SINO-FOREST CORPORATION

1997 Annual Information Form

Dated May 20, 1998

GLOSSARY

Certain terms used herein are defined below:

“BDMT” means bone dry metric tonnes;

“CJV” means a co-operative joint venture established under CJV Law and, if the context so requires, means a CJV which is subject to a CJV Agreement;

“CJV Agreement” means, with respect to a CJV, the CJV agreement between the Company and the CJV PRC partner;

“CJV Law” means the Law of the PRC on Sino-Foreign Co-operative Joint Ventures and the Detailed Implementing Rules for the Law of the PRC on Sino-Foreign Co-operative Joint Ventures promulgated by the Ministry of Foreign Trade and Economic Cooperation;

“China” or “PRC” means the People’s Republic of China;

“Class A Subordinate-Voting Shares” means the Class A Subordinate-Voting Shares of the Company;

“Class B Multiple-Voting Shares” means the Class B Multiple-Voting Shares of the Company;

“Collectively-Owned Enterprises” means collective enterprises owned by local groups for which the Chinese government is not responsible for wages or similar operations;

“Company” refers to Sino-Forest and its subsidiaries, or any of them, as the context requires;

“Company’s Joint Ventures” means the CJVs established pursuant to the CJV Agreements and the Leizhou EJV and **“Company’s Joint Venture”** means one of them (and shall, unless otherwise specified or unless the context otherwise requires, means a CJV);

“EJV” means an equity joint venture established under EJV Law;

“EJV Law” means the Law of the PRC on Joint Venture Using Chinese and Foreign Investments and the regulations promulgated thereunder;

“FERT” means the Department of Foreign Economic Relations and Trade;

“FIEs” means foreign-invested enterprises, being enterprises owned by foreign individuals or foreign companies in the PRC;

“FJB Plant” means the existing finger joint board plant proposed to be contributed to the Shanghai EJV by Shanghai Timber;

“Hectare” means an area equal to 2.47 acres;

“Income Tax Law” means the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises promulgated by the NPC and the Detailed Implementing Rules for the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises;

“Joint Venture” means, unless otherwise specified or unless the context otherwise requires, a CJV;

“Leizhou EJV” means the EJV subsidiary operating the eucalyptus tree plantation Zhanjiang Leizhou Eucalypt Resources Development Company Ltd. in Guangdong Province;

“Leizhou EJV Agreement” means the EJV agreement in respect of the Leizhou EJV;

“LFB” means the Leizhou Forestry Bureau;

“NPC” means the National People’s Congress which is the supreme legislative body in China;

“phase-in” means the act of accepting and taking control of certain lands for the purpose of management and operations under the terms of a CJV Agreement;

“Plantation” means a man-made forest which has been planted according to intended specifications, as opposed to a natural forest;

“Plantation Service Contract” means a plantation service contract between the Company’s CJV and a Service Company of the PRC;

“Privately-Owned Enterprises” means businesses operated by private individuals;

“RMB” means Renminbi Yuan, which is the legal currency in China;

“Service Companies” means the plantation service companies which are subsidiaries of the Company’s CJV PRC partners;

“Shanghai Door Plant” means Sino-Panel’s proposed door manufacturing plant in Shanghai Municipality;

“Sino-foreign” describes an enterprise in the PRC which has a foreign party holding at least 25% of the shares in the enterprise;

“Sino-Forest” means Sino-Forest Corporation;

“Sino-Panel” means Sino-Panel Corporation, a wholly-owned subsidiary of Sino-Forest;

“Sino-Wood” means Sino-Wood Partners, Limited, a wholly-owned subsidiary of Sino-Forest;

“State” means the government of China;

“State-Owned Enterprises” means enterprises wholly-owned by the people of China acting through the Chinese government;

“TSE” means The Toronto Stock Exchange;

“tonne” means metric ton - 1,000 kilograms or 2,204.6 pounds; and

"wood chips" means small pieces of wood used to make pulp which are made from pulp wood harvested specifically for this purpose. Wood chips are generally somewhat uniform in size and are larger and coarser than sawdust.

Unless otherwise indicated, all dollar amounts in this document are expressed in United States dollars.

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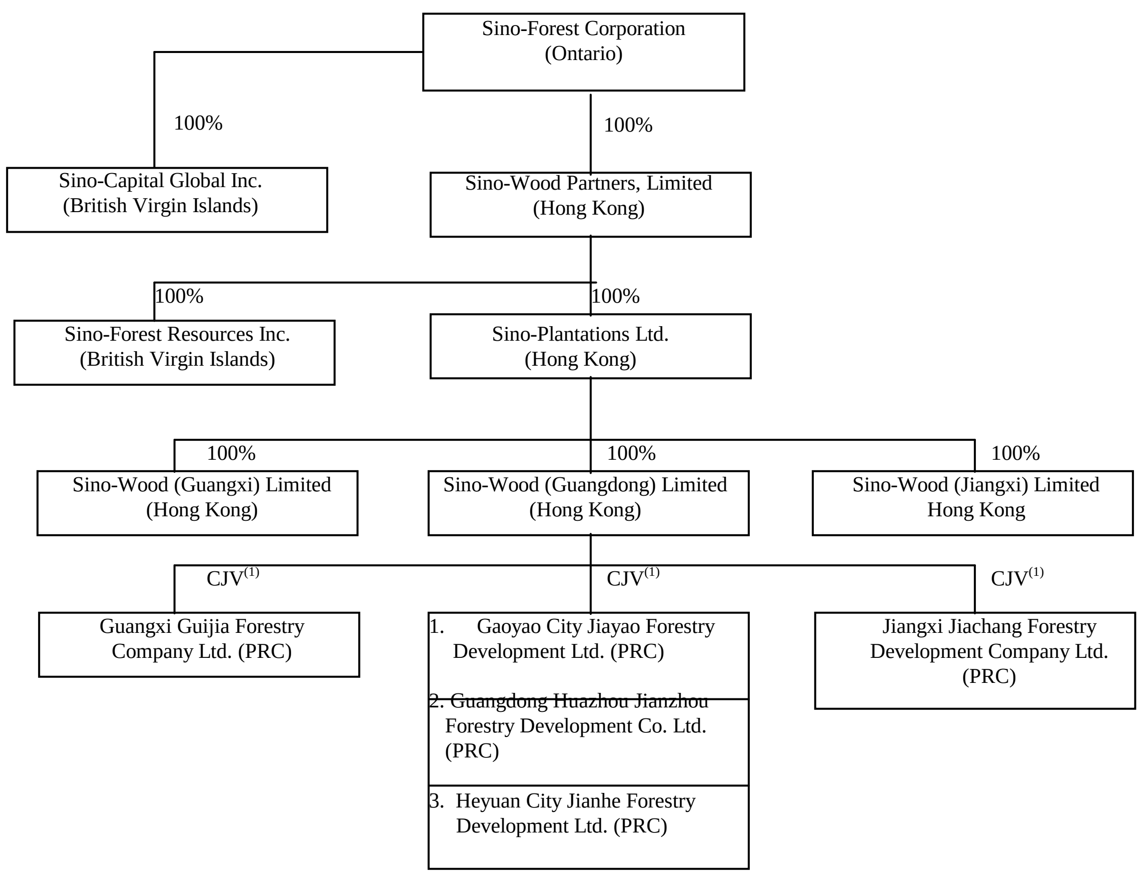
THE COMPANYCOMPANY

Sino-Forest was formed under the *Business Corporations Act* of Ontario upon the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. pursuant to articles of amalgamation dated March 14, 1994. The articles of amalgamation were amended by articles of amendment filed on July 20, 1995 to effect certain changes in the provisions attaching to the Class A Subordinate-Voting Shares and the Class B Multiple-Voting Shares.

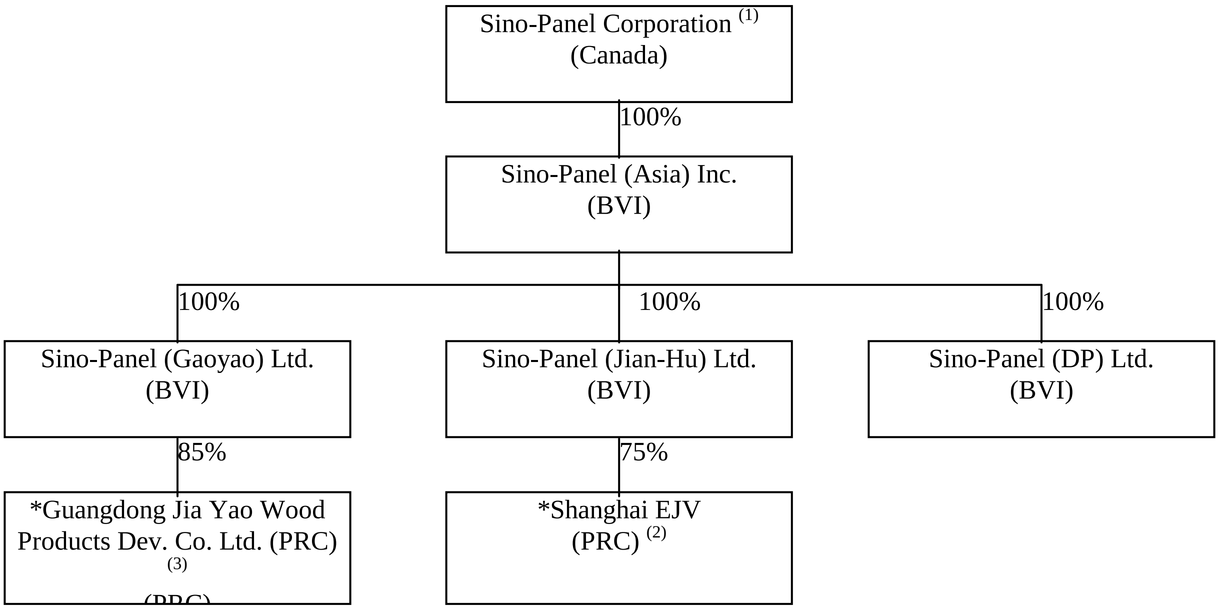
Sino-Forest is a Canadian company with offices located in Toronto, Hong Kong and the PRC. The executive offices of Sino-Forest are located at 1409 Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The registered office and principal business office of Sino-Forest is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, L5B 3C3.

With respect to the plantation operations of the Company, the following chart illustrates the corporate relationships between Sino-Forest, its subsidiaries and principal joint venture interests in the Company's plantation business and identifies their respective jurisdictions of incorporation or organization and the appropriate percentage of ownership interest beneficially held by Sino-Forest:



(1) Sino-Forest has a 70% share in the timber Sino-Forest determines to cut in each of these CJVs.

With respect to the wood-based panel operations of the Company, the following chart illustrates the corporate relationships between Sino-Panel, a wholly-owned subsidiary of Sino-Forest, its subsidiaries and its proposed EJV interests in the wood-based panel and contract supply business and identifies their respective jurisdictions of incorporation or organization and the appropriate percentage of ownership interest held by Sino-Panel.



Remarks: * in the process of being established

(1) Sino-Panel has granted options to Sino-Panel's senior management to acquire up to 10% of Sino-Panel's equity on a fully-diluted basis (after giving effect to any future initial public financing by Sino-Panel), for nominal consideration, with Sino-Forest retaining the remainder. Until any such options are exercised, Sino-Panel will remain as a wholly-owned subsidiary of Sino-Forest.

(2) Sino-Panel's EJV partner will be Shanghai Timber, which will have a 25% equity interest in the Shanghai EJV.

(3) Sino-Panel's EJV partner will be the Gaoyao Forestry Bureau, which will have a 15% equity interest in Guangdong Jia Yao Wood Products Dev. Co. Ltd.

GENERAL DEVELOPMENT OF THE BUSINESSDEVELOPMENT OF THE BUSINESS

Plantation OperationsOperations

The Company commenced its plantation operations in 1994 as a result of the acquisition of Sino-Wood, a company incorporated under the laws of Hong Kong. The principal business of Sino-Wood has evolved through several phases and is now the management and operation of, and investment in, tree plantations in the PRC and the production of wood chips which are used to make pulp and engineered wood products. The Company is the first, and continues to be the only, foreign-owned producer and exporter of wood chips in the PRC. The Company's current wood chip shipments are produced from eucalyptus trees grown in partnership with the local forestry bureaus or State-Owned Enterprises in the PRC. The Company also has non-controlling interests in the forestry chemical business in Jiangxi Province and earns commission income on lumber and wood chips trading.

The Company's joint venture tree plantations are all located in southern China where the hot, humid, tropical and sub-tropical weather and soil conditions provide for short cycles (from planting to harvest) of five years for eucalyptus and aspen and 12 years for pine trees. Through its various existing agreements with several State-Owned forestry bureaus, management of the Company expects that it will have, when fully phased-in, 603,000 hectares of tree plantation lands under its management and operation, thereby allowing the Company to produce an expected sustainable annual yield of approximately 4 million BDMT of wood chip fibre.

The table below sets out the provinces in the PRC in which the Company's CJV joint venture plantations are located and the hectarage in each of these provinces when the plantation lands are fully phased-in.

Provinces	**Hectares**
Guangxi	250,000
Jiangxi	250,000
Guangdong	103,000
	603,000

In November 1997, the Company also signed agreements with the local forestry bureaus of Fujian Province and Hainan Province to increase its plantation lands by 100,000 hectares in each of such provinces subject to regulatory approval. Total plantation lands under contracts to be phased-in will increase to 803,000 hectares when the approval for these two new CJVs are obtained. With this additional 200,000 hectares of plantation lands, the Company will be able to produce a sustainable annual yield of over 5 million BDMT of wood chip fibre when all the plantation lands are fully phased-in.

Since the commencement of operations in 1994, the Company has grown rapidly, with wood chip shipments handled by the Company, as both principal and sales agent, increasing from 156,300 BDMT in 1994 to 592,800 BDMT in 1996. Wood chip shipments for the year ended December 31, 1997 were 1,160,560 BDMT. It is management's experience that wood chip production in the PRC is generally seasonal, with approximately 60% to 70% of the production occurring in the second half of the year.

The Company's Joint Ventures' wood chips are currently sold in the export market, primarily to Japan, South Korea and Taiwan, and in the domestic PRC market. Export sales of the Company are all made in U.S. dollars, generally based on contract prices of Australian wood chips sold in Japan as pricing references.

Management expects that the Company's production will continue to grow significantly over the next few years as a result of the acceleration of the planned annual phase-in of the plantation lands. As at December 31, 1997, the Company has phased-in approximately 61,000 hectares of plantations, or approximately 10% of the lands currently under contract. Given its proximity to the marketplace, especially Japan which imports approximately two-thirds of the world supply of pulpwood fibre and the large domestic PRC market, the Company believes it has an advantage as a low cost provider to these key markets over its competitors in North America, South America and Australia. When all the hectarage of its tree plantations are fully phased-in, management believes that the Company will be a significant provider of wood chip fibre to the Asian market.

For further details, see "Business of the Company - Plantation Operations".

Wood-Based Panel Operations-Based Panel Operations

Sino-Panel was incorporated in November 1997 to provide the Company with a separate vehicle to pursue opportunities in China's wood-based panel industry and to focus on the manufacture and sale of value-added wood products in China. As part of the Company's strategy to take advantage of the value of its plantations and its operating expertise in China, the Company has established Sino-Panel to pursue the following main lines of businesses: (i) the manufacture and sale of particleboard; (ii) the manufacture and sale of selected wood-based products; and (iii) contract supply of wood-based building materials.

The Company intends to initially be involved in the following four projects:

(1) a particleboard plant with an annual production capacity of 100,000 m^3 with lamination capability to be constructed in the city of Gaoyao, Guangdong Province;

(2) a particleboard-based door manufacturing plant to be built in Shanghai Municipality, which will have an annual production capacity of 180,000 doors;

(3) an existing finger joint board plant with an annual production capacity of 20,000 m^3 which is expected to be upgraded for lamination capability and to be expanded for additional production capacity of 20,000 m^3 per annum; and

(4) contract supply of wood-based building materials, including doors, flooring and furniture and will focus on sales and marketing, contracting out most production to Shanghai Timber and other wood product and furniture manufacturers.

The Company's joint venture partner in (1) and (3) above will be the Gaoyao Forestry Bureau and Shanghai Timber Corporation, the largest wood product supplier in Shanghai respectively. The greater Shanghai region has a population of over 50 million and is among the fastest growing economies in China.

It is currently anticipated that the total capital costs to the Company for the four projects will be approximately $35 million. As of December 31, 1997, approximately $9.4 million had been spent principally in connection with the acquisition and transportation of the particleboard plants as hereinafter described. These expenditures have been partly financed through commercial debt financing of approximately $4.5 million. Additional funding for the above four projects has not been arranged. The Company will continue to explore financing alternatives with respect to funding these projects. To the extent that the Company is unable to raise additional capital, it may determine to not implement fully some or all of these projects or, if implemented, may determine to scale back or either defer or abandon one or more of such projects.

BUSINESS OF THE COMPANYOF THE COMPANY

PLANTATION OPERATIONSOperations

Products

The Company is principally engaged in growing hardwood (eucalyptus and aspen) and softwood (pine) trees on the Company's Joint Venture plantations in southern PRC. Wood chips, the principal product of the Company, are produced from these trees when harvested. Wood fibre from these wood chips is the major raw material used for global paper and board production. Wood fibre represents about 60% (based on 1994 estimates) of the total fibre requirement for paper production, although recycled paper is an increasingly important component. Other materials include non-wood fibres and fillers. Wood chips are also used as feedstock for oriented strand board and medium-density fibreboard. Currently, other than producing wood chips from the Company's Joint Ventures' eucalyptus trees, the Company also acts as sales agent for wood chips from its Guangxi CJV PRC partner to meet customers' demands. As more of the plantation lands are phased-in by the CJVs, the Company expects to be able to produce sufficient wood chips to meet demand without having to purchase chips from its partners in the Company's Joint Ventures, thus providing the Company with a higher profit margin.

In management's experience, the specifications and characteristics of the different kinds of tree species currently expected to be grown on the 603,000 hectares (which will increase to 803,000 hectares when its two November 1997 CJV Agreements with local forestry bureaus receive regulatory approval) of plantation lands available to be phased-in by the Company's Joint Ventures, as well as the anticipated costs of the plantation program to be incurred by the Company over the plantation cycle, are as follows:

Species	**Eucalyptus**	**Aspen**	**China Southern Pine**
Plantation cycle	5 years	5 years	12 years
Cost of plantation program (U.S.$ per hectare)	767	1,005	704
Standing timber yield per hectare per cycle	90 m^3	128 m^3	135 m^3
Annual growth rate per year	18 m^3	25.6 m^3	11.25 m^3
Wood chip yield per hectare per cycle	40.2 BDMT	42 BDMT	52 BDMT

Sales and Marketingand Marketing

The Company's wood chips are sold domestically in the PRC and are also sold to export markets, principally in Japan, South Korea and Taiwan. Export sales are all made in U.S. dollars. Wood chip shipments of BDMT for the years ended December 31, 1997, 1996 and 1995 are provided below:

	December 31		
	1997	**1996**	**1995**
Market	(in thousands of BDMT)		
Export	311	347	291
PRC	849	246	46
Total	**1,160**	**593**	**337**

The Company sets prices for its products without government control and adjusts its prices in response to market conditions. Management believes that its eucalyptus wood chips are sold at prices competitive with those major suppliers with which it competes. The price of eucalyptus wood chips in Asia is generally determined by the Australian export price because Australia is one of the world's largest suppliers of natural forest eucalyptus wood chips. Prices for hardwood chips and softwood chips in Asia also vary based on the country to which they are sold. It is the Company's experience that prices obtained in Japan are greater than those obtained in Taiwan and South Korea, with Taiwan generally commanding the lowest prices of these three countries. Management of the Company believes that selling prices obtained in the PRC market have generally been more favourable than those in the export market as a result of the rising demand for fibre due to the large population and increasing literacy rates in China. The average selling price of wood chips, net of value-added taxes, sold by the Company as principal for the year ended December 31, 1997 was U.S.$101 per BDMT compared to U.S.$102 per BDMT attained in fiscal 1996 by Leizhou EJV. Commission income from wood chips sold by the Company's Guangxi CJV joint venture partner with the Company acting as a sales agent for the year ended December 31, 1997 was U.S.$15.70 per BDMT compared to U.S.$16.20 per BDMT in 1996.

The Company typically enters into arrangements with terms of 6-12 months pursuant to which the Company is required to provide, and the purchaser is required to purchase, specified amounts of wood chips. Under the arrangements, letters of credit are generally required to be posted for payment. Due to the importance of delivering wood chips within a certain time after timber is chipped, so that they maintain their relative freshness, the Company typically maintains about a week's worth of inventory at the CJVs and port locations at any time. The Company negotiates its selling prices for the export market twice a year due to exchange rate fluctuations and current local market rates. Selling prices for the PRC market are usually also determined on a contractual basis twice a year.

Marketing of wood chips produced by the CJVs is administered by the Company's sales force based in the PRC and Hong Kong. Management believes that demand for wood chips in the PRC has historically exceeded, and continues to exceed, production capacity. This has allowed the Company to obtain a higher price on its product in the local market compared to export sales. Sales in the PRC are made to local pulp and paper manufacturers by direct and frequent visits. The Company has not encountered serious competitive pressure within the PRC, where the demand for wood chips exceeds the supply.

Export shipments represent approximately 27% of total shipments for the year ended December 31, 1997. Of the 311,300 BDMT in total export sales of wood chips for the year ended December 31, 1997, approximately 42% were to Japan which is the world's largest importer of wood chips. Sales to Japan by the Company are made to the trading houses, which has historically been the manner in which wood chips are sold in the Japanese market, rather than directly to the end users. It is the Company's experience that this practice appears to be changing recently as some end users are beginning to source their wood chips directly from the suppliers. The Company is currently engaging in marketing and business development activities with end users in Japan to develop relationships so that it may also be able to sell directly to such customers in the future.

Management expects that as the Company develops significant wood fibre resources over the next few years as a result of the planned phase-in of its plantation lands, it will also be developing a marketing strategy to become a preferred supplier of wood fibre to pulp and paper manufacturers in Asia. Part of its marketing strategy will include inviting its customers to visit its plantations and operations, regular meetings with customers at the customers' plants to determine their specific needs and requirements, providing technical support and after-sales service and specific targeting of new customers.

Chipping FacilitiesFacilities

The Company has entered into agreements with several chipping plant facility operators to acquire equity interests in the facilities. Under the terms of the agreements, the Company has provided a deposit of $2,250,000 which will be applied against the Company's future investment. The Company has a period of two years to December 31, 1999 to complete its purchase of the facilities. During this period, the Company has access to the facilities to process its timber. These facilities currently have an annual capacity of 1.8 million BDMT of wood chips.

It is the Company's intention to spend an additional $4.0 million in 1999 to fund the acquisition or expansion of chipping plants in existing or future provinces in which the Company operates. The Company expects that these additional capital investments will provide it with an additional annual capacity of approximately 0.8 million BDMT of wood chips, thus providing the Company with an aggregate capacity of 2.6 million BDMT of wood chips by the end of 1999.

Fibre Supply and ProcessSupply and Process

The Company currently produces its wood chips from standing timber purchased from the local forestry bureaus. As the trees planted by the CJVs on the CJV plantation lands mature and are harvested, 70% of the timber from these trees will be owned by the Company and will provide all the sustainable fibre base utilized by the Company to produce chips.

The Company has phased-in approximately 61,000 hectares, or approximately 10% of the lands currently under contract. Under the CJV Agreements, the CJV PRC partners are required to contribute up to 603,000 hectares of tree plantation lands, subject to the Company's determination that such lands are acceptable. Once the Company determines that specified lands are acceptable and it takes control thereof for the purposes of its management and operations under the terms of the relevant CJV Agreement, such lands are considered to be "phased-in".

Standing Timber from the Local Forestry BureausTimber from the Local Forestry Bureaus

The Company believes that the eucalyptus, aspen and pine plantations anticipated to be phased-in by the CJVs will be comprised of (i) lands on which there are mature trees aged five years or more and which are ready for harvesting; (ii) lands on which there are trees which are between one to five years old; and (iii) bare land which is available for the planting of new trees.

To generate cash flow to fund ongoing planting and maintenance costs, it is the Company's strategy, in the early stages of its operations, to phase-in plantation lands which, immediately prior to the phase-in, have mature trees ready for harvesting. The Company may then purchase the timber from these mature trees from the forestry bureaus at wholesale prices and sell the wood chips produced from the trees at a profit to customers in the PRC or in the export market. After the harvesting of these mature trees planted by the forestry bureaus, the bare lands are then phased-in to the CJVs. It is only after any existing crop has been harvested that bare lands may be phased-in to the CJV. Under the arrangements relating to the existing CJVs, the trees replanted on the phased-in plantation lands are then owned and managed by the CJVs, with 70% of the resulting harvested trees ultimately being owned by the Company and 30% being owned by the Company's Joint Venture PRC partner. When the Company takes possession of its share of the harvested trees, it is able to sell the resulting wood chips in either the domestic or export market.

Timber from the Leizhou EJV Plantationfrom the Leizhou EJV Plantation

The Leizhou EJV operates 20,000 hectares of eucalyptus tree plantation. The eucalyptus tree plantation of the Leizhou EJV is located on the Zhanjiang Leizhou peninsula in Guangdong Province. This plantation supports crops of eucalyptus trees which in management's experience have a cycle (from planting to harvesting) of approximately five years and which are specifically genetically engineered for the soil and semi-tropical climate conditions of southern China. In 1995 and 1996, there were approximately 204,200 BDMT and 212,400 BDMT, respectively, of eucalyptus wood chips produced by the Leizhou EJV. Production at Leizhou EJV in 1997 of 45,000 BDMT is less than 1995 and 1996 as most of the shipments in 1997 are being met by wood chips produced by the CJV. In the fourth quarter of 1997, Sino-Wood entered into an agreement with the LFB to cease operations and distribute the net assets of Leizhou EJV in accordance with their respective equity interests. Sino-Wood had been negotiating with the LFB since 1996 to restructure the Leizhou EJV into a CJV on similar terms and conditions as the other existing CJVs. The CJV is the preferred structure of the Company's plantation operations as it is a more flexible structure and allow the Company to manage the plantations more effectively.

Location and Hectarage of Plantationsand Hectarage of Plantations

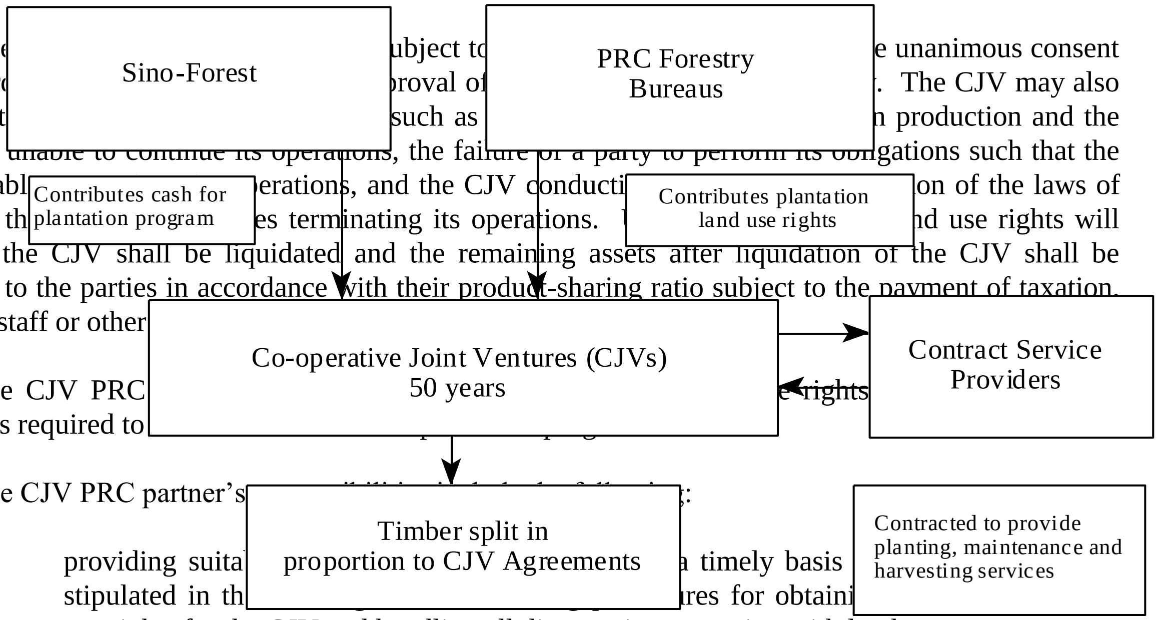
The Company's CJV Joint Venture plantations as at December 31, 1997 are all located in southern China as set out in the table below:

Names of Joint Ventures	Name of Joint Venture Partners	Province	Term	Hectares
Guangxi Guijia Forestry Company Ltd.	Guangxi Forestry Development Centre	Guangxi	50 years	250,000
Jiangxi Jiachang Forestry Development Company Ltd.	Jiangxi Forestry Economic & Technology Development Co.	Jiangxi	50 years	250,000
Gaoyao City Jiayao Forestry Development Ltd.	Gaoyao City Forestry Trading Development Co.	Guangdong	50 years	33,000
Guangdong Huazhou Jiazhou Forestry Development Co. Ltd.	Guangdong Huazhou Forestry Enterprise Co.	Guangdong	50 years	20,000
Heyuan City Jianhe Forestry Development Ltd.	Heyuan City Forestry Services Ltd.	Guangdong	50 years	50,000
			TOTAL	603,000

All of the forestry joint ventures of the Company are CJVs in respect of which the Company is entitled to a 70% share in the volume of timber the Company determines to cut. In November 1997, the Company also signed agreements with the local forestry bureaus of Fujian Province and Hainan Province to increase its plantation lands by 100,000 hectares, subject to regulatory approval, in each of such provinces. The total capital contribution to be made by the Company's subsidiaries to these new CJVs will be $10,000,000, of which $1,500,000 is required to be made within three months of the respective dates of the business licenses of the CJVs. The remaining capital contribution of $4,250,000 is to be contributed as costs are incurred for planting, maintenance and harvesting of the tree plantations. The timing and amount of the remaining capital contributions are dependent on the phase-in of land for the tree plantations. As at December 31, 1997, no capital contributions have been made by the Company as the business licences of these two new CJVs have not yet been issued.

Structure of the CJVsof the CJVs

The following chart illustrates the structure of the Company's CJVs:



The ... ubject to ... e unanimous consent of the boar... proval of ... . The CJV may also be terminat... such as ... n production and the CJV being unable to continue its operations, the failure of a party to perform its obligations such that the CJV is unabl... erations, and the CJV conducti... on of the laws of China and th... es terminating its operations. ... nd use rights will cease and the CJV shall be liquidated and the remaining assets after liquidation of the CJV shall be distributed to the parties in accordance with their product-sharing ratio subject to the payment of taxation, salaries of staff or other...

The CJV PRC ... e rights Company is required to ...

The CJV PRC partner's s... :

(a) providing suita... a timely basis ... stipulated in th... ures for obtaini... use rights for the CJV and handling all disputes in connection with lands;

(b) dealing with the relevant authorities in China for the establishment and licensing of the CJV;

(c) obtaining the harvesting license, timber transportation permit and other certificates required by laws and regulations for the CJV;

(d) procuring for the CJV the necessary infrastructure such as water, electricity and transportation; and

(e) assisting in the recruitment of local operation and management personnel, technical personnel and other personnel as required.

The Company's responsibilities include the following:

(a) providing capital and funding contributions by instalments based on the progressive needs of the plantation and ensuring that the plantation base is developed as planned;

(b) providing international operation and management techniques, production technology, quality standards and a system of quality inspection;

(c) assigning personnel to the plantation base to carry out standard inspections on operations and management and training of technical personnel; and

(d) providing international market information and technical information to the CJV.

It is a general policy of the PRC that a person who harvests or otherwise cuts down trees is required to replant on the harvested plantation lands to maintain the ecological equilibrium.

Competition

The markets for wood chips are competitive and are sensitive to cyclical changes in pulp production levels and in the economy. Changes in the level of competition, government regulations on timber harvesting, industry capacity and the economy could have a significant impact on the Company's selling prices and overall profitability. The Company competes with Australian and North and South American wood chip producers selling hardwood chips in the East Asian market. The Company believes that it has an advantage over its competitors selling in the East Asian market because of its close proximity to its principal export marketplace, being Japan, South Korea and Taiwan. The Company is able to produce eucalyptus wood chips at a lower delivered cost due to lower shipping charges and labour costs.

The Company also competes on a smaller scale in the domestic PRC market with local producers, including its PRC partners. The Company believes that its status as a foreign-owned joint venture provides it with the flexibility to sell its products in other PRC provinces since it is not subject to local government preferences for local firms to sell their products locally. The Company also believes that it is in a better position to compete with many of its local competitors in terms of access to foreign investment capital for expansion, production, distribution networks, level of technological development and recruitment of additional experienced management. The Company's Joint Venture plantations, which the Company believes are strategically located close to deep water ports and transportation infrastructure, also provide the Company with an added advantage in ensuring reliable timely supply of wood chips to its customers in the PRC. Management believes that the Company is the first, and continues to be the only, foreign-owned producer and exporter of wood chips in the PRC.

Research and Developmentand Development

Research and development is carried out by independent laboratories and research centres including the Nanjing Forestry University of Jiangsu Province, considered by the Company to be the PRC's leading university for forestry training and the Institute of Science and Technological Information under the Chinese Academy of Forestry in Beijing, considered by the Company to be China's foremost forestry scientific and technical information research institute. The Company has a forestry advisory committee which is comprised of professional foresters and experts from the PRC in eucalyptus, aspen and pine trees. These professional foresters are closely associated with the provincial and municipal forestry bureaus and provide industry and plantation operations advice to the Company on a regular basis.

The Company spent approximately U.S.$351,000 for several projects in 1997 including those relating to the following:

- genetic banks of cloning species for eucalyptus and aspen;
- growth rate increases and cycle reduction for eucalyptus and aspen;
- mixed cloning and tracing and proving the origin of the cloned species;
- development of new clone species for masson pine to increase growth rate;
- tissue culture propagation in relation to mediums;
- propagation methods which involved fertilizers, irrigation and density;

- pest control by means of genetic re-organization for aspen; and
- wood fibre characteristics and their application in panel board manufacturing.

Regulatory Structure and OwnershipStructure and Ownership

Leizhou EJVEJV

The Leizhou EJV is organized under the laws of the PRC as a Sino-foreign EJV enterprise and is a “legal person” with limited liability. The Leizhou EJV Agreement was approved by the Commission of Foreign Economic Relations and Trade of the Municipality of Zhanjiang on January 28, 1994. As the amount of investment contemplated by the Leizhou EJV Agreement was less than U.S.$30 million, the Leizhou EJV Agreement did not require the approval of the central PRC government. The Leizhou EJV formally came into existence and began operations on January 29, 1994 when it was issued a business licence and was registered as a Sino-foreign EJV enterprise by the Administration for Industry and Commerce of Zhanjiang. The Company and the LFB have an interest in the profits of the Leizhou EJV in the same proportion (i.e., 53% and 47%) as their respective investments in the Leizhou EJV. As with all Sino-foreign EJV enterprises, the Leizhou EJV is subject to an extensive amount of statutory law relating to matters such as establishment and formation, distribution, taxation, accounting, foreign exchange and labour management.

The operations of the Leizhou EJV are governed by the EJV Law, the Leizhou EJV Agreement and the Articles of Association of the Leizhou EJV. Pursuant to the governmental approval of the Leizhou EJV Agreement referenced previously, the term of the Leizhou EJV is for 30 years which term may be extended upon the mutual agreement of the Company and the LFB and approval from the applicable PRC governmental agencies. The Leizhou EJV is governed by a board of directors consisting of seven members, of whom four, including the Chairman, are nominated by the Company and three, including the Vice-Chairman, by the LFB. The day to day management of the Leizhou EJV is the responsibility of a General Manager, appointed by the board of directors.

The Leizhou EJV Agreement, in accordance with EJV Law, provides that the Leizhou EJV shall annually provide for a reserve fund, enterprise development fund and employee welfare and incentive fund, such provision to be determined by the board of directors having regard to the economic situation of the Leizhou EJV. No amounts for these funds have been provided by the Leizhou EJV since its inception. After provision for such funds, taxation and losses in prior years, the profits of the Leizhou EJV will be available for distribution to the Company and the LFB in proportion to their capital contributions, such distributions to be authorized by the board of directors.

Under the EJV Law, the existence of the Leizhou EJV may be terminated in certain limited circumstances including expiration of the joint venture, inability to continue operations due to severe losses, failure of a party to honour its obligations under the Leizhou EJV Agreement (including failure to meet deadlines for capital contributions) and the Articles of Association in such a manner as to impair the operations of the Leizhou EJV and force majeure. The Leizhou EJV Agreement provides that on liquidation in accordance with the EJV Law, the net assets of the Leizhou EJV (after payment of creditors and taxes) realized on the sale of the assets will be distributed to the Company and the Leizhou EJV in proportion to their respective investments in the Leizhou EJV.

Co-operative Joint Ventures-operative Joint Ventures

The CJV Law is the primary PRC legislation governing CJVs. CJVs may take two separate forms. The first type does not involve the creation of an entity with legal person status which is separate and distinct from the joint venture parties. All of the Company's CJVs are of the second type which combines certain characteristics of the true CJV with those of the EJV. In this type of CJV, a separate business entity is created having legal person status, with the joint venture parties' liability limited to their investment contributions.

The CJV Law contemplates parties to a CJV contributing investment or providing "terms of co-operation". Either may take the form of cash, industrial property rights, proprietary technology, land use rights or other property rights.

The CJV Law permits the parties to a CJV to distribute joint venture revenues through distribution of profits, distribution of products or other means agreed to between them. In CJVs, profit distribution is entirely based on the provisions of the joint venture contract and is not necessarily proportional to the value of the contributions of the parties.

CJVs with legal person status are terminated and wound up in much the same manner as EJVs, except that specific rules set out in the joint venture contract, rather than the parties' capital contributions, determine the distribution of liquidation proceeds.

Income Tax for CJVs and EJVsTax for CJVs and EJVs

A CJV with legal person status, and, as mentioned previously, an EJV, will be liable for PRC enterprise income tax under the Income Tax Law. Under the Income Tax Law, a CJV, like an EJV is subject to a national tax imposed at the rate of 30% on its net income. In addition, a local income tax of 3% of taxable income is levied by the local government, resulting in an effective tax rate of 33%. The Company's CJVs and the Leizhou EJV are eligible for a total exemption from taxation for two years beginning with the first profit-making year of the CJVs and the Leizhou EJV and a 50% reduction during the subsequent three years (such time periods during which taxes are exempt or reduced being referred to herein as "tax holidays"). Subject to the approval of the relevant authorities, joint ventures categorized as forestry projects may be allowed a 15% to 30% reduction of the amount of income tax payable for a further period of ten years after tax holidays.

Environmental LawsLaws

The Company's plantation operations are regulated by a wide array of environmental laws and regulations in the PRC. Operations general manager and senior management personnel at each plantation have been assigned responsibility for monitoring compliance with environmental rules and regulations. They are also required to adhere to the Company's own environmental operating procedures and guidelines. The Company is in the process of developing a reporting system that is designed to monitor environmental compliance with regulatory requirements, identify environmental issues and communicate them to management and directors of the Company.

Employees

As of December 31, 1997, the Company employed 421 people in its plantation operations who are categorized by function as follows:

Function	**Number of Employees**
Executives and senior management	5
Regional offices executives and employees in the PRC	26
Sales, marketing and administration	16
Plantation management and technical staff of CJVs	64
Junior staff and workers in Leizhou EJV	310
Total number of employees	**421**

It is the Company's strategy to maintain a small group of high quality and professional personnel who will direct, manage, control and ensure that the Company's business is properly carried out by its PRC contractors and sub-contractors. The operations of the Company are divided into three levels: the executive offices in Hong Kong and Toronto; regional offices in each of the PRC provinces where the Company operates; and the PRC EJV and CJV companies. Management of the Company resides in Hong Kong and Toronto and travels frequently within the PRC. Certain senior management of the Company spend more than 70% of their time in the PRC visiting all the Company's plantations on a rotational basis and meet regularly with the relevant officers of the various PRC forestry bureaus. The Chief Executive Officer of the Company is the Chairman of the Board for most of the CJVs. Management members of the Company are either directors, general managers or executives to the regional offices of the CJVs, and are involved in the running of all joint venture entities in the PRC. The regional offices are staffed with three to four direct employees. These employees are forestry professionals and have strong financial control and management skills. The CJVs' work force is provided by the CJV PRC partner as agreed under the CJV Agreements and the Plantation Service Contracts. They are mainly contracted workers who are hired on an "as needed" basis. These workers are assigned to the operations of the plantations, transportation of logs and wood chips, and the operations of the chipping plants.

Plantation Service CompanyService Company

The Company's CJV plantation companies have each entered into the Plantation Service Contracts with the Service Companies. The term of each Plantation Service Contract is 12 years (or no less than two plantation cycles), and six months prior to the expiration of such term, the CJV will renew the Plantation Service Contract for a term of no less than 12 years or two circulation periods based upon the previous performance of services provided by the Service Company. The Plantation Service Contract is based on a "cost-plus" arrangement which provides the Service Companies with a profit of 10%. All costs, fees and expenses are required to be submitted to the board of directors of the CJV for approval before payment. The services to be provided by the Service Companies include overall design for plantation, construction design, preparation for ploughing, levelling of land, growth of seedlings, fertilization pesticides, planting of trees and replanting, cultivation, management and preservation and procedures such as examination, inspection and acceptance.

The Plantation Service Contract specifies the targeted timber output (harvest rate) in each planting cycle that must be produced by the Service Company. The target is established by the board of directors of the CJV with the agreement of the Service Company. If the target is exceeded, the Service Company receives 30% of the excess portion of timber output. But, if the target is not achieved, the Service Company must compensate the CJV in an amount equivalent to 30% of the deficient portion of timber output.

Capital Contribution CommitmentsContribution Commitments

In accordance with the contractual obligations set out in the various Joint Venture agreements and memoranda as modified with the agreement of its Joint Venture partners, the Company is required to contribute additional cash as described below:

Sino-Wood's subsidiaries are committed to contribute an aggregate of $14,200,000 of capital to the five PRC CJVs. As at December 31, 1997, capital contributions of $7,551,000 had been made. The remaining capital contribution of $6,649,000 is to be contributed as costs are incurred for planting, maintenance and harvesting of the tree plantations. The timing and amount of the remaining capital contributions is dependent on the phase-in of land for the tree plantations.

In November 1997, the Company signed agreements with the local forestry bureaus of the Fujian Province and Hainan Province to increase its plantation lands by 100,000 hectares in each of the provinces on similar terms and conditions as its existing PRC CJVs. The total capital contributions to be made by the Company's subsidiaries to these two new PRC CJVs will amount to $10,000,000 of which $1,500,000, representing 15% of the total capital contributions, is required to be made within 3 months of the respective dates of issue of business licences to these PRC CJVs. As at December 31, 1997 no capital contributions have been made by the Company's subsidiaries as the business licences of these two new PRC CJVs have not yet been issued.

The Company believes that the cash in hand at December 31, 1997 and the cash flow to be generated from operations will provide the Company adequate cash resources to meet its capital contribution commitments, fund its growth strategy and accelerate the planned phase-in of its 603,000 hectares of tree plantation lands (which will be increased to 803,000 hectares once its November 1997 agreements with local forestry bureaus receive regulatory approval).

WOOD-BASED PANEL OPERATIONS-Based Panel Operations

Particleboard Business

Products

Particleboard

Particleboard will be made from wood particles and residues bonded together with synthetic resin. Laminated particleboard is an upgraded board covered with an overlay of wood veneer or synthetic materials such as melamine. The most common thicknesses for particleboard are 16 and 25 mm.

Laminated particleboard is expected to be the principal product for Sino-Panel. Although the Gaoyao Mill's production capacity is rated at 100,000 m^3/annum, the Gaoyao Mill is conservatively expected to produce 95,000 m^3/annum of particleboard when it reaches full operating capacity by 2001, approximately 95% of which will be laminated particleboard products. Wood veneer and melamine will be primary overlays for the Gaoyao Mill's particleboard, accounting for 65% and 35% respectively. The wood veneer overlay product is to be used for doors and furniture while the melamine overlay product is targeted primarily for furniture end uses.

Approximately 10 to 15% of Sino-Panel's particleboard production will be used for its own production of furniture and doors. The remainder of Sino-Panel's products will be sold to outside customers either through its sales distribution network or as part of its contract supply business.

Furniture

The Gaoyao Mill will have small scale furniture production facilities at the plant site. Initially, Sino-Panel will produce furniture on a pilot basis to test its product positioning. The Gaoyao Mill will use laminated particleboard to produce basic furniture, such as cabinets, table tops and wall units. The Gaoyao Mill will act as a contractor producing furniture components and semi-finished panels, such as shelving, for large furniture manufacturers. All furniture made in the Gaoyao Mill will be particleboard-based. In the first year of the production, it is expected that the plant will make approximately 500,000 pieces of furniture, consuming approximately 10,000 m^3 of particleboard.

Location

The Gaoyao Mill will be located in the Gaoyao Economic Development Zone in Gaoyao City, Guangdong Province, approximately 120 kilometres from the City of Guangzhou, which is the capital of Guangdong Province. The proposed site will occupy approximately 21 hectares and be part of an industrial subdivision in which services for power, water and storm water/effluent are available. Land use rights for the site for a term of 50 years will be contributed by Sino-Panel's EJV partner, Gaoyao Forestry Bureau. Guangdong Province is a major region for furniture manufacturing in China. The Gaoyao site has direct access by road and river to Guangzhou and the surrounding region where a large number of furniture manufacturers are located. In addition, the location is close to a port facility on the Pearl River for the shipment of products to both national and international destinations. The site provides ample room for furniture expansion.

Competition

The Company believes that domestic and foreign competition will not pose any significant threats to Sino-Panel's particleboard operations since demand for particleboard is expected to continue to grow domestically. Management believes that imported particleboard accounts for less than 1% of total consumption in China and that high transportation cost and import duties will continue to discourage the import of foreign particleboard products.

The Gaoyao Mill will be located within the major furniture manufacturing region of China, where furniture is produced for the domestic and export markets. The Gaoyao Mill will introduce international lamination technology. With its advanced particleboard equipment, management believes that the Gaoyao Mill will be able to produce laminated particleboard with quality comparable to imported products. To the knowledge of management, there are only two particleboard mills in China with annual capacity of over 50,000 m^3 (one with an annual capacity of 100,000 m^3 and the other with an annual capacity of 80,000 m^3) and only 15 particleboard plants in China with annual capacity of approximately 50,000 m^3. Of these 17 plants, 13 are located in Northeastern China, including a 100,000 m^3/annum particleboard mill in Heilongjiang Province. Management believes that these plants will not be able to compete directly in the Gaoyao Mill's market, primarily due to their lack of proximity to the Southern China market.

Particleboard mills in Guangdong Province account for approximately 13% of total Chinese production. The Gaoyao Mill will have advantages over competing producers of particleboard in southern

China because they are generally small and most use older technology and non-wood fibre, thereby producing low quality particleboard products which are unable to meet the increasingly stringent quality standards of high quality furniture manufacturers. Due to its expected international standards of production and lamination capability, management anticipates that the Gaoyao Mill will be able to provide a broad range of higher quality product and service compared to its local competitors. In addition, the Gaoyao Mill is expected to be able to provide customers with reliable and consistent supply due to its location, scale and high operation efficiency. Management believes that the Gaoyao Mill will be capable of successfully replacing imported particleboard as it will be able to offer comparable particleboard at lower prices.

The Company also believes that it is in a good position to compete with mills in the Asia-Pacific Region due to its closer proximity to customers, the anticipated availability of skilled labour and lower labour costs in China. Also, the Gaoyao Mill is expected to have a reliable long-term supply of quality wood through its relationship with the Company.

To the knowledge of management, no other investments in large particleboard projects in Guangdong Province have been planned.

Sales and Marketing

Management believes there to be a shortage of laminated particleboard in the PRC. The Company expects that its high quality laminated particleboard will be in demand by furniture manufacturers, and that high quality furniture producers will be Sino-Panel's primary particleboard customers. Sino-Panel's strategy is to develop production of laminated panels, which it expects to be able to do soon after initial start-up of the plant in the first quarter of 1999, to ensure that its products will be able to sell in the high end of the market. Sino-Panel's products will also be positioned as a lower cost substitute for imported particleboard and for plywood in the production of high-end furniture.

Management does not expect that its planned investment in laminated particleboard production will have an adverse effect on the domestic price of such products since domestic demand will continue to increase at a significantly greater rate than domestic supply. In fact, according to Jaakko Pöyry, growth of particleboard consumption in China has been restricted by the limited availability of domestic production.

The Company intends to sell products from the Gaoyao Mill primarily in Guangdong Province, which management believes presently consumes approximately 1 million m^3 of particleboard. The potential customers for the Gaoyao Mill's particleboard products will be major furniture manufacturers in the Pearl River Delta Region, which are generally within a two hour driving distance of the mill. The Company's discussions with selected furniture manufacturers in the region have indicated a strong interest in the Gaoyao Mill's laminated particleboard products. These furniture manufacturers currently use a combination of high cost imported particleboard and locally-made low quality particleboard. With the advantage of being close to its customers, the Company will be able to provide customers with full technical services and just-in-time delivery to help its customers better manage their production planning and inventory. To ensure a high market penetration, the Company intends to establish long-term supply relationships with major customers in the targeted markets and become its customers' supplier of choice.

The Company may consider forming strategic alliances to jointly develop particleboard applications with its customers in the future. As part of its strategy to focus on value-added development, the Company also plans to explore manufacturing opportunities of high-valued products with its customers.

The Gaoyao Mill intends to tailor its furniture production to provide furniture components and semi-finished products to major furniture manufacturers which focus on furniture design, assembly and distribution. The Gaoyao Mill intends to be a key supplier to large furniture producers of both raw particleboard and semi-finished furniture to its furniture producing customers.

Raw Materials

The principal raw materials used in the production of particleboard are wood (and specifically derivatives such as pulpwood and sawdust) and resins. For particleboard which is to be laminated, supplies of wood veneer and melamine overlays are also required. Pulpwood grade fibre is sufficient for the production of particleboard in terms of size and physical properties. Large sizes of wood are not required for particleboard production. The strength of particleboard will be mainly affected by the densities of board which, in turn, will be dependent upon the concentration of wood chips used in the particleboard.

The main wood species for the Gaoyao Mill are expected to be eucalyptus and pine, a combination of which is suitable for making high quality particleboard. Eucalyptus is a fast growing and high yielding hardwood species. It represents low cost and sustainable fibre, due to its relatively short growing span and being more abundant than other hardwood species. Eucalyptus plantations are located mainly in southern China because the warm climate in the region is well suited for eucalyptus growth. Pine is a softwood species and takes longer to grow. Masson pine and slash pine are the most common pine species in southern China.

The production of one m^3 of particleboard requires approximately 1.4 m^3 of pulpwood when using eucalyptus and pine. The composition of wood species for the Gaoyao Mill is initially expected to be 50% eucalyptus and 50% pine. Based on this assumed composition of wood species, the Gaoyao Mill will require approximately 133,000 m^3 of wood per year to produce 95,000 m^3 of particleboard, which translates into land requirements of 6,200 hectares for eucalyptus and 11,800 hectares for pine, on a sustainable basis.

Sino-Panel expects to be able to purchase wood principally from the Company. Such purchases will be on ordinary commercial terms that the Company makes available to its other customers. Under its existing CJV agreements in Guangdong Province, the Company will have, when fully phased-in, 33,000 hectares of plantation lands in Gaoyao City which would be adequate to support the Gaoyao Mill's operations. The phasing-in program for the Gaoyao plantation is expected to be designed to ensure sufficient wood supply to the Gaoyao Mill's operation. When the Company's plantations in the PRC are fully phased-in, management believes that less than 5% of the Company's production of wood chips would be required to satisfy the Gaoyao Mill's initial requirements.

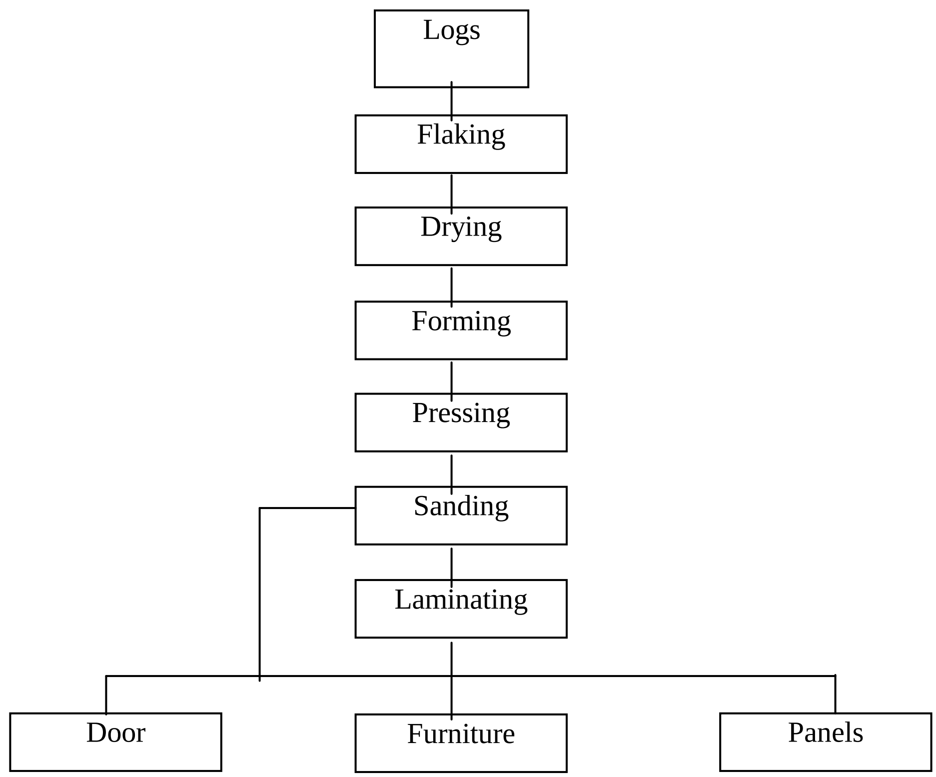
Sino-Panel expects to initially acquire its supply of wood for the Gaoyao Mill from wholesale supply of wood which the Company obtains from the local forestry bureaus with which the Company has its CJVs. These fibre requirements will be provided mainly from the standing trees on the land which are under contract to be phased-in by the CJV. The Company typically acts as a principal sales agent or distributor for the logs harvested from the lands that will ultimately be phased-in to the CJV.

Management also believes that there is an adequate supply of resin and of wood veneer and melamine overlay in the PRC for its anticipated needs, and that it will be able to readily obtain necessary supplies in the vicinity of the Gaoyao Mill. Sino-Panel intends to purchase veneer both locally and internationally and use the Company's expertise in sourcing imported veneer to ensure a reliable, adequate supply thereof. Management also believes that there will be an adequate supply of utilities including power and water in Guangdong Province.

Production Process

The following chart shows the major steps in the manufacture of particleboard and laminated particleboard. Particleboard is used as a raw material for the production of furniture and doors.

Particleboard/Laminated Particleboard Production Flow Chart



For the production of particleboard, wood chips or a combination of wood chips and residues are used as raw materials. These materials are first reduced to small-size particles through flaking, then dried to reduce moisture content from approximately 100% in wet wood to 2%. The dried particles are mixed with resins and distributed into a fibre mattress during the forming process. During the pressing process, the formed mattress is heated and pressed into a panel. The cooled panel is then sanded to create a smooth surface and cut into required sizes. The board can be upgraded to a laminated particleboard through the laminating process which glues a wood veneer or an overlay on the board.

Facilities

The Company intends to commence construction of the Gaoyao Mill in the third quarter of 1998 and commence production in the second quarter of 1999. The Company purchased a second-hand particleboard line previously located in Finland from Sonic Jita Engineering Ltd., a Chinese engineering company ("Sonic Jita"), which has recently purchased the lines from Schauman Wood Oy, a Finnish company ("Schauman"). The Company and Sonic Jita had entered into an agreement pursuant to which all of Sonic Jita's interests in, obligations under and rights in and to, the agreement between Sonic Jita and Schauman will be assigned to the Company.

The particleboard line and associated machinery (the "Joensuu Line") formerly used in Schauman's mill in Joensuu, Finland (the "Joensuu Mill") are being relocated to the Gaoyao Mill. Under the terms of the Company's arrangement with Sonic Jita, Sonic Jita will be responsible for reconditioning and installing the equipment at the Gaoyao Mill. Where necessary equipment is not supplied, Sonic Jita will source suitable replacements. In addition, under the purchase agreement between Sonic Jita and Schauman, Schauman will provide technical assistance in connection with the installation and commissioning of the purchased particleboard equipment Schauman has agreed to be paid in full only after the particleboard line achieves specified performance targets. The Company has entered into discussions with respect to the selection of the Company's advisor in managing the construction of the Gaoyao Mill.

The Gaoyao Mill will be installed on concrete slab floors and will utilize a metal building system imported from the United States under the supervision of the manufacturer of the system, Metallic Asia , an American-based company. The Company does not expect any difficulty in obtaining replacement parts and conducting necessary repairs and upgrades to the equipment to be maintained at the Gaoyao Mill. The equipment being acquired from Sonic Jita already includes many spare parts and the Company believes that there is an adequate supply additional spare parts in the world market.

The Gaoyao Mill is expected to have an initial annual production capacity rated at 100,000 m^3 of particleboard. The expected initial production at the Gaoyao Mill is 50,000 m^3 in 1999, 75,000 m^3 in 2000 and 95,000 m^3/annum thereafter. The Joensuu Line from Finland, to be reassembled at the Gaoyao Mill, is a 1,250 mm (4 ft.) wide and 5,550 mm (18 ft.) long, 24-opening multi-daylight line which began operations in 1971 and was shut down in October 1990 as part of what the Company understands to have been a rationalization program by Schauman due to poor market conditions. An independent assessment of the Joensuu Mill was commissioned by Schauman and was carried out by VTT Building Technology of the Technical Research Centre of Finland ("VTT") in 1993, 1995 and 1997. Its conclusion was that the machines could continue to manufacture particleboard for at least another 15 to 20 years with appropriate preventative maintenance and adequate replacement investments.

VTT noted that, with additional drying capacity, the output could be increased from 330 m^3/day to 400 m^3/day, or up to 120,000 m^3/annum. The Company is considering the purchase of an additional second-hand dryer to augment the existing dryer. This would improve drying throughput, as well as reducing down-time caused by maintenance of the dryer. The Company expects that the installation of a second dryer together with improved maintenance, allowing an increase in the number of operating days, could increase the annual production to more than 120,000 m^3/annum after two years.

The overlay plant expected to be built in the Gaoyao Mill will consist of two laminating lines imported from Europe. The first line, 4,920 mm (16 ft.) x 1,230 mm (4 ft.) with capacity of 60,000

m^3/annum, is capable of pressing either wood veneer or high pressure laminates. The second line, 2,460 mm (8 ft.) x 1,230 mm (4 ft.) with capacity of 20,000 m^3/annum, is for melamine overlay. Both lines should be capable of performing high quality lamination.

Labour and Management

The Company expects that approximately 400 persons will initially be employed at the Gaoyao Mill. Management of the Company believes that there is a readily available supply of adequately skilled personnel in China to operate the Gaoyao Mill. The Company also intends to design a training and start-up program to assist mill management with the commissioning and operating of the facility. The Company intends to achieve ISO 9000 designation and status through its implementation of systems and controls and quality assurance guidelines. Moreover, the Company intends to select a core management team which it will send to Europe for training with Schauman, the vendor of the particleboard equipment, or other European manufacturers who have production facilities similar to that which will be used in the Gaoyao Mill. Each particleboard plant will have a plant manager.

Pursuant to the proposed Gaoyao EJV, the General Manager of the Gaoyao EJV will be nominated by Sino-Panel and appointed by the board of directors of the Gaoyao EJV, which board will be controlled by Sino-Panel. The General Manager, with the assistance of the Gaoyao EJV's management team, will be responsible for the day-to-day management of the Gaoyao Mill. The management team will consist of key positions such as production manager, sales and marketing, financial manager and human resources manager, each of whom will be nominated by the General Manager and appointed by the board. The General Manager will be responsible for the selection of the employees of the Gaoyao EJV. In accordance with common Chinese practice, employees of the Gaoyao EJV will enter into individual employment contracts with terms ranging from one to three years. The Gaoyao EJV is expected to establish funds for employees' pension, health care and unemployment insurance that a foreign-owned company is required to maintain. The provision of such fund will be determined at the discretion of the Gaoyao EJV board in accordance with relevant PRC labour laws.

Door BusinessBusiness

Product

Wooden doors are made from either solid wood or reconstituted wood panels. As the worldwide supply of solid wood is shrinking, wood panels have become a major raw material for the production of doors.

The Shanghai Door Plant is expected to have an annual capacity of 180,000 high quality doors manufactured primarily from particleboard.

Location

The Shanghai Door Plant will be established adjacent to an existing production complex on the site of Shanghai Timber's door manufacturing division located in Shanghai Municipality.

Competition

Although Shanghai Timber is the largest wood products supplier in the PRC and is currently manufacturing doors, there are many manufacturers of doors in the PRC. Management of the Company believes that the market for doors is large and that the demand for doors, including the types of high quality laminated doors which will be produced at the Shanghai Door Plant, will continue to exceed the supply of such product. While Shanghai Timber represents a potential competitor to the Shanghai EJV, Shanghai Timber's principal business is the import of wood and sales of domestic wood, and its involvement in finger joint board production and door production are peripheral to its core business. Therefore, as with its particleboard business, management believes that competition will not pose any significant threats to the Company's door manufacturing business.

Sales and Marketing

The Shanghai Door Plant's doors will be marketed through its sales distribution network and as part of its contract supply business. The Company, through Shanghai Timber, has engaged in discussions with several potential customers in the region regarding the annual supply of an aggregate of 15,000 doors in 1998.

It will be the Company's responsibility to sell all product manufactured at the Shanghai Door Plant. In addition, in the event that the Company obtains orders in excess of the Shanghai Door Plant's capacity, it is expected that the Company will subcontract such work to Shanghai Timber or other door manufacturing companies in the area on commercial terms. If Shanghai Timber wishes to use the Company's facility for supplying doors in excess of Shanghai Timber's capacity, this arrangement will be done on normal commercial terms.

While Shanghai Timber currently markets its doors for export, wholesale and retail markets, it is expected that initially the product manufactured by the Company at the Shanghai Door Plant will be produced for specified domestic customers on a contract supply basis.

Raw Materials

The Shanghai Door Plant's door manufacturing operations will use particleboard as its base material, supplemented by solid wood, plywood or finger joint board for the edges, and wood veneer on the principal surfaces. For the production of 15,000 doors in 1998, the Shanghai Door Plant is expected to require approximately 500 m^3 of particleboard which it will purchase from local producers.

Production Process

At the Shanghai Door Plant, particleboard will be formed into a pre-designed shape by hot pressing. During the forming process, solid wood, plywood or finger joint board is glued to the particleboard base to enhance the strength of the door. Wood veneers are then glued to the surface to enhance the aesthetic character of the door. The formed door is then sanded and packaged for shipment.

Facilities

The manufacturing facility is expected to be located in an existing building on the site of Shanghai Timber's current door manufacturing operations and is expected to include a full production line with lamination capacity. While the key pieces of equipment for door production will be imported, other peripheral equipment will be purchased locally. The construction of the Shanghai Door Plant is expected to begin in the second quarter of 1998, and it should be operational in the fourth quarter of 1998. The Company will supply or otherwise acquire all of the plant and equipment to be utilized in the manufacture of doors, and Shanghai Timber will operate the facility and produce the doors for the Company under arrangements whereby Shanghai Timber will provide its manufacturing expertise and personnel on an as-needed basis at a specified hourly rate in return for which the Company will pay Shanghai Timber a certain percentage of the gross selling price of doors manufactured at such site.

Labour and Management

The Company expects that it will directly employ approximately 10 people in connection with the Shanghai Door Plant. The Company will be responsible for sales, raw materials procurement, accounting and quality control functions. Under contractual arrangements with Shanghai Timber, the production of doors will be undertaken by Shanghai Timber personnel. Management of the Company believes that Shanghai Timber has a readily available supply of adequately skilled personnel to operate the plant. The Shanghai Door Plant will have a plant manager.

Finger Joint Board BusinessJoint Board Business

Product

Finger joint board is made from wood strips aligned end to end and side by side and then glued together at the edges to form a panel. Laminated finger joint board is an upgraded product with an overlay of wood or synthetic materials. Finger joint boards are stronger than particleboard and are mainly used in the production of furniture, floors, bookshelves, tabletops and other internal decorative products. Finger joint board is sold as a substitute for solid wood and plywood.

The Company's finger joint boards will be used for its own production of finished wood products, and sold to other end users and customers through its sales distribution network and the Company's contract sales business.

Location

The FJB Plant will be owned by the Shanghai EJV. It is an existing facility of Shanghai Timber, the Company's EJV partner, located in Shanghai Municipality. The facilities will be contracted to the Shanghai EJV at a value of $2.5 million, thereby earning Shanghai Timber a 25% equity interest in the EJV.

Competition

Management of the Company believes that through its production facilities at the FJB Plant, it will become a major producer of finger joint board in the Greater Shanghai Region. Currently, it is only aware of competitors who generally have annual capacities in the 5,000 m^3 to 10,000 m^3 range. Management is not aware of any other finger joint board plants that have lamination capability in the Greater Shanghai Region. Shanghai EJV's relationship with Shanghai Timber is also expected to enhance its competitive position.

Sales and Marketing

The Company believes that its relationship with Shanghai Timber through the Shanghai EJV will enhance the Company's commercial connections and access to the local market. It is expected that Shanghai Timber will continue to receive enquiries and orders with respect to its prior operations of the finger joint board plant, and that Shanghai Timber will directly or indirectly pass these on to the Shanghai EJV. The major customers for the existing finger joint board plant are furniture and wood flooring manufacturers in Shanghai Municipality and they are expected to continue to be the core customers of the FJB Plant after it is transferred into the Shanghai EJV. In addition, the existing finger joint board plant owned by Shanghai Timber currently sells approximately one third of its production capacity to consumers in the export market, mainly Japan, and the Shanghai EJV intends to continue to sell its finger joint boards to the export market.

The Company expects that the Shanghai EJV's personnel will include a dedicated sales force which will (i) initiate its own contacts, (ii) benefit from existing Company relationships and reputation and (iii) follow-up on contacts and enquiries which will be directed to the Shanghai EJV by Shanghai Timber.

Raw Materials

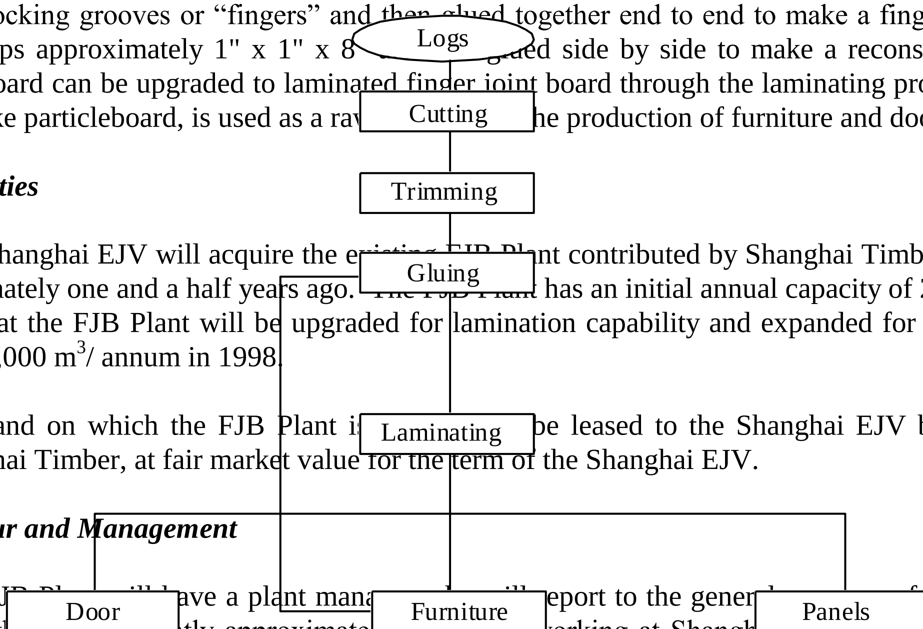
The main raw material for the production of finger joint board is wood. The FJB Plant will primarily use aspen (poplar) from the Company's plantations in Jiangxi Province. The FJB Plant may also use hardwood species, such as birch and ash, from natural forests in northern China if their delivered costs are competitive with the logs from the Company's plantations in Jiangxi Province, which is geographically closer to the FJB Plant. Aspen, like birch and ash, is a hardwood species and is suitable for the production of finger joint board products requiring high strength and durability. Compared to other northern species of hardwood, aspen has a shorter growing span, and is therefore one of the lower cost wood species for the production of finger joint board.

Aspen plantations are receptive to mild and humid climates, and therefore are located mainly in the Yangtze River area of China. With a five year rotation, the average yield for aspen plantations is approximately 75 m^3 per hectare. Management believes that the Company will be able to provide sufficient fibre on a long term basis to support the FJB Plant's operations.

Production Process

The following chart shows the major steps in the manufacture of finger joint board, including laminated finger joint board.

Finger Joint Board/Laminated Finger Joint Board Production Flow Chart



Logs are first cut into boards and dried. The boards are then further cut into strips, machined to provide interlocking grooves or "fingers" and then glued together end to end to make a finger joint strip. Individual strips approximately 1" x 1" x 8' are then glued side by side to make a reconstituted panel. Finger joint board can be upgraded to laminated finger joint board through the laminating process. Finger joint board, like particleboard, is used as a raw material in the production of furniture and doors.

Facilities

The Shanghai EJV will acquire the existing FJB Plant contributed by Shanghai Timber which was built approximately one and a half years ago. The FJB Plant has an initial annual capacity of 20,000 m^3. It is expected that the FJB Plant will be upgraded for lamination capability and expanded for an additional capacity of 20,000 m^3/ annum in 1998.

The land on which the FJB Plant is located will be leased to the Shanghai EJV by its current owner, Shanghai Timber, at fair market value for the term of the Shanghai EJV.

Labour and Management

The FJB Plant will have a plant manager who will report to the general manager of the Shanghai EJV. While there are currently approximately 60 people working at Shanghai Timber's existing finger joint board operations, the Company expects that the Shanghai EJV will employ approximately 160 people for the FJB Plant, after the capacity expansion and lamination upgrade are completed. Management of the Company believes that there is a readily available supply of adequately skilled personnel to operate the plant.

Contract Supply BusinessSupply Business

Products

In addition to the finger joint board operations, the Company will be engaged in contract supply of wood-based building materials which includes doors, flooring, built-in furniture, wall panels and mouldings for decoration and construction. The Company will act as a principal contractor to supply wood materials based on contracts which specify customer requirements as to products, volume, pricing and delivery time. The Company will undertake the responsibilities of sourcing raw materials, organizing production and delivering products after obtaining contracts. Depending on customers' specific needs, the Company will also provide value-added customer services such as custom design, raw materials selection and installation and, if appropriate, may arrange short-term production financing for its customers.

Management recognizes that contract supply is an effective method for the procurement of wood-based materials by the building industry in China. Developers and general construction contractors of commercial and high-end residential and commercial buildings prefer contract supply to ensure their quality standards in interior decorations are achieved. Management believes that the demand for contract supply in major cities is growing strongly as a result of an increasing number of office and residential buildings being built.

Location

The contract supply division of Sino-Panel will initially be located in Hong Kong and Shanghai Municipality, on the same premises as the FJB Plant.

Competition

Management believes that there are no existing competitors in China that are as highly focused and specialized in contract supply as Sino-Panel intends to be. Most companies that are engaged in contract supply lack capital, marketing expertise and a production network. Consequently, they are not able to undertake large size contracts.

Sino-Panel expects to be able to benefit from Shanghai Timber's extensive sales network and the Company's marketing expertise, and is therefore expected to be able to effectively compete with any competitor engaged in the contract supply business in the Greater Shanghai Region.

Sales and Marketing

The Company will initially focus on the Greater Shanghai Region and take advantage of Shanghai Timber's sales network in the region. Currently, the Company is in negotiation with several customers to secure between U.S.$40 and U.S.$50 million of contract supply business. To establish strategic partnerships with key local wood product suppliers and to build a strong distribution for the wood-based product and contract supply businesses, the Company has acquired a 20% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an EJV that was formed in 1997 by the Ministry of Forestry in China. The operation of SJXT is to organize and manage the first and only official market for timber and log trading in Eastern China. The investment in SJXT is expected to provide the Company with good accessibility to a large base of potential customers and companies in the timber and log businesses in Eastern China.

Facilities and Suppliers

The Company will focus on the marketing aspects of the contract supply business and will not build its own production facilities, except for the FJB Plant. Sino-Panel is expected to commence operation in the spring of 1998 and will primarily use the products of the Company (including the FJB Plant and the Shanghai Door Plant) and Shanghai Timber to support its sales. For products that are not produced by the Company or Shanghai Timber, suitable outside manufacturers will be selected based on their reliability and quality of existing production facilities.

Labour and Management

The Company expects that approximately 10 people will initially be employed to act mainly in sales and marketing capacities. The General Manager of Sino-Panel will be in charge of the contract supply business. The Company intends to hire experienced sales engineers from Hong Kong to be account managers. Management does not anticipate difficulties in retaining such persons. It is also expected that Sino-Panel will hire experienced sales people currently being employed by Shanghai Timber.

Regulatory Structure and OwnershipStructure and Ownership

Shanghai EJV

The Company has agreed to establish the Shanghai EJV with Shanghai Timber in Shanghai Municipality. Shanghai Timber is the largest wood product supplier in Shanghai and is owned by the Government of Shanghai Municipality.

The equity interests of the Company and Shanghai Timber in the Shanghai EJV will be 75% and 25%, respectively.

Both parties are currently finalizing the joint venture agreement and articles of association, and are committed to signing the joint venture contract and submitting it for regulatory approval. The establishment of Shanghai EJV is consistent with the foreign investment policies of the Government of Shanghai Municipality, which is the ultimate approving authority for the proposed joint venture. The Company expects that the Shanghai EJV will receive regulatory approvals and a business licence in mid 1998, after the application for approval is submitted.

The Shanghai EJV will be organized and governed by the laws of the PRC as a Sino-foreign EJV enterprise and will be a legal entity with limited liability. The term of the Shanghai EJV is expected to be 50 years, and may be extended for a further agreed term prior to expiration. The Shanghai EJV is subject to extensive statutory laws relating to matters such as establishment and formation, capital contribution, profit distribution, taxation, accounting, foreign exchange and labour management.

The total registered capital or equity of the Shanghai EJV is expected to be approximately $10 million, of which $7.5 million is expected to be contributed by the Company in cash and equipment valued at cost as its share of equity contribution. Shanghai Timber's contribution will consist of an existing finger joint board plant, the FJB Plant, valued on a preliminary basis at approximately $2.5 million by an independent firm certified by the Chinese government, with the final valuation to be approved by the Asset Management Bureau of the local government. The Shanghai EJV will use approximately $2.0 million of its initial equity capital as working capital for the contract supply business, and approximately $5.5 million to fund the expansion and lamination upgrading of the FJB Plant.

The Shanghai EJV will use Shanghai Timber's manufacturing facilities as its preferred supplier to carry out the manufacturing of products that the Company's production facilities cannot produce. The profits of the Shanghai EJV will be reinvested or distributed in proportion to both parties' equity contributions, and all distributions will be subject to the board's authorization.

The Shanghai EJV will be governed by a board of directors, with representation by both parties in proportion to their equity interests. The Chairman of the Board will be appointed by the Company. The board will be responsible for all strategic matters relating to the Shanghai EJV's business activities. The board will exercise authority by a majority vote on most corporate decisions. Unanimous approval by all the directors present at a meeting will be required for the certain actions or decisions, including amendments to the joint venture agreement or articles of association, adjustments of the composition of the registered capital, the admission of any new investors, and the termination, liquidation or dissolution of the joint venture.

The profits of the Shanghai EJV will be reinvested or distributed in proportion to both parties' equity contributions, and all distributions will be subject to the board's authorization.

Both parties will attempt to resolve any disputes through consultation. If the parties fail to come to any resolution to their dispute, they will refer to a mutually accepted international arbitration institute for final settlement. If the Shanghai EJV is required to be dissolved, the net realized value of assets will be distributed to both parties in proportion to their respective investments in the Shanghai EJV in accordance with the laws of the PRC.

Employees

The Company will maintain a work force for the wood-based panel operations composed of high quality management and skilled workers. Initially, the Company is expected to employ 598 people by the end of 1998, categorized by function as follows:

Function	**Number of Employees**
Executive and mill management	19
Sales and general administration	40
Engineers and technical staff	33
Production	506
Total number of employees	**598**

The Company expects to provide competitive benefits to its employees in China, which include medical insurance, pension, unemployment insurance and housing allowance.

The General Manager of each operating company will be responsible for the overall operation of the plants and will be assisted by a mill management team consisting of managers in key functions including production, engineering, sales, finance and human resources. Sales and administration functions, however, will largely be carried out in China and Hong Kong. Mill management teams will comprise mainly of local Chinese professionals. This will ensure long-term management continuity and enhance mill operating efficiencies. Experienced managers will be recruited locally with the assistance of the Company's joint venture partners.

RISK FACTORSFactors

Political and Economic Considerations

The value of the Company's investment in its joint ventures may be adversely affected by significant political, economic and social uncertainties in the PRC. The PRC is a developing country and shares with other developing countries the characteristic of having a socio-political system that is prone to sudden and, to outsiders, unpredictable events and evolvement. The policy for economic reform in the PRC to change its economic system from a centrally-planned economy to a market-oriented economy with Chinese characteristics has been in place since 1979 and has been reaffirmed many times by the NPC, the politburo of the Communist party of the PRC, and the State Council. Though not without set-backs and hiatus, economic reform has had far reaching effects on the economic system of the PRC and has resulted in sustaining high economic growth for some 16 years. Due to recent political policies adopted by the PRC, certain foreign governments in Southeast Asia, such as Japan, and in the United States, may adopt new policies with respect to trade with China. There is no guarantee that in the event of a major change of decision-makers at the most senior political level, the existing economic policy of the PRC will not be changed, or that the socio-political stability so crucial to the economic growth will not suffer.

The principal participants in the PRC's economy (which, in part, overlap) are State-Owned Enterprises; Collectively-Owned Enterprises; Privately-Owned Enterprises; joint-stock companies, including joint-stock companies that are subject to varying degrees of State ownership; and FIEs. State-Owned Enterprises continue to constitute the largest section of the economy.

The PRC's rapid economic growth has led to periodic cycles of high inflation. In order to control economic expansion and combat inflation, the Chinese government adopted measures to control prices, credit, expenditures and investment. At the same time, the Chinese government has moved to accelerate the reform of the monetary system, the financial system, taxation and public finance. The austerity program has caused bank credit to tighten and may have a dampening effect on the various expansion plans of the joint ventures.

The Chinese government has recently confirmed that the PRC's economic development will follow a model of market economy under socialism. Under this direction, it is expected that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will largely follow market forces and rules of economics.

Legal System and Enforcement

As the PRC's legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. In circumstances where adequate laws exist, it may not be possible to obtain swift and equitable enforcement of the laws or any changes to the interpretation of laws.

The Company believes its joint ventures in connection with its plantation business have (except with respect to the two CJV Agreements signed in November 1997) obtained the governmental approvals necessary to permit them to conduct their business. The Company believes that its joint ventures in connection with its wood-based panel operations business and other proposed investments will obtain any necessary government approvals, on timely basis, but there is no guarantee that such approvals can be obtained (or, if obtained, that they will be obtained on terms and conditions set out herein). If there is any administrative review, approval or action by various national, provincial or local agencies of the PRC government which causes a CJV or EJV serious damage, the PRC law permits redress to the court with respect to certain of these administrative actions.

Though Chinese law expressly protects the status and rights of Sino-foreign joint ventures and enterprises, the State reserves the right, in special circumstances, to terminate joint ventures and provide compensation therefor. There can be no assurance, however, that such compensation will be adequate or timely.

Environmental Considerations

The Environmental Protection Law of the PRC was adopted by the Standing Committee of NPC of the PRC on December 26, 1989. Under the Environmental Protection Law, the division in the State Council responsible for environmental protection has the power to set national environmental quality standards and environmental protection agencies of lower levels of government have power to set local standards to supplement the national standards in areas where the national standards are silent. Due to the very short history of the Environmental Protection Law, national and local environmental protection standards are still in the process of being formulated, experimented and implemented. It is a general policy of the PRC that a person who harvests or otherwise cuts down trees is required to replant on the harvested plantation lands to maintain the ecological equilibrium. The Company believes that there are no outstanding notices, orders or directives from central or local environmental protection agencies or local government authorities alleging any breach of national or local environmental quality standards by the Company's joint ventures, and the joint ventures have complied with all existing environmental protection laws, regulations, administrative orders and standards. Given the nature of their businesses, there is a possibility that the joint ventures will have to meet higher environmental quality standards as the economy of the PRC and its level of environmental consciousness increase in the coming years.

Failure to Make Capital Contribution

The CJV Law and the EJV Law stipulate that the first instalment of the capital contribution by a joint venture party shall not be less than 15% of the portion of the registered capital subscribed to by the joint venture party and must be within three months of the issuance date of the business licence of the CJV or EJV, as the case may be. In the event of a breach of the statutory requirement, the CJV or EJV may automatically cease to exist and all prior approvals are automatically revoked.

Where joint venture parties have met their obligations on payment of the first instalment on capital contribution, the CJV Law and the EJV Law provide that where a joint venture party fails to meet its subsequent obligation to make capital contribution three months after it becomes due, relevant government authorities shall issue a notice to the joint venture parties demanding that the capital contribution be made within one month. Failure to comply with the demand will give government authorities the right to revoke the business licence of the CJV or EJV and all prior approvals, thereby forcing the CJV or EJV into winding-up proceedings. The risk of governmental action in the event of the Company's inability to meet its contribution commitments is a significant risk. However, the delay of capital contribution under certain conditions can be negotiated among the parties and if the reasons for delay are rational and agreed upon by the parties, the contract can be revised and approval can be obtained from the relevant authority.

Competition

The markets for wood chips and wood products are competitive and are sensitive to cyclical changes in industry capacity and in the economy. Changes in the level of competition, government regulations on timber harvesting, industry capacity and the economy will have a significant impact on the Company's selling prices and overall profitability. With respect to the plantation operations, the Company competes with a large number of international forest products selling wood chips in the East Asia market. The Company also competes in the domestic market with local firms on a smaller scale, including its PRC partners. With respect to wood-based panel operations, the Company will compete primarily in the domestic market with local firms which generally have smaller capacity. It is expected that the Company will increase their revenue significantly in the domestic market over the next few years as wood chips and related forestry products in the PRC will continue to be in big demand as the country improves economically .

Fluctuations in Selling Price of Wood Chips and Wood Products

The operating results of the Company can be significantly affected by fluctuations in the selling price of wood chips and wood products. Wood chips produced by the Company are primarily supplied to pulp manufacturers in Japan, Taiwan and South Korea and more recently in China. The pulp market industry is cyclical in nature. World pulp prices are affected by a number of factors including the world's economic growth rate and the demand for paper products. By locking in long term supply contracts with key customers and by differentiating its higher quality products and service from its Chinese competitors, the Company hopes to protect against temporary over-supply from, or lower prices of, other Chinese manufacturers of particleboard and other wood products.

Dependence on Key Personnel

The Company is currently dependent upon a small number of key management personnel, and success during Sino-Panel's initial growth period will depend, in part, on their abilities. The loss of the services of certain key management personnel may adversely affect the performance of the Company.

Limited Operating History and Stage of Development

Since the Company's Joint Ventures commenced operations in 1994 and 1995, in respect of the plantation operations, and are anticipated to commence in 1998, in respect of the Company's wood-based panel operations, they are in the early stages of development and have relatively brief. Furthermore, Sino-Panel is subject to all of the risks inherent in the establishment and maintenance of a new business enterprise, such as competition and viable operations management. The expansion of the business of Sino-Panel will also depend upon the ability of management to implement and successfully manage expansion, as well as its ability to raise any required capital. There can be no assurance that Sino-Panel will grow and be profitable.

Joint Venture Arrangements

Co-operation and agreement among the Company's joint venture partners is an important factor for the operational and financial success of the joint ventures. In certain circumstances, the Company is not able or will not be able to control the decision making process of the joint ventures without the concurrence of the joint venture partners. The Company does or will, however, through contractual provisions and representatives appointed by it, have the ability to control most material decisions. Disputes among the partners over joint venture obligations or other matters, or the early termination or non-renewal of the joint venture agreements, could materially adversely affect the business of the Company. However, the Company has not to date experienced any significant disagreements with its partners.

Import Duties

Import duties on particleboard have been high in China and, although reduced from 22% to 18% in October 1997, they are still restricting the development of widespread imports. The further reduction or elimination of import duties may provide some incentives for foreign manufacturers to export into China. However, management believes that such an event will not pose a major threat to Sino-Panels' particleboard business since the quality of Sino-Panel's particleboard, together with high transportation costs for imported particleboard, are expected to continue to make imported particleboard a less attractive alternative to Sino-Panel's particleboard.

Equipment for Particleboard Mill

The proposed EJV for the particleboard mill is in the process of being established. The installation of equipment for the Gaoyao Mill will only commence after the EJV has been established and funding for the project is in place. The installation of equipment for the Gaoyao Mill may not be completed on a timely basis and delay start-up of Sino-Panel's particleboard business. There is also a risk that such equipment may not meet management's expected performance standards. However, Schauman has agreed to provide technical assistance in the start-up of the Gaoyao Mill and management has further minimized such risks by retaining the advice and assistance of experts with extensive experience in the forestry and wood products industry. Furthermore, the particleboard industry is an established industry in the PRC and replacement parts, equipment and service personnel, if necessary, should be available to Sino-Panel.

Wood-Based Panel Operations

It is currently anticipated that the total capital costs to the Company for the four projects identified herein in connection with the Company's wood-based panel operations will be approximately $35 million. As of December 31, 1997, approximately $9.4 million had been spent principally in connection with the acquisition and transportation of the particleboard plants as hereinafter described. These expenditures have been partly financed through commercial debt financing of approximately $4.5 million. Additional funding for the above four projects has not been arranged. The Company will continue to explore financing alternatives with respect to funding these projects. To the extent that the Company is unable to raise additional capital, it may determine to not implement fully some or all of these projects or, if implemented, may determine to scale back or either defer or abandon one or more of such projects. To the extent that it abandons such projects, it will attempt to dispose of those related assets which may then be considered redundant.

Control of the Company

At May 4, 1998, Mr. Allen Chan, a director and officer of Sino-Forest, together with Ms. Leslie Chan, an officer of Sino-Forest, and Mr. Chan's and Ms. Chan's family members and associates, beneficially owned, directly or indirectly, shares entitling them to 27.8%, and Kai Kit Poon, a director and officer of Sino-Forest, beneficially owned, directly or indirectly, shares entitling him to 15.4% of the voting rights attached to the outstanding shares of Sino-Forest.

Exchange Rate

The fluctuations in the U.S. dollar/Canadian dollar exchange rate that have occurred in the past are not necessarily indicative of fluctuations in that rate that may occur. Exchange rate fluctuations relative to other currencies are also a risk factor. A significant portion of the Company's sales revenue is currently received in United States dollars. The Company remits only foreign exchange funds to the PRC to cover contracted operating costs in the local Chinese Renminbi. This reduces the Company's currency risk affecting its current operations in the PRC.

The usage, movement and conversion of foreign currency in the PRC are subject to legislative and administrative restriction and control. The Chinese government imposes control over the conversion of its national currency RMB into foreign currencies and remittance thereof out of the PRC must be conducted through the Bank of China or other authorized financial institutions to deal in foreign currencies or, for conversion only, through the authorized banks or foreign exchange adjustment centres. No approvals are needed in order to acquire foreign exchange for a current account transaction, including profit distributions, interest payments and receipts and expenditures from trade and labour. Strict controls, primarily prior approval by the State Administration for Foreign Exchange, continue for capital account transactions in foreign exchange. Capital account items include loans, direct capital investments and investments in negotiable securities. The Company believes that the implementation of these measures will allow the PRC enterprises in which they have interests to access foreign exchange for remittance of profits without prior regulatory approval. Under the current foreign exchange control system, however, there is no guarantee that sufficient foreign currency will be available at a given exchange rate to satisfy the demands of a particular enterprise in full.

SELECTED CONSOLIDATED FINANCIAL INFORMATIONCONSOLIDATED FINANCIAL INFORMATION

Financial DataData

The following selected financial information has been derived from the consolidated financial statements of the Company for the four years ended December 31, 1997, 1996, 1995 and 1994. The information should be read in conjunction with the "Management's Discussion and Analysis" and the consolidated financial statements and accompanying notes of the Company which are contained in its Annual Report to the Shareholders for the year ended December 31, 1997.

	Year Ended December 31			
	1997	**1996**	**1995**	**1994**
	(thousands of dollars, except per share amounts)			
Operating Results				
Revenue	$41,783	$32,428	$27,423	$20,482
Net Income	15,297	8,157	4,345	3,010
Financial Position				
Total assets	$72,840	69,618	31,549	30,610
Long term debt	6,710	3,000	nil	nil
Shareholders' Equity				
Cash dividends declared per:				
Class A Subordinate-Voting Share	nil	nil	nil	nil
Class B Multiple-Voting Share	nil	nil	nil	nil
Basic earnings per share[1]	0.23	0.19	0.12	0.10
Fully-diluted earnings per share[1]	0.19	0.14	0.12	0.08

(1) Earnings per share are calculated using the weighted average number of Class A Subordinate-Voting Shares and Class B Multiple-Voting Shares outstanding during each period.

Quarterly Financial InformationFinancial Information

The following table is a summary of selected quarterly financial information of the Company for each of the eight quarters ended December 31, 1997:

	Revenue ($000's)	**Net Income ($000's)**	**Earnings Per Share**	
			Basic	**Fully-Diluted**
1997				
December 31	$19,976	$5,659	$0.09	$0.07
September 30	11,789	5,128	0.07	0.06
June 30	6,022	2,951	0.04	0.04
March 31	3,996	1,559	0.03	0.02
1996				
December 31	$14,231	$3,661	$0.08	$0.05
September 30	6,317	2,667	0.06	0.05
June 30	7,814	1,108	0.03	0.02
March 31	4,066	720	0.02	0.02

Dividend Record and PolicyDividend Record and Policy

The Company has not declared any dividends on its shares. Other than restrictions on the payment of dividends imposed by law and the priority of the Class A Subordinate-Voting Shares over the Class B Multiple-Voting shares with respect to the payment of dividends, there are no restrictions which would prevent the Company from paying dividends. Any payment of dividends on Class A Subordinate-Voting Shares and Class B Multiple-Voting Shares is at the discretion of the board of directors of the Company and is dependent upon the Company's results of operations, financial condition, financing requirements and other factors that the board of directors deems relevant.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND OPERATING RESULTS'S DISCUSSION AND ANALYSIS OF FINANCIA

Reference is made to the section entitled "Management's Discussion and Analysis" on pages 10-13 of the Annual Report to the Shareholders of the Company for the year ended December 31, 1997, which section is incorporated herein by reference.

MARKET FOR SECURITIESFOR SECURITIES

The Class A Subordinate-Voting Shares are listed on the TSE and trade under the stock symbol "TRE.A".

DIRECTORS AND OFFICERSAND OFFICERS

The table presented below provides the names of the current directors and executive officers of the Company, the offices held by them and the date of their first appointment.

Name and Municipality of Residence	**Position(s) Held**	**Principal Occupation**	**Director Since**[(1)]
Allen T.Y. Chan[(2)(3)] Hong Kong	Chairman, Chief Executive Officer and Director	Officer of the Company	1994
Kai Kit Poon Hong Kong	President and Director	Officer of the Company	1994
Leslie W.L. Chan Hong Kong	Executive Vice President	Officer of the Company	-
Kee Y. Wong Toronto, Ontario	Executive Vice President, Chief Financial Officer and Director	Officer of the Company	1997
Lawrence K.P. Hon Hong Kong	Senior Vice President, Operations	Officer of the Company	-
Jay A. Lefton Toronto, Ontario	Corporate Secretary	Partner, Aird & Berlis Barristers & Solicitors	-
Michael Cheng Hong Kong	Director	President of Keji Investment Co., Ltd.	1998
R. John (Jack) Lawrence[(3)] Toronto, Ontario	Director	Chairman of Lawrence & Company Inc., a private investment company	1997

Edmund Mak(2)(4) Vancouver, B.C.	Director	Real estate marketing, Royal LePage Real Estate Ltd., a real estate company	1994
William P. Rosenfeld(2)(3)(4) Toronto, Ontario	Director	Partner, Goodman Phillips & Vineberg, Barristers & Solicitors	1997

(1) All directors of the Company serve until the next Annual Meeting of Shareholders.
(2) Member of the Audit /Risk/Finance Committee.
(3) Member of the Compensation Committee.
(4) Member of the Corporate Governance Committee.

Each of the foregoing persons has held the position shown as his or her principal occupation for the last five years except as set forth below.

Allen T.Y. Chan

Mr. Allen T.Y. Chan was Director of A D Sinensis & Associates Ltd. (project financing and management consultancy) from August 1991 to August 1993 before he founded Sino-Wood. Since Sino-Wood became a wholly-owned subsidiary of the Company in March 1994, Mr. Chan has been Chairman and Chief Executive Officer. Mr. Chan has over 12 years of experience in structuring joint ventures in the PRC in the following industries: hotel, healthcare, oil and gas, real estate, restaurant and garment manufacturing.

Kai Kit Poon

Mr. Kai Kit Poon was one of the founders of, and was the President of, Sino-Wood from September 1993 to March 1994. Mr. Poon has been President and a director of the Company since March 1994. Mr. Poon has over 34 years of experience in the PRC forestry industry. Mr. Poon was General Manager of Ka Hung Woodworks Ltd. (a wood product, manufacturing and trading company) from December 1990 to August 1993. From August 1962 to October 1977, he was employed as a scaling engineer by Guangdong Forestry Bureau. Since June 1979, he has been engaged in the trading and manufacture of forest products in the PRC and Hong Kong. Mr. Poon graduated from Guangzhou Chungnam Forestry University, Guangdong, PRC in 1962.

Leslie W.L. Chan

Ms. Leslie W.L. Chan has served as a senior management member for ten years at Abbott Laboratories (a multinational healthcare company) in both the United States and Asia. Her last position was that of Regional Manager for Hong Kong, PRC, Taiwan and Philippines from January 1989 to November 1991. Ms. Chan was also a Director of A D Sinensis & Associates Ltd. from December 1991 to August 1993. Ms. Chan was one of the founders of, and has been the Executive Director of, Sino-Wood since September 1993. Ms. Chan was appointed Executive Vice President of the Company in December 1996.

Kee Y. Wong

Mr. Kee Y. Wong was appointed Executive Vice President and Chief Financial Officer on October 28, 1997. He was previously appointed Senior Vice President, Corporate Development, and Chief Financial Officer of the Co effective October 1, 1996. Prior to joining the Company, Mr. Wong was a partner with Ernst & Young in Toronto where he acted as auditor and business advisor to many growth-oriented companies. Mr. Wong is a fellow of the Institute of Chartered Accountants in England and Wales. He is also a Chartered Accountant in Canada.

Lawrence K.P. Hon

Mr. Lawrence K.P. Hon was Deputy Managing Director for Hong Kong, PRC, Taiwan and Korea of KNP BT (a forestry group specializing in paper packaging and printing) from April 1990 to May 1994. Mr. Hon was Vice President, Operations of Sino-Wood from May 1994 to June 1995. He was Vice-President, Operations of the Company from June 1995 and became Senior Vice President, Operations of the Company in December 1996. Mr. Hon is a professional accountant with fellowship in the respective accountants' associations in both Hong Kong and the U.K. He also holds an M.B.A. degree and a professional qualification in Information Technology.

Jay A. Lefton

Mr. Jay A. Lefton is a partner with the Toronto law firm of Aird & Berlis. His principal area of practice is corporate and securities law, primarily in the areas of public and private financings as well as mergers, acquisitions and take-over bids. Mr. Lefton sits on the Board of Directors of various charitable and community organizations, as well as on the Board of Directors of a number of publicly-traded companies in Canada and the United States. Aird & Berlis has and is currently providing legal counsel to the Company in Canada.

Michael Cheng

Mr. Cheng is the founder and President of Keji Investment Limited, a Hong Kong based company with extensive investment interests in China. Mr. Cheng has over 15 years of experience in business development, project financing and investment in China. He has previously served as a senior executive for a state-owned enterprise in China.

R. John (Jack) Lawrence

Mr. R. John (Jack) Lawrence has been the Chairman of Lawrence & Company Inc., a private investment company since November 1995. Previously, he was Deputy Chairman of Nesbitt Burns Inc. Prior thereto, he was Chairman and Chief Executive Officer of Burns Fry Limited. He is a director of Methanex Corporation and a number of private companies.

Edmund Mak

Mr. Edmund Mak has been engaged in real estate marketing in Vancouver with Royal LePage Real Estate Ltd. since November 1989. Mr. Mak has 22 years of business and management experience with large multi-national corporations and local companies in a variety of industries: computers and high technology equipment, transportation, construction, oil and gas, textiles and real estate. He is a graduate of the University of Toronto with an M.B.A. degree.

William P. Rosenfeld

Mr. William P. Rosenfeld is a partner in the law firm of Goodman Phillips & Vineberg in Toronto where his practice focuses primarily on securities law and banking law, both domestic and international, with particular emphasis on China. He was previously a senior legal advisor to the Canadian Foreign Investment Review Agency. He is a director of a number of TSE listed companies.

Ownership of Shares by Directors and Officers

As at May 4, 1998, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, 10,178,905 Class A Subordinate-Voting Shares, representing 13.8% of the Class A Subordinate- Voting Shares outstanding, and 3,750,000 Class B Multiple-Voting Shares, representing 62.5% of the Class B Multiple-Voting Shares outstanding.

ADDITIONAL INFORMATIONINFORMATION

The Company will provide to any person, upon request to the Company:

(a) when the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus which has been filed in respect of a distribution of its securities;

(i) one copy of this Annual Information Form, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;

(ii) one copy of the comparative financial statements of the Company for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Company subsequent to the financial statements for its most recently completed financial year;

(iii) one copy of the information circular of the Company in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and

(iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i) to (iii) above; or

(b) at any other time, one copy of any other documents referred to in (a)(i), (ii) and (iii) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Further, additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's information circular in respect of its Annual and Special Meeting to be held on1 June 10, 1998. Additional financial information is provided in the Company's comparative financial statements for its most recently completed financial year ended December 31, 1997. A copy of such documents may be obtained upon request from the Company at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, L5B 3C3 ((905) 281-8889).

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