	(41,535)
Unrealized foreign exchange on receivables	**(12,796)**	42,967
Before valuation allowance	**4,217**	22,924
Valuation allowance	**(4,217)**	(22,924)
Total	**-**	-

[b] Canadian and foreign income taxes

	2008	2007
	$	$
Provision for income taxes		
Current tax provision		
Canadian	**12,500**	-
Foreign	**24,105**	18,034
	36,605	18,034
Future tax recovery		
Canadian	**(12,500)**	-
Total	**24,105**	18,034

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

The Canadian and foreign components of the provision for income taxes are based on the jurisdiction in which income is taxed. Foreign taxes mainly relate to the PRC.

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

	2008	2007
	$	$
Income before income taxes	**240,498**	160,465
Expected statutory tax rate of Canada	**33.5%**	36.12%
Expected income tax expense	**80,567**	57,960
Effect of Canadian dollar tax reporting	**12,500**	-
Recovery related to tax loss carryforwards	**(12,500)**	-
Unrecognized income tax benefit arising from losses of the Company and its subsidiaries	**36,785**	23,789
Income tax at lower rates in foreign jurisdiction [c]	**(89,356)**	(63,668)
Income not currently subject to PRC enterprise income tax	**(3,891)**	(47)
Income Tax Expense	**24,105**	18,034
Effective Rate	**10.0%**	11.2%

[c] Income tax rates of major tax jurisdictions in which the Company's subsidiaries operate

PRC wholly foreign owned enterprises ("WFOE") are governed by the Income Tax Law of the PRC and various local and state supplementary regulations (the "Income Tax Laws"). Pursuant to the new Enterprise Income Tax Law effective January 1, 2008 ("New EIT Law"), WFOE, 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 WFOE and CJV 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 WFOE and CJV engaged in forestry plantation if eligible could apply for an exemption from PRC enterprise income tax.

Hong Kong profits tax has been provided at the rate of 16.5% [2007 – 17.5%] on the estimated assessable profits arising in and sourced to Hong Kong during the year.

[d] 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.

[e] Losses carryforward

As at December 31, 2008, the Company has income tax losses of approximately $11,567,000 (Cdn.$14,081,000) based on Canadian dollar tax reporting for which no accounting benefit has been recognized and which can be applied against future years' taxable income in Canada [2007 – $59,537,000]. The losses will be expiring in 2026.

In addition, as at December 31, 2008, the Company's PRC WFOE and CJV have incurred tax losses on a legal entity basis in aggregate of approximately $36,659,000 [2007 – $30,097,000]. Losses incurred by PRC WFOE's and CJV's can be carried forward to a maximum of five years. The benefit of these losses has not been reflected in the financial statements as management does not consider it to be more likely than not that the related future income tax asset will be realized. There are no other material temporary differences in the Company's PRC WFOE and CJV.

[f] Other

The Company has adopted U.S. dollars functional tax reporting for Canadian tax reporting purposes and elected to do so effective January 1, 2008. These rules are set out in section 261 of the Income Tax Act and the rules allow the Company to prepare its corporate tax return using U.S. dollars instead of translating annual activities into Canadian dollars. The Canadian tax law relating to the Company's election was not substantively enacted until March 4, 2009. As a result, Canadian income tax expense for 2008 is not calculated based on U.S. dollar functional tax reporting.

14. EARNINGS PER SHARE

The Company calculates earnings per share on the weighted average number of shares outstanding. Diluted earnings per share are calculated using the treasury stock method for stock options and the "if-converted" method for convertible senior notes.

Earnings per share are as follows:

	2008			2007		
	Earnings $'000	**Weighted Average no. of Shares '000**	**Earnings per Share $**	Earnings $'000	Weighted Average no. of Shares '000	Earnings per Share $
Net income for the period	**228,593**			152,273		
Weighted average number of shares outstanding		**182,804**			166,823	
Basic Earnings per Share	**228,593**	**182,804**	**1.25**	152,273	166,823	0.91
Effect of dilutive securities:						
- stock options	**-**	**1,396**		-	1,783	
- convertible senior notes	**12,399**	**7,528**		-	-	
	240,992	**191,728**		152,273	168,606	
Deduct anti-dilutive impacts:						
- convertible senior notes	**(12,399)**	**(7,528)**		-	-	
Diluted Earnings per Share	**228,593**	**184,200**	**1.24**	152,273	168,606	0.90

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

15. STATEMENTS OF CASH FLOWS

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

	2008 $	2007 $
Cash provided by (used for):		
Accounts receivable	**(111,255)**	23,628
Inventories	**1,400**	(25,428)
Prepaid expenses and other	**2,384**	(789)
Accounts payable and accrued liabilities [a]	**41,771**	29,096
Income taxes payable	**7,172**	493
	(58,528)	27,000

[a] As at December 31, 2008, the Company had an aggregate amount of $27,948,000 [2007 – $12,318,000] and $8,601,000 [2007 – $nil] payable in respect of timber holdings and other assets acquired, respectively during the year which was included in accounts payable and accrued liabilities.

16. FINANCIAL INSTRUMENTS

Under Canadian generally accepted accounting principles, all financial instruments must be classified into a defined category, namely, held-to-maturity investments, held-for-trading financial assets or financial liabilities, loans and receivables, available-for-sale financial assets, and other financial liabilities. The carrying values of the Company's financial instruments as at December 31 are classified into the following categories:

	2008 $	2007 $
Held for trading [a]	**486,955**	350,853
Loans and receivables [b]	**248,232**	124,415
Available for sale assets [c]	**2,874**	4,356
Other financial liabilities [d]	**901,154**	557,208
Derivative (foreign currency swap) [e]	**5,214**	11,211
Embedded derivative [f]	**249**	3,149

[a] Cash and cash equivalents and short-term deposits, measured at fair value.

[b] Accounts receivable, subordinated loans and convertible bond are measured at amortized cost.

[c] Investment in Omnicorp is measured at fair value; investments in Greenheart and Mandra Holdings are measured at cost.

[d] Bank indebtedness, accounts payable and accrued liabilities, excluding provision for tax related liabilities, and long-term debts are measured at amortized cost.

[e] Foreign currency swap contract is measured at fair value.

[f] Conversion option embedded in convertible bonds is measured at fair value.

Fair value of financial instruments

The fair value of financial instruments represents the amounts that would have been received from or paid to counterparties to settle these instruments. The carrying amount of all financial instruments classified as current approximates their fair value because of the short maturities and normal trade terms of these instruments. The fair value of syndicated loans and convertible guaranteed senior notes approximate their carrying values. The fair value of other financial instruments disclosed in the financial statements are based on the Company's best estimates using present value, quoted market prices and other valuation techniques that are significantly affected by the assumptions used concerning the amounts and timing of estimated cash flows and discount rates which reflect varying degrees of risk.

The fair value of the non-convertible guaranteed senior notes are based on quoted market prices. The Company has no plans to prepay these instruments prior to maturity. The fair value and carrying amounts of the non-convertible senior notes as at December 31, 2008 were $195,000,000 and $300,000,000, respectively [2007 – $316,000,000 and $300,000,000, respectively].

Foreign currency swap contract and convertible bonds

The Company uses financial instruments, including variable rate debts, to finance its operations and to manage risks associated with its interest rate risk. With respect to the non-convertible guaranteed senior notes, the Company has entered into a currency swap agreement to meet interest payments at $27.4 million per annum. The Company does not otherwise engage in other hedging transactions with respect to our foreign exchange risk or interest rate risk.

The Company has convertible bonds issued by Omnicorp which will mature on November 9, 2009. The Company is required to bifurcate the embedded conversion option and account for it as a derivative asset. The mark to market value of these financial instruments in 2008 was an unrealized loss of $2,917,000 [2007 – $1,816,000] which has been charged to the income statement.

Risks arising from financial instruments and risk management

The Company is exposed to various types of market risks, including changes in foreign exchange rates, interest rates, the prices of wood-based products and standing timber, in the normal course of business. The Company's overall risk management program focuses on mitigating these risks on a cost-effective basis. The Company uses derivative financial instruments to reduce its exposure to foreign currency risk associated with its long-term debts. The Company's policy is to use derivatives for managing existing financial exposures and not for trading or speculative purposes.

Exchange rate risk

The Company conducts its 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. The Company translates its 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 Company's operating expenses are denominated in Renminbi and Hong Kong dollars. Substantial exposure to currency risk is on its 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 the Company's revenue in Renminbi is converted into other currencies to meet financial obligations denominated in currencies other than Renminbi. The Company has 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 the overall earnings or financial position of the Company. 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 the Company's capital account, are subject to foreign exchange controls and require the approval of the PRC State Administration of Foreign Exchange. Developments relating to the PRC's economy and actions taken by the PRC government could cause future foreign exchange rates to vary significantly from current or historical rates. The Company cannot predict nor give any assurance of its future stability. Future fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars of the Company's net assets, net profits and any declared dividends. The Company cannot give any assurance that any future movements in the exchange rates of Renminbi against the U.S. dollar and other foreign currencies will not adversely affect its results of operations, financial condition and cash flows.

As of December 31, 2008, the Company 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]. The Company 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.

The Company mainly incurred U.S. dollar denominated debt for capital expenditures primarily relating to the development and acquisition of its forestry plantations and investment in its manufacturing plants. If the U.S. dollar fluctuates against any of these currencies, it would correspondingly affect the repayment costs on these debts.

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

Credit risk

The Company is 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. The Company undertakes credit evaluations on customers as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses. Historically the Company has made arrangements with its debtors to settle amounts payable with respect to the purchase of standing timber on behalf of the Company. 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. The Company has no significant allowance for doubtful accounts in 2008 and 2007.

The Company is 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. The Company has deposited the cash equivalent in banks that meet minimum requirements for quality and liquidity as stipulated by the Company's Board of Directors. Management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's 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, the Company was holding cash and cash equivalents of $441.2 million. The Company has 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 its requirements for investments in working capital, timber holdings and capital assets.

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2008:

	Payment Due by Period				
	Within one year $	In the second and third year $	In the fourth and fifth year $	After the fifth year $	Total $
Bank indebtedness	73,158	-	-	-	73,158
Accounts payable and accrued liabilities (1)	113,528	-	-	-	113,528
Long-term debt	-	443,898	270,570	-	714,468
	186,686	443,898	270,570	-	901,154

(1) Excluding the tax provision for tax related contingency.

Interest rate risk

The Company is exposed to interest rate risk resulting from fluctuations in interest rates on its debts, primarily on its 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 the Company's 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. The Company does not currently use any derivative instruments to modify the nature of its debts so as to manage its interest rate risk. The Company minimizes its interest rate risk by managing its portfolio of variable and fixed rate debt, as well as managing the term to maturity.

The Company is also exposed to interest rate risk on cash equivalents. The Company does not use financial instruments to mitigate this risk.

Commodity price risk

The Company is exposed to fluctuations in the prices of standing timber and wood-based products. The Company imports wood-based products from suppliers outside of China. Such purchases are made at market prices. In addition, all the 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 the Company's business, results of operations, financial condition and cash flows.

The Company does not enter into any futures contracts to hedge its sales or purchases of standing timber and wood-based products.

17. CAPITAL MANAGEMENT

The Company's objectives in managing capital are to maintain an optimal capital structure to reduce the overall cost of capital and to safeguard the Company's ability to continue to deploy capital to pursue its strategy of growth and provide returns to shareholders and other stakeholders.

In the management of capital, the Company includes bank indebtedness of $73,158,000, long-term debt of $714,468,000 and shareholders' equity of $1,598,764,000. The Board of Directors does not establish a quantitative return on capital criteria for management but promotes year-over-year sustainable earnings growth targets. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. There were no changes in the Company's approach to capital management during the year.

The Company is subject to externally imposed minimum capital requirements relating to the bank credit facilities, senior notes and syndicated loans and exceeds the minimum requirements during the year. The Company's capital is subject to PRC foreign currency exchange controls which may limit the ability to repatriate funds. As at December 31, 2008, the Company has retained earnings of approximately $770 million in the PRC which may be restricted.

18. SEGMENTED INFORMATION

The Company's segmented information is presented by industry. In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Company's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Company's industry segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other industry segments. The segments were organized to reflect the Company's role as a key wood fibre supplier and provider of value-added wood products through its manufacturing operations. Summary details of the industry segments are as follows:

[a] the plantation fibre segment engages in the sale of standing timber and harvested logs;

[b] the other fibre segment engages in the sale of domestic and imported wood products; and

[c] the manufacturing segment engages in the sale of manufacturing operation's products and other.

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

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

By Industry Segment

2008	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	685,404	-	-	-	685,404
Sale of imported wood products	-	139,700	-	-	139,700
Sale of wood logs	-	13,817	-	-	13,817
Sale of manufacturing operation's products and other	-	-	62,374	-	62,374
	685,404	153,517	62,374	-	901,295
Income (loss) from continuing operations before interest, other income, exchange gains (losses), impairment of capital assets and changes in fair value of financial instruments	343,433	6,542	(21,749)	(24,844)	303,382
Net income from discontinued operations	-	12,200	-	-	12,200
Interest income	912	3,460	1,784	4,972	11,128
Interest expense	904	1,996	947	48,474	52,321
Impairment of capital assets	-	-	18,157	-	18,157
Depreciation and amortization	305	47	4,083	192	4,627
Provision for income taxes	19,293	3,613	1,199	-	24,105
Identifiable assets	1,913,957	385,295	251,045	53,627	2,603,924
Depletion of timber holdings included in cost of sales	281,948	-	2,584	-	284,532
Additions to timber holdings and capital assets	672,943	68	29,280	270	702,561

2007	Plantation Fibre $	Other Fibre $	Manufacturing $	Corporate $	Total $
Revenue					
Sale of standing timber and harvested logs	521,489	-	-	-	521,489
Sale of imported wood products	-	150,731	-	-	150,731
Sale of wood logs	-	3,233	-	-	3,233
Sale of manufacturing operation's products and other	-	-	38,413	-	38,413
	521,489	153,964	38,413	-	713,866
Income (loss) from continuing operations before interest, other income, exchange gains (losses), impairment of capital assets and changes in fair value of financial instruments	230,229	2,898	(14,202)	(21,457)	197,468
Net income from discontinued operations	-	9,842	-	-	9,842
Interest income	623	104	1,893	12,564	15,184
Interest expense	620	3,512	634	39,194	43,960
Impairment of capital assets	-	-	20,846	-	20,846
Depreciation and amortization	247	23	4,938	156	5,364
Provision for income taxes	17,745	88	140	61	18,034
Identifiable assets	1,309,415	52,293	251,628	224,161	1,837,497
Depletion of timber holdings included in cost of sales	284,808	-	-	-	284,808
Additions to timber holdings and capital assets	647,762	85	11,347	422	659,616

Revenue from the Company's largest customer for the year amounted to approximately 14% [2007 – 16%] of total revenue. During the year, there were three [2007 – four] customers who each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 36% [2007 – 52%] of total revenue.

Purchases from the Company's largest vendor for the year accounted for approximately 17% [2007 – 32%] of total purchases. During the year, one [2007 – one] vendor accounted for more than 10% of the Company's purchases and the purchase represented approximately 17% [2007 – 32%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in PRC. During the year, sales to customers in the PRC and other countries amounted to approximately $894,943,000 [2007 – $708,331,000] and $6,352,000 [2007 – $5,535,000], respectively.

As at December 31, 2008, all of the Company's timber holdings and approximately $90,525,000 [2007 – $77,913,000] of the Company's capital assets were located in the PRC.

19. DISCONTINUED OPERATIONS

During the third quarter of 2007, wood chips and commission revenue ceased due to the lack of wood chipping capacity available to the Company. The results of operations from wood chips and commission are detailed below and shown as discontinued operations. As a result, the Consolidated Statement of Income and Retained Earning has been reclassified from statements previously presented.

	2008 **$**	2007 $
Revenue	**-**	7,172
Cost of Sales	**-**	(5,849)
Income from operations	**-**	1,323
Income before income taxes	**-**	1,323
Recovery of income tax	**12,200**	8,519
Net income from discontinued operations	**12,200**	9,842

Liabilities on the Consolidated Balance Sheets include the following amounts for discontinued operations:

	2008 **$**	2007 $
Liabilities of discontinued operations		
Accounts payable and accrued liabilities [note 13(d)]	**21,933**	32,016
	21,933	32,016

20. CAPITAL CONTRIBUTIONS AND COMMITMENTS

Capital contributions and commitments for the Company's principal business activities are as follows:

[a] Capital contributions

As at December 31, 2008, the Company has capital commitments in respect of capital contributions to our WFOEs of $75,000,000 [2007 – $18,600,000].

[b] Capital commitments

As at December 31, 2008, the Company has capital commitments with respect to buildings, timber holdings, and plant and machinery of $15,020,000 [2007 – $16,523,000].

[c] Purchase commitments

As at December 31, 2008, the Company has purchase commitments mainly regarding logs of $6,400,000 [2007 – $21,470,000].

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

[d] Operating leases

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

	$
2009	**3,164**
2010	**2,681**
2011	**2,176**
2012	**2,206**
2013	**2,451**
2014 and thereafter	**43,396**
	56,074

[e] Wood fibre

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 $298,952,000 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 $232,456,000 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 $343,503,000 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.

21. 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 impact 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 and 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 up to 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 quarterly basis or as necessary and believes that adequate provision for tax related liabilities has been recognized in the financial statements.

22. RELATED PARTY TRANSACTIONS

[a] Pursuant to the respective service agreements, the Company pays the salaries of certain executive officers in the form of consultancy fees to companies controlled by the executive officers. The consultancy fees incurred for the year amounted to $5,960,000 [2007 – $4,587,000] and were recorded at an exchange amount as agreed by the related parties.

[b] In addition, as at December 31, 2008, the Company had an aggregate amount of $4,900,000 [December 31, 2007 – $3,000,000] for consultancy fees payable to these related companies. The amount is included in accounts payable and accrued liabilities in the financial statements.

23. SUBSEQUENT EVENT

[a] On February 6, 2009, the Company entered into an agreement to acquire 55,000,000 ordinary shares and approximately $21,600,000 [equivalent to HK$167,631,000] 4% secured convertible bonds of Omnicorp from various vendors. The purchase price consisted of cash of $4,300,000 and approximately 2,700,000 common shares of the Company at a price of Cdn.$10 per share. Total consideration was approximately $25,775,000 [equivalent to HK$200,631,000]. 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.

[b] In March 2009, the Company committed to a plan to dispose certain machinery and equipment due to continued losses over the years. The machinery and equipment has a carrying value of approximately $28 million as at December 31, 2008. Management expects the disposal will be completed during 2009.

24. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.

Directors, Officers and Executives

INDEPENDENT DIRECTORS

JAMES (JAMIE) M.E. HYDE
CA, Toronto
1 (chair), 2 (chair), 3

Director since 2004; previously Executive Vice President & Chief Financial Officer, Resolve Business Outsourcing Income Fund, Vice President Finance and Chief Financial Officer, GSW Inc., Partner, Ernst & Young LLP and Senior Vice President, Ernst & Young Corporate Finance Inc.

EDMUND MAK
MBA, Vancouver
1, 2

Director since 1994; Associate Broker, Royal Pacific Realty Corporation; previously worked over thirty years with public, multi-national and private corporations in North America and Hong Kong, in the real estate, computer and high technology equipment, transportation, construction, oil & gas, textile and China trade industries.

W. JUDSON MARTIN
Toronto
1, 2, 3 (chair)

Lead Director since 2007; Director since 2006; previously Senior Executive Vice President & Chief Financial Officer, Alliance Atlantis Communications Inc., Senior EVP, CFO & Chief Operating Officer, MDC Communications Corporation, President & CEO, Trilon Securities Corporation, EVP & CFO, Brookfield Development Corporation, Vice President Finance, Trizec Corporation Ltd.

SIMON MURRAY
Hong Kong
3

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

PETER WANG
Hong Kong

Director since 2007; Senior Commercial Consultant of Zijing Copper of Zijing Mining Group, a HKG-listed company; has over 30 years experience in Sino-foreign business affairs, predominantly related to petrochemical and mining industries, as well as wood-based panel industries.

Notes:
1. Audit Committee
2. Corporate Governance Committee
3. Compensation and Nominating Committee

DIRECTORS AND OFFICERS

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

Director since 1994; co-founded Sino-Forest in 1992; previously worked twelve years as a management consultant and project manager in China; previously worked for Hong Kong government in new town development and management programs.

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

Director since 1994; co-founded Sino-Forest in 1992; previously worked fifteen years with Guangdong Forestry Bureau as an engineer engaged in forest product trading and manufacturing.

OFFICERS AND EXECUTIVES

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

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

HUA CHEN
Senior Vice President, Administration & Finance, China

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

ALBERT IP
Senior Vice President, Development & Operations North-east & South-west China

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

WEI MAO ZHAO
Senior Vice President, Development & Operations, South & East China

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

GEORGE HO
Vice President, Finance (China), Hong Kong

Joined Sino-Forest in 2007; previously worked extensively in the auditing, accounting and consulting field for more than 13 years with several years of experience as CFO of a merchant bank's China operations.

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

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

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

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

RICHARD KIMEL
HBA, LLB, Corporate Secretary, Toronto

Partner, and a member of Aird & Berlis LLP's Corporate/Commercial and Corporate Finance Groups, practicing law since 1997; specializes in the areas of corporate/commercial and corporate finance law, focusing primarily on public and private financings, domestic and international mergers and acquisitions and ongoing corporate counsel activities.

(in millions, except earnings per share and share price)	2008 $	2007 $	[Restated] 2006 $	[Restated] 2005 $	2004 $	2003 $	2002 $	2001 $	2000 $	1999 $
Consolidated Statement of Income										
Revenue [1]	**901.3**	713.9	555.5	341.3	330.9	265.7	200.7	137.3	126.7	141.6
Gross profit [1]	**364.7**	243.0	175.0	104.0	101.5	64.9	42.7	30.2	38.6	39.8
Gross profit margin [1]	**40.5%**	34.0%	31.5%	30.5%	30.7%	24.4%	21.3%	22.0%	30.5%	28.1%
Net income [1]	**228.6**	152.3	113.5	76.2	52.8	30.2	20.6	18.6	28.6	28.2
Diluted earnings per share	**1.24**	0.90	0.81	0.55	0.43	0.32	0.27	0.21	0.31	0.31
Cash flow from operating activities [1]	**483.1**	482.5	264.2	152.9	119.4	69.6	12.6	12.9	26.6	27.1
Capital Expenditures	**702.6**	659.6	416.8	299.7	178.6	96.6	44.2	45.3	54.4	37.7
Consolidated Balance Sheets										
Total assets	**2,603.9**	1,837.5	1,207.3	895.3	756.0	418.9	336.9	281.6	220.2	178.3
Cash and cash equivalents	**441.2**	328.7	152.9	108.4	201.2	6.9	1.2	1.7	18.2	39.6
Working capital	**498.4**	330.0	154.6	122.0	236.9	(2.3)	26.1	5.5	13.3	38.8
Timber holdings	**1,653.3**	1,174.2	752.8	513.4	359.6	232.5	172.4	156.1	118.5	91.7
Long-term debt	**714.5**	442.0	450.0	300.0	300.0	56.0	82.3	47.2	28.7	30.2
Shareholders' equity	**1,598.8**	1,187.3	578.2	439.9	372.3	245.0	180.1	172.8	154.2	126.2
Shares										
Shares outstanding at year-end	**183.1**	182.6	138.0	137.8	136.6	96.2	80.3	80.3	80.3	80.8
- Common shares	**183.1**	182.6	138.0	137.8	136.6	-	-	-	-	-
- Class A Subordinate-Voting Shares	**-**	-	-	-	-	96.2	74.3	74.3	74.3	74.8
- Class B Multiple-Voting Shares [2]	**-**	-	-	-	-	-	6.0	6.0	6.0	6.0
Share Price at year end C$	**9.87**	21.44	7.83	4.94	3.43	5.16	1.17	1.19	0.99	1.63
Market Capitalization C$	**1,807**	3,915	1,081	681	469	496	94	96	79	132

(1) For comparison purpose, the results of 2006 and 2005 have been restated to exclude wood chips and commission operations but include the tax provision for tax contingency. The result of the wood chips and commission operations has been reclassified as discontinued operations in the Consolidated Financial Statements.

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

		1st Q	2nd Q	3rd Q	4th Q	Total
Revenue	US$'000	136,137	187,125	295,548	282,485	**901,295**
Gross profit	US$'000	46,879	67,247	127,575	123,037	**364,738**
Gross profit margin		34%	36%	43%	44%	**40%**
EBITDA	US$'000	73,611	106,247	220,644	192,039	**592,541**
Net income	US$'000	14,527	43,401	75,175	95,490	**228,593**
Diluted earnings per share	US$	0.08	0.24	0.40	0.51	**1.24**
Cash flow from operating activities	US$'000	32,021	100,254	137,160	213,690	**483,125**
Wood Fibre Operations						
Plantation fibre						
Hectares purchased		27,706	14,165	21,661	64,302	**127,834**
Acquisition cost	US$'M	77.9	111.0	186.2	271.3	**646.4**
Hectares sold		13,493	17,665	34,422	38,365	**103,945**
Revenue	US$'000	102,670	125,591	245,236	211,907	**685,404**
Gross profit margin		45%	53%	51%	56%	**52%**
Other fibre - wood logs						
Revenue	US$'000	123	1,129	1,497	11,068	**13,817**
Gross profit margin		5%	23%	15%	19%	**19%**
Other fibre - imported wood products						
Revenue	US$'000	24,064	42,879	31,865	40,892	**139,700**
Gross profit margin		3%	5%	4%	4%	**4%**
Manufacturing & Other Operations						
Revenue	US$'000	9,280	17,526	16,950	18,618	**62,374**
Gross profit margin		0%	(6%)	2%	8%	**1%**
Common Shares						
High	C$	22.23	21.23	20.03	14.00	**26.15**
Low	C$	14.01	14.90	12.90	5.25	**5.25**
Close	C$	16.00	17.86	13.41	9.87	**9.87**
Average daily trading volume		1,132,399	1,035,255	808,179	1,364,270	**1,084,640**

Corporate and Shareholder Information

AUDITORS

Ernst & Young LLP
700 West Georgia Street
P.O. Box 10101
Vancouver, British Columbia
Canada V7Y 1C7

EXCHANGE LISTING

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

ANNUAL SHAREHOLDERS MEETING

Monday, May 25, 2009 at 4:00 p.m.
The Fairmont Royal York Hotel
Ontario Room, Convention Floor
100 Front Street West
Toronto, Ontario
Canada M5J 1E3

LEGAL COUNSEL

Aird & Berlis LLP
Brookfield Place, Suite 1800
Box 754, 181 Bay Street,
Toronto, Ontario M5J 2T9
Canada

INVESTOR RELATIONS

David J. Horsley, C.A., C.B.V.
Senior Vice-President and
Chief Financial Officer
Tel: 905.281.8889
Fax: 905.281.3338
Email: davehorsley@sinoforest.com

Louisa Wong
Senior Manager - Investor
Communications and
Relations, Hong Kong
Tel: 852.2877.0078
Direct: 852.2514.2109
Fax: 852.2877.0062
Email: louisa-wong@sinoforest.com

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company
320 Bay Street, P.O. Box 1
Toronto, Ontario
Canada M5H 4A6
Tel: 416.643.5500
Toll-free North America:
1.800.387.0825

Please Note: This report contains projections and forward-looking statements regarding future events. Such forward-looking statements are not guarantees of future performance of Sino-Forest and are subject to risks and uncertainties that could cause actual results and company plans and objectives to differ materially from those expressed in the forward-looking statements. Such risks and uncertainties include, but are not limited to, changes in the PRC and international economies; changes in currency exchange rates; changes in worldwide demand for the Company's products; changes in worldwide production and production capacity in the forest products industry; competitive pricing pressures for the Company's products; and changes in wood and timber costs.

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Produced by Story Communications Inc.

Sino-Forest Corporation

www.sinoforest.com

CORPORATE ADMINISTRATION OFFICE
Sino-Forest Corporation
90 Burnhamthorpe Road West
Suite 1208, Mississauga
Ontario, Canada L5B 3C3
Tel: 905 281 8889
Fax: 905 281 3338
Email: info@sinoforest.com

EXECUTIVE HEAD OFFICE
Sino-Forest Corporation
Sino-Wood Partners, Limited
(wholly-owned subsidiary of Sino-Forest Corporation)
Room 3815-29, Sun Hung Kai Centre
30 Harbour Road
Wanchai, Hong Kong
Tel: 852 2877 0078
Fax: 852 2877 0062