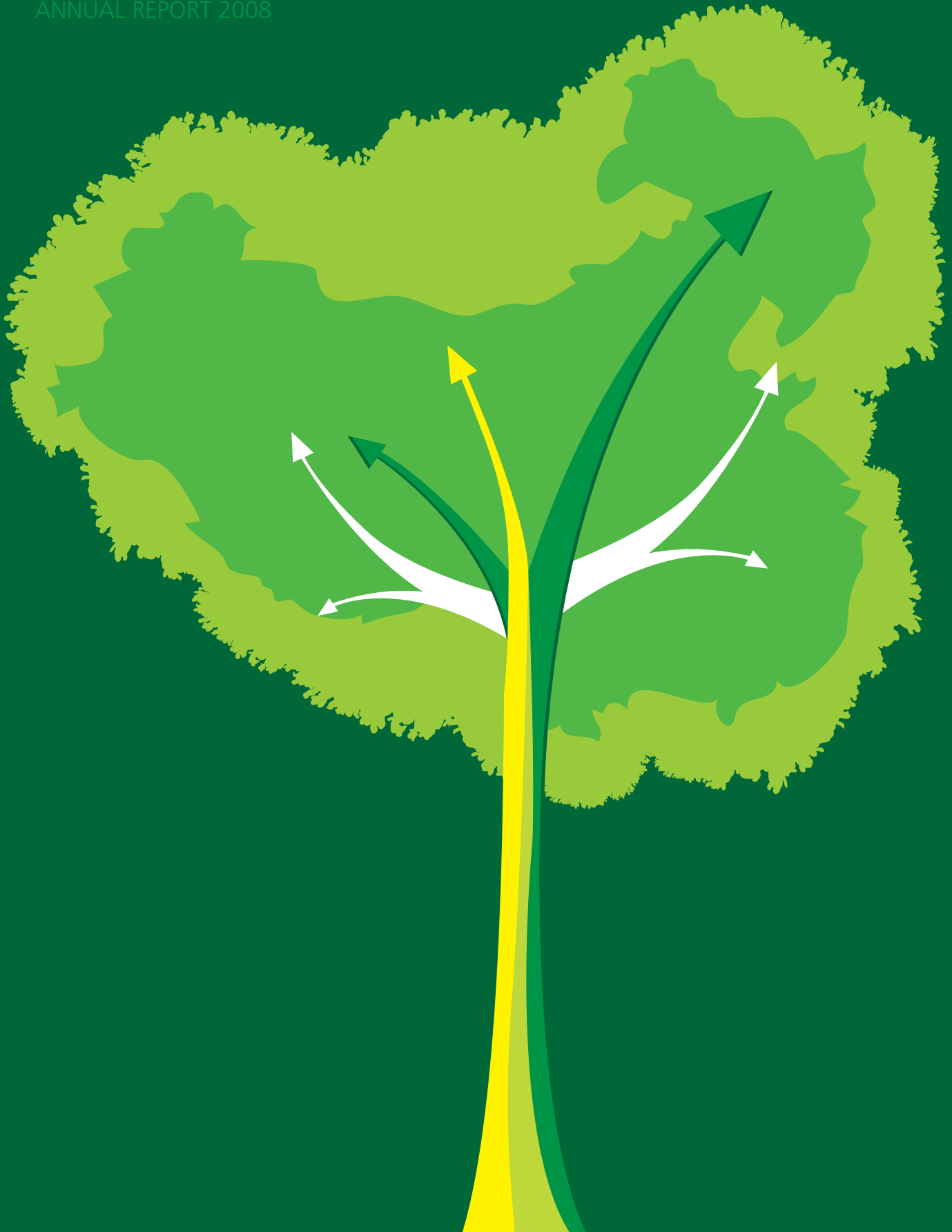




Sino-Forest Corporation

Growing with China

ANNUAL REPORT 2008



“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, their selling price per cubic metre also increases.
- ✔ Our fibre is sold in China, which has one of the robust growth economies in the world.
- ✔ China’s demand for wood products and wood fibre remains strong, therefore deficit of domestic wood fibre continues to remain.
- ✔ 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.



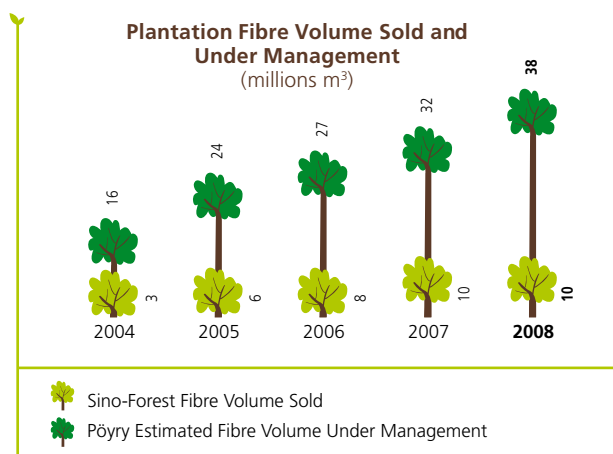
Growth in Key Performance Indicators

2008 Operating Highlights	2008 Financial Highlights
<ul style="list-style-type: none"> 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%. 	<ul style="list-style-type: none"> 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%

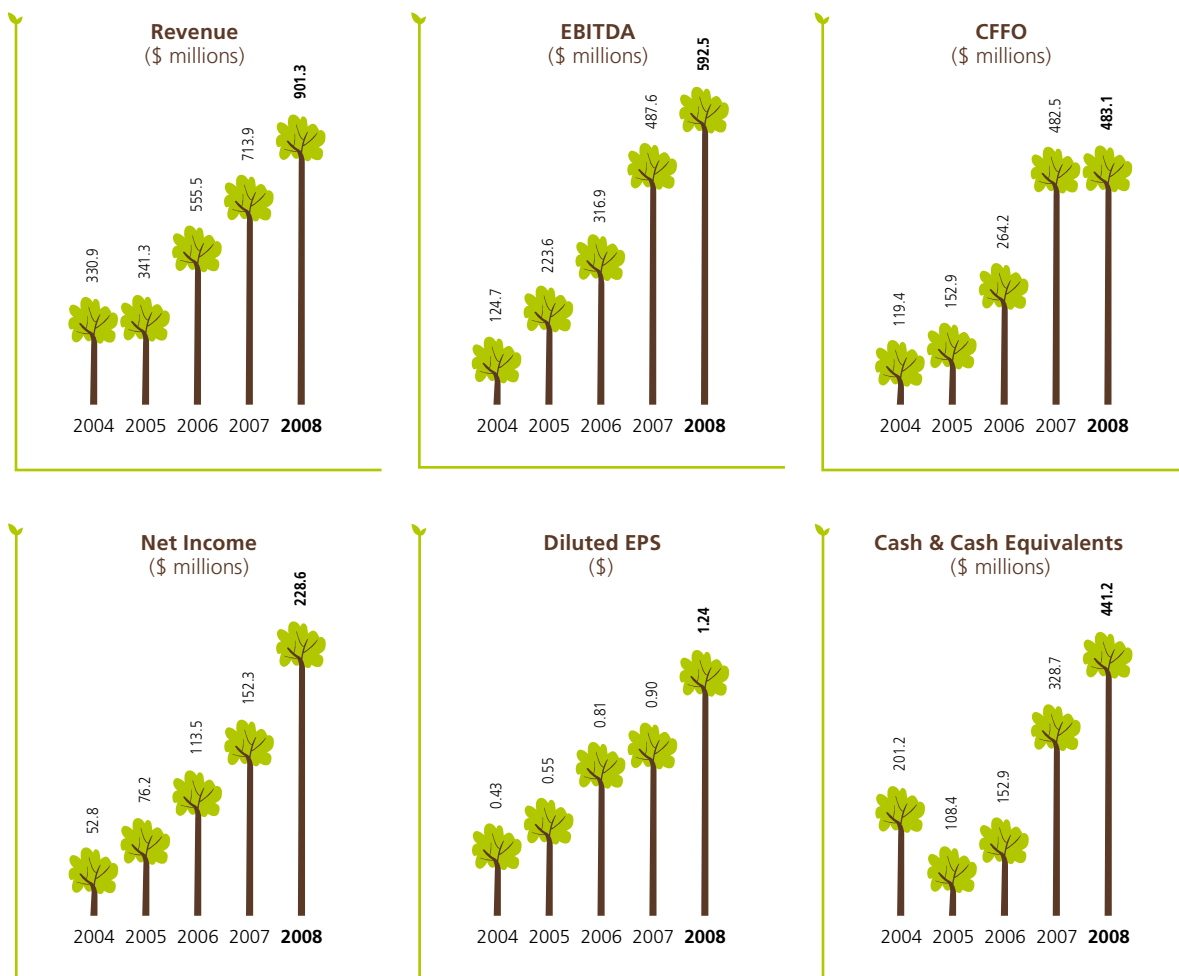
* Compound average annual growth rate from 2005 to 2008

** Total volume sold includes standing timber, harvested logs and imported fibre. Sino-Forest's goal is to reach annual fibre sold of 18 million m³ 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 and 20% assuming perpetual rotation. Pöyry’s full report is available at sino-forest.com and 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	7%

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

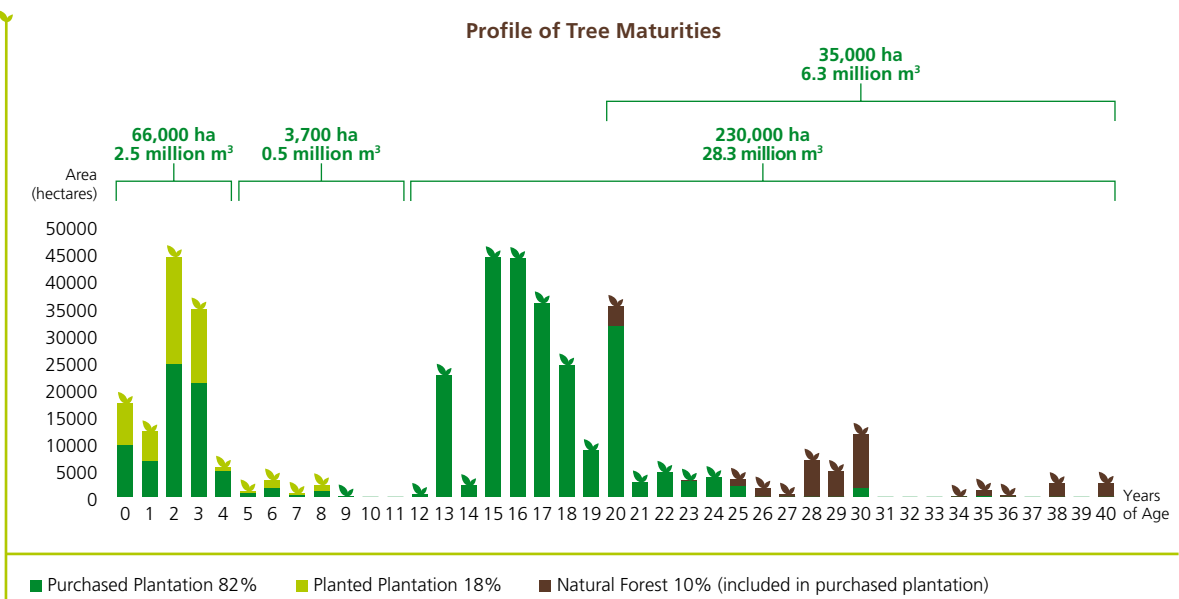
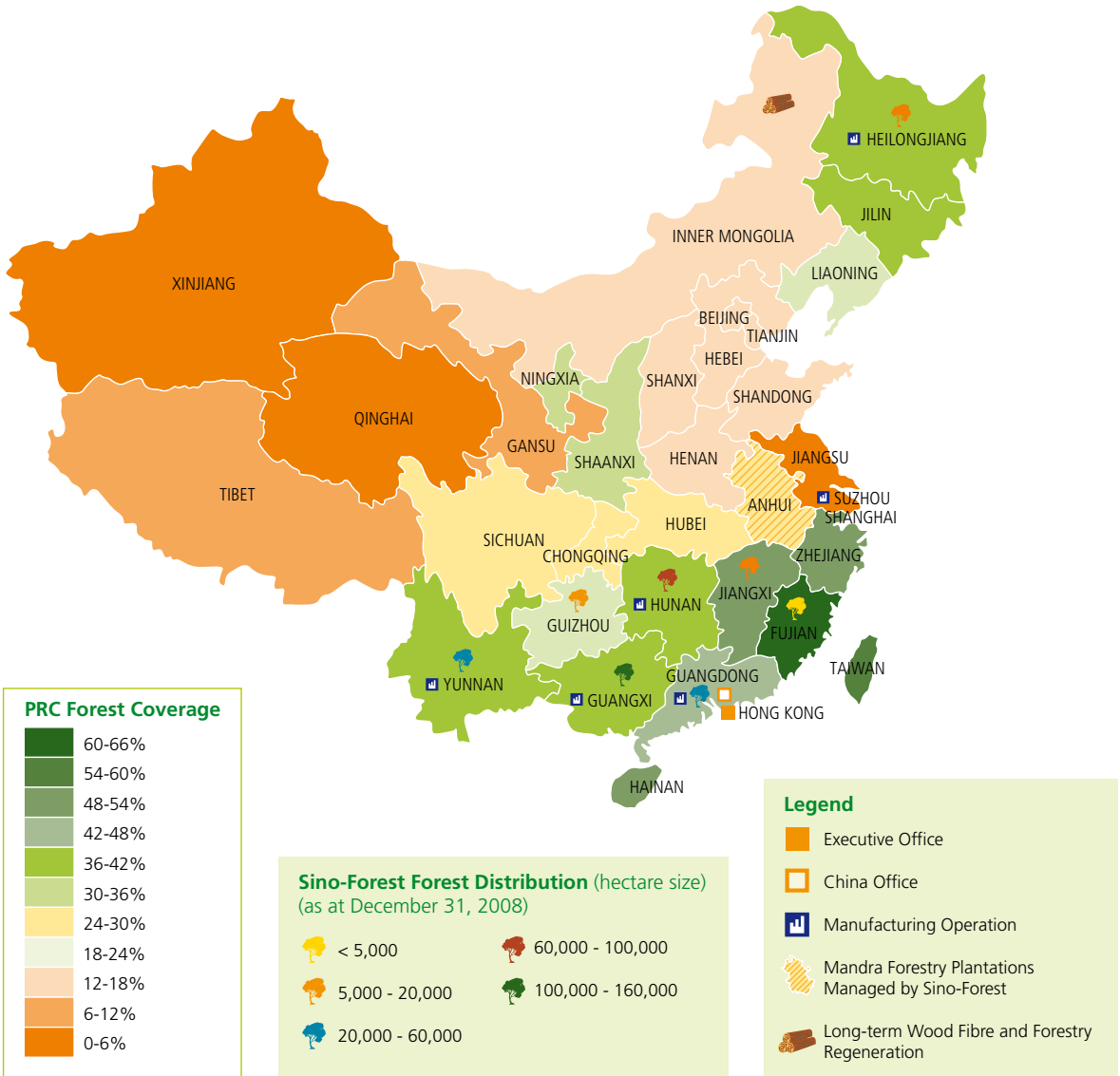
**Based on perpetual rotation (re-planting and cultivation of plantation land after harvesting) over a 60-year period; excluding forest assets assumed to be acquired under long-term master agreements

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.

Geographic Scope of Operations

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

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) relates to the financial condition and results of Sino-Forest Corporation's operations for the year ended December 31, 2008. Throughout this MD&A, unless otherwise specified, "Sino-Forest", "Company", "we", "us" and "our" refer to Sino-Forest Corporation and its subsidiaries. Except where otherwise indicated, all financial information reflected herein is determined on the basis of Canadian generally accepted accounting principles (GAAP). This MD&A should be read in conjunction with Sino-Forest's audited consolidated financial statements and notes thereto. The United States dollar is our reporting and functional currency and all figures contained herein are in United States dollars unless otherwise indicated.

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW OF BUSINESS

About Sino-Forest

We are a leading commercial forestry plantation operator in the PRC. As at December 31, 2008, we had approximately 347,000 hectares of forestry plantations located in southern and eastern China.

Our principal businesses include the ownership and management of forestry plantation trees, the sale of standing timber and wood logs, and complementary manufacturing of downstream engineered-wood products.

Strategic Business Units

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

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

Plantation Fibre

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

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

Notes to Consolidated Financial Statements

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

1. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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