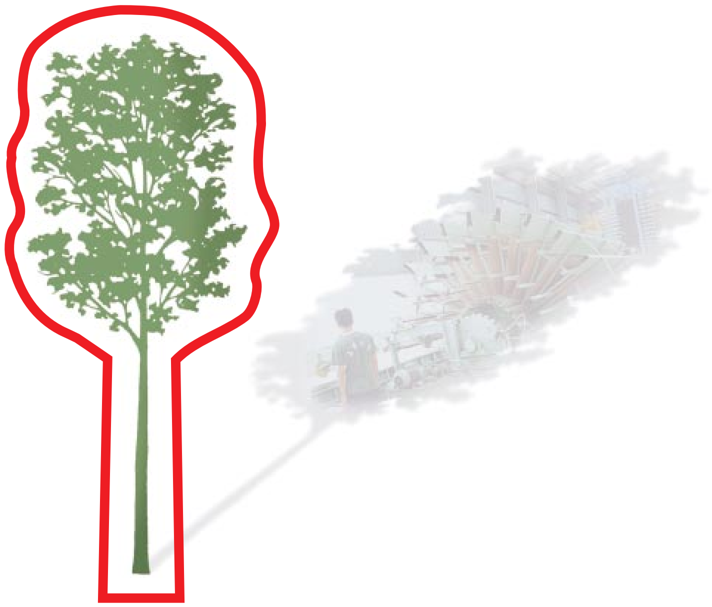
Branching Out



Sino-Forest Corporation

2000 Annual Report

Mission

Sino-Forest's mission is to become the dominant integrated forest products supplier and leader in sustainable forestry management in China.

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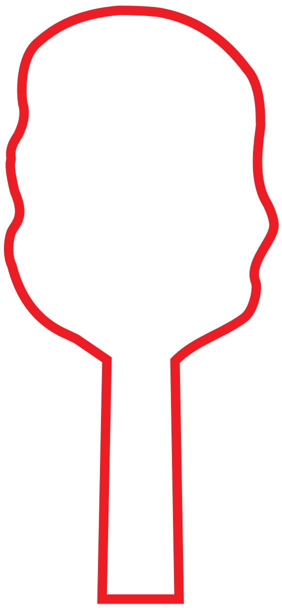


Corporate Profile

Sino-Forest Corporation is the only foreign-owned, fully integrated forest products company practising sustainable forestry management in China.

Sino-Forest's business strategy focusses on the three "Ts" of its business: trees, technology and trading. The strategy reflects a new paradigm for the forestry industry in China -- a forward-thinking approach that merges traditional forestry practices with modern technology to produce products for trade.

Since becoming a public company in 1994, Sino-Forest has grown profitably for 28 consecutive quarters, increasing revenue by more than 519 per cent, and net income by 786 per cent, as production increased by 1,311 per cent.

As the first entrant into China's private forestry sector, Sino-Forest has captured the largest market share of fast-growing hardwood plantation trees.

Today, Sino-Forest continues to diversify its operations from the plantation business into the more profitable business of producing and trading value-added wood products throughout Asia.

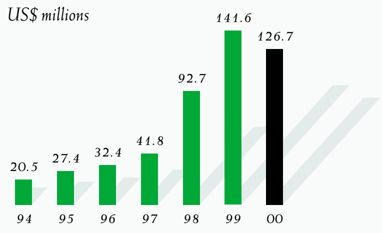
Sino-Forest is a Canadian corporation with offices in Toronto and Hong Kong. Sino-Forest's Class A Subordinate-Voting shares are listed on the Toronto Stock Exchange under the symbol TRE.A.

Highlights and Seven-Year Overview

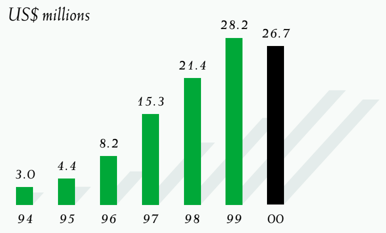
(ALL AMOUNTS ARE EXPRESSED IN U.S. DOLLARS, UNLESS OTHERWISE INDICATED)

- *In 2000, Sino-Forest's seven-year record of profitability extended to 28 consecutive quarters.*
- *Sino-Forest's core plantation business continued to grow in 2000, producing 2,201,000 Bone Dry Metric Tonnes (BDMT) of wood chips, an increase of 8 per cent over 1999, and an increase of 1,311 per cent over 1994.*
- *Sino-Forest's diversification into value-added lumber and wood products trading continued in 2000. This segment's revenue represented 23 per cent of Sino-Forest's total annual revenue for 2000, a decrease from 26 per cent of total annual revenue in 1999, and an increase of 1,250 per cent in revenue over 1994.*
- *Sino-Forest opened its new particleboard mill in 2000. One of the largest such facilities in China, the mill expands the Company's capabilities in the growing wood processing market.*
- *Sino-Forest began construction in 2000 of a new OSB (oriented strand board) mill, one of the first in China, in the Greater Shanghai Region.*
- *In 2000, Sino-Forest launched www.sinoforestonline.com, a B2B e-commerce site that uses the power of the Internet to bring Chinese wood products to the world. The site adds important trading capabilities to the Company's existing plantation, processing and engineered wood products business.*
- *Sino-Forest's share of the Asian wood chip market increased in 2000 as the region continued to experience the world's largest fibre deficit and highest net growth in fibre demand.*
- *Sino-Forest's establishment of value-added wood processing facilities in 2000 will allow the Company to increase its share of the fast-growing Asian engineered wood products market.*
- *In 2000, Sino-Forest launched the Sustainable Development Leadership Program (SDLP), a partnership with Yale University's School of Forestry and Environmental Studies and China's Nanjing Forestry University. The program's goal is to foster sustainable development among China's key corporations and institutions.*

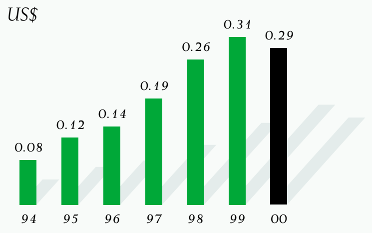
Revenue



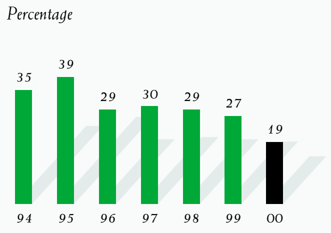
Net Income



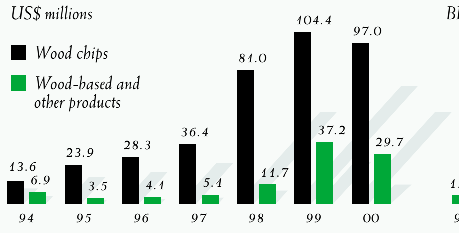
Fully Diluted Earnings per Class A and B Share



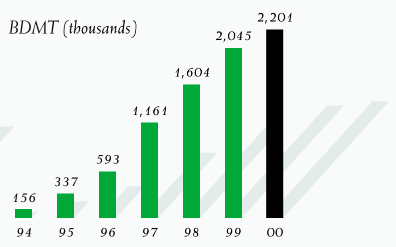
Average Return on Equity



Revenue by Segment



Wood Chip Shipments/Production



Theme Statement

Trees

Technology

Trading

Now in its eighth year of operation, Sino-Forest is well on its way to achieving its mission of becoming the dominant integrated forest products supplier and leader in sustainable forestry management in China.

In 2000, Sino-Forest focussed on achieving our mission by branching out from our plantation business into the more profitable business of producing and trading value-added wood products.

Sino-Forest's operations are structured around our three "Ts" paradigm of trees, technology and trading. This paradigm merges traditional forestry practices with technology to produce products for trade.

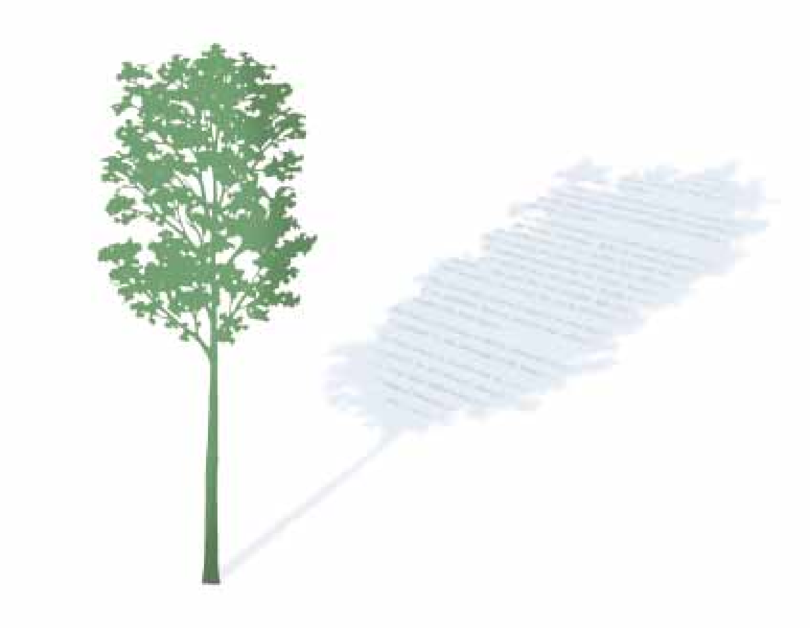
In many ways, trees, technology and trading parallel the main sections of a tree and of our business. Trees are Sino-Forest's foundation (our roots). Our operations are supported by a substantial infrastructure (our trunk) of biotechnology, information and logistics technology, and e-commerce. And this technology trunk enables the expansion of our business into wood utilization, processing and trading (our branches).

Sino-Forest's strategy of branching out is reflected in this year's annual report, which outlines two of Sino-Forest's goals for the future: diversification and sustainability.

By diversifying into a wide range of higher value-added products and global markets, Sino-Forest is enhancing profitability and maximizing shareholder investment.

And, by practising sustainable forestry management, Sino-Forest ensures that growth is sustained for the business, environment and community in which we operate.

Report to Shareholders



(ALL AMOUNTS ARE EXPRESSED IN U.S. DOLLARS, UNLESS OTHERWISE INDICATED)

Branching Out

In 2000, Sino-Forest remained committed to becoming the dominant integrated forest products supplier and leader in practising sustainable forestry management in China.

We moved towards this goal by vertically integrating our timber asset base (plantations) and our lumber and wood products trading business, and by leveraging our biotechnology, processing, information and logistics, and e-commerce capabilities.

In 2000, in response to the increasing demand in Asia for forest products, Sino-Forest focussed on branching out from our core plantation business to include manufacturing and trading of downstream value-added products such as particleboard, plywood, finger-joint, flooring and engineered wood products.

Financial Performance

Sino-Forest's seven-year record of profitability extended to 28 consecutive quarters in 2000. With 2000 revenues of $126.7 million and net income of $26.7 million, we delivered increases of more than 519 per cent and 786 per cent, respectively, over 1994. In turn, fully diluted earnings per share of $0.29 was realized in 2000, a 263 per cent increase over 1994.

Comparing these results to 1999, we experienced an 11 per cent decrease in revenue (from $141.6 million in 1999 to $126.7 million in 2000); a 5 per cent decrease in net income (from $28.2 million in 1999 to $26.7 million in 2000); and a 6 per cent decrease in fully diluted earnings per share (from $0.31 in 1999 to $0.29 in 2000).

Continuing profitability in 2000 came primarily from our ability to maintain our margin on wood chip sales despite a declining pricing environment and from our effective cost control measures.

Sino-Forest's wood processing business was also profitable in 2000, but experienced decreased activity compared to our wood chip business. One reason for this was the difficulty the Company experienced in meeting our trading commitments to provide sustainably harvested (green) fibre, beyond that supplied from our own plantations.

Our trading business also experienced a slowdown in 2000 because Sino-Forest was reliant on third-party producers to supply product for trade. This situation will improve in the future as our own wood product processing capabilities become more fully developed.

Sino-Forest focussed more energy in 2000 on developing our wood product mills and on expanding our export markets -- activities that will begin to provide long-term benefits for the Company in the years ahead.

Trees, Technology and Trading

Sino-Forest remains confident that its plantation program is on track to meet future demands in line with our sustainable plantation management program.

In 2000, Sino-Forest made greater in-roads into the Chinese market as our domestic wood chip shipments increased to 2,078,000 BDMT, an increase of 8 per cent over 1999 production of 1,922,200 BDMT.

Sino-Forest is applying modern biotechnology techniques to increase the productivity of our plantations; follow sound environmental practices; improve our competitive position; and increase profits.

Integrating genetically improved and sustainably managed plantations with advanced wood utilization and processing technology is the right formula to optimize Sino-Forest's wood resources. Over the past seven years, Sino-Forest has not only been selecting strategically located lands for the phase-in, planting and harvesting of trees, but has also been working quickly to establish all necessary sales, processing and distribution capabilities.

To better serve the Asian engineered wood products market, Sino-Forest built a new particleboard mill in 2000. Situated in Guangdong Province (southern China), a major region for furniture manufacturing, the mill is outfitted with state-of-the-art Finnish equipment and is one of the most modern and largest engineered wood products processing facilities in China. With a production capacity of 100,000 cubic metres per year, the mill will serve as Sino-Forest's base for wood panel production and expand our capabilities in the growing wood processing market.

Sino-Forest not only diversified our product offerings in 2000, we diversified our market reach with the launch of a B2B e-commerce site, Sino-Forest Online (www.sinoforestonline.com).

The site provides Sino-Forest with global market access by facilitating trade of quality Chinese wood products between international buyers.

Markets

Sino-Forest will increase its share of the Asian wood chip and engineered wood products market in 2001 as the region continues to experience the world's largest fibre deficit and highest net growth in fibre demand.

Pulp wood and engineered wood products demand in Asia is expected to remain strong into the next decade. Projected regional GDP growth of 7 per cent through 2005, combined with housing reform and increased government infrastructure spending, has led to a boom in residential and industrial construction in China.

As the demand for wood in China increases, there are significant opportunities for Sino-Forest to provide the plantation-grown timber and the end-use engineered wood products needed to meet this demand.

Future Growth

Sino-Forest's participation in the commercialization of China's vast forestry resources will help to create sustained growth and value for the Company as well as for China.

In the near future, Sino-Forest will grow profitably as our own plantations become harvestable and as our fully integrated business is able to provide value-added products for market.

Sino-Forest's establishment in China's forestry sector seven years ago means that we are uniquely positioned to profit from the opportunities offered by China's rapidly growing economy. Our investment in plantations that use biotechnology techniques to produce fast-growing, high quality plantation timber has placed Sino-Forest at the forefront of China's forestry sector.

Because the cost of wood from our plantations is lower than the cost of logs purchased from our co-operative joint venture (CJV) partners, Sino-Forest is able to produce wood products that have higher profit margins than the products of other suppliers.

Linking Sino-Forest's efficient production of timber and advanced processing technology is our information and logistics capabilities. With our advanced supply chain management, we are able to source products from our own facilities and from other suppliers (both domestic and international) to provide procurement solutions to meet the demands of our customers.

For many years, Sino-Forest has consistently proven that it can successfully partner with China to combine considerable plantation management expertise; an understanding of the Chinese business culture and society; and the application of Western business practices into a co-operative and profitable business.

We remain committed to increasing shareholder value and are confident that the profitable growth Sino-Forest has achieved is worthy of recognition by the markets, as we continue to focus on delivering solid results and impressive growth in the future.

The Team

In addition to our commitment to operational efficiency and sustainable development, Sino-Forest places a great deal of management emphasis on the people side of our business.

In 2000, we established the Sustainable Development Leadership Program (SDLP) in partnership with Yale University's School of Forestry and Environmental Studies and China's Nanjing Forestry University.

The SDLP is the first program of its kind in China to recognize the economic importance of sustainable resource management and it will help to develop a new breed of forestry leaders.

Sino-Forest has adopted integrated sustainable forestry management as our fundamental philosophy. We are committed to developing a long-term perspective of a 'green' economy in China. We are leading by example and hope to teach more Chinese foresters to understand that what is good for our environment is also good for business.

At Sino-Forest, I am proud to be part of an exceptional team of employees, management and corporate directors. I thank you all for your dedication and commitment to our common goals and your contribution to Sino-Forest's ongoing success.

As Sino-Forest enters the year 2001, I would also like to thank our shareholders for their continued support. We wish all of you happiness, health and prosperity in the year ahead.

With established prime plantation leases; a substantial technological infrastructure; skilled technical employees; fast-growing, renewable timber plantations; and low harvest and transportation costs, Sino-Forest has all the elements in place for long-term sustainable growth — of its trees, its people and its business.

At Sino-Forest, we remain committed to sustaining growth for the community, the environment and for our investors through effective management of our tree plantations and development of our value-added wood products businesses.

Allen T.Y. Chan
Chairman and Chief Executive Officer

Officers

Kee Y. Wong, F.C.A.
Executive Vice-President
and
Chief Financial Officer

K.K. Poon
President

Allen T.Y. Chan
Chairman
and
Chief Executive Officer

Leslie Chan
Executive Vice-President

Jay Lefton
Corporate Secretary

President's Message

With the completion of our Jia Yao (the "Gaoyao WFOE") particleboard mill, Sino-Forest reached a milestone in our strategy to efficiently utilize small diameter timber.

The mill will serve as a platform from which Sino-Forest will continue to consolidate our plantation resources, develop wood processing technologies, and increase the value of our timber holdings.

Sino-Forest's strategy to diversify our products and markets is supported by the Company's multi-dimensional management team and by our commitment to the sustainable development of our business, our environment, and our community.

K.K. Poon

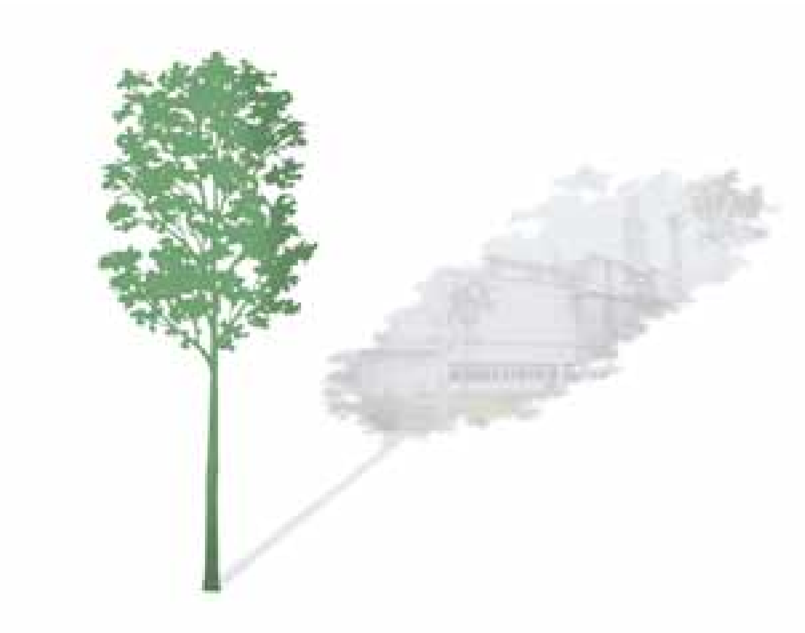
K.K. Poon

President

嘉木业，位于廣東的嘉耀刨花廠正式开始生产，整个集团亦随之迈进一个重要的新阶段，一个力求高效利用小径木材的阶段。由此开始，吾等将继续扩大嘉汉的木材综合加工利用系统，实践结合[illegible]资源、营林科技以及木材工艺于一体的理念，提高公司林木资产的价值。配合集团产品多元化、市场多重化、经营多角化的战略部署，追求整体和环保的可持续发展。

总裁

潘家傑 宣



Market Overview

Sino-Forest chose China as the base for our plantations in order to capitalize on a growing demand for wood and wood products that far exceeds the supply.

The increasing demand for wood in China (an estimated 10 per cent per year through 2008) and a corresponding decrease in supply of natural tropical hardwoods from South East Asia is exacerbating the supply-demand gap. This presents significant opportunities for Sino-Forest to provide the plantation-grown timber and the end-use engineered wood products needed to serve this growing market.

China's economic outlook is an exciting one, especially for the rapidly expanding wood products industry. Driven by China's projected GDP growth of 7 per cent through 2005, and supported by an increase in government infrastructure spending, a boom in residential and industrial construction is underway.

The Chinese government's housing improvement and infrastructure reforms have led to a dramatic increase in the demand for wood products for interior decoration, furniture production, and construction. Already the world's ninth largest furniture maker in terms of production value, and seventh largest for furniture exports, China is rapidly becoming one of the world's leading exporters of furniture and interior fittings such as flooring and doors.

As a result, wood consumption has doubled in the past 20 years with domestic wood accounting for 56 per cent of consumption and the remaining imports reaching $2.8 billion in 1999.

China's forest and wood products industry is currently undergoing a radical restructuring. China is already the world's third largest wood importer, and recently, supplies have been further restricted due to China's devastating floods of 1998. As a result, the Chinese government introduced the Natural Forest Protection Program aimed at strictly prohibiting the logging of natural forests in critical watersheds.

The program has immediately reduced China's annual round wood harvest by approximately 20 per cent. And the resulting clamour for wood fibre by the industry has greatly accelerated a change in the forestry sector from a state-planned to a market-driven industry. China's membership in the World Trade Organization (WTO), expected later this year, will further enhance China's increasingly market-based economy.

China has established a solid commercial and industrial forest plantation base. And, it has increased its investments in infrastructure development (roads, railways, etc.) to improve the efficiency and lower the cost of moving timber and wood products to market.

As the first entrant into China's forestry sector, Sino-Forest has captured the largest market share of privately owned, fast-growing hardwood plantation trees, and has put down roots in some of the most valuable plantation locations – with low labour and transportation costs.

As a result, Sino-Forest is ideally positioned to meet the increasing demand for wood and wood products by China's population of 1.2 billion, one of the largest and fastest growing populations in the world.

To meet Asia's increasing demand, Sino-Forest has expanded its core business to include manufacturing and trading (import/export) of downstream value-added products such as particleboard, plywood, finger-joint, flooring and engineered wood products.

Trees

Trees are the foundation
-- the roots --
of Sino-Forest's operations.

Sino-Forest's operations are structured around our three "Ts" paradigm of trees, technology and trading that merges traditional forestry practices with technology to produce products for trade.

In many ways, trees, technology and trading parallel the main sections of a tree and of our business. Trees are Sino-Forest's foundation (our roots) and technology (our trunk) links our roots to trading (our branches).

In 2000, Sino-Forest made greater in-roads into the Chinese market as our domestic wood chip shipments increased to 2,078,000 BDMT, an increase of 8 per cent over 1999 production of 1,922,200 BDMT.

In 1993, when China's forestry sector became open to foreign investment, Sino-Forest moved quickly to acquire the rights to prime plantation lands. In doing so, Sino-Forest became China's first foreign joint venture plantation operator. Sino-Forest has done this through the establishment of innovative co-operative joint venture (CJV) partnerships in three provinces of southern China.

Our roots in some of China's prime plantation locations include five CJV agreements within the three southern Chinese provinces of Guangxi, Jiangxi, and Guangdong. All of these plantations are strategically located close to the coast for ease of transportation to market.

Sino-Forest's approach with each CJV is to work with the best and most knowledgeable staff of the local forestry bureaus. This partnership combines the bureau's expertise with Sino-Forest's equipment, money and modern techniques to produce high standards, long-term relationships and impressive results.

Sino-Forest's ISO 9002 Quality Management System certification for its Guangxi CJV plantation operation further confirms our high standards in managing and operating our plantations.

Sino-Forest was founded with 20,000 hectares of plantation lands. By the end of 2000, the Company had established a total of 177,000 hectares of genetically improved trees. Over the next few years, we plan to phase in an additional 426,000 hectares of plantation lands.

The resulting total 603,000 hectares of plantation lands are expected to be fully productive by 2010, with one-sixth of the hectares available for harvesting each year. These plantations should then be able to generate a sustainable 10 million cubic metres of commercial/industrial wood fibre and logs, representing approximately 10 per cent of China's estimated potential yearly requirement.

Sino-Forest's plantation program includes fast-growing aspen, eucalyptus and pine trees, which have several advantages over natural forests, primarily due to the use of biotechnology techniques. These advantages include: much shorter growing seasons; more uniform timber; lower access and harvesting costs; better environmental performance; and better disease and fire protection.

Sino-Forest's plantations have already demonstrated increases in productivity due to the application of biotechnology practices. Continued application is expected to result in further gains in productivity in the future. The benefits to Sino-Forest of using biotechnology techniques are explained in the following section on technology (pages 12-13).

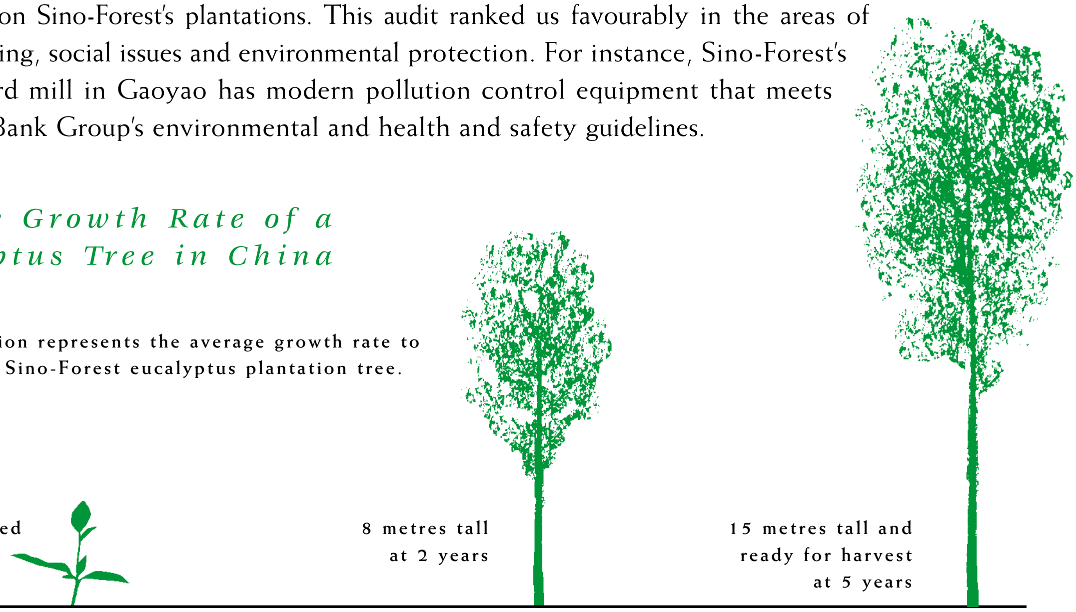
Recognizing that the continuing profitability and prosperity of our company, employees and community is dependent upon long-term environmental health sustained by sound economic development, Sino-Forest has launched the Sustainable Development Leadership Program (SDLP) and is in the process of establishing an environmental management system (EMS).

The goal of the SDLP, a partnership with Yale University's School of Forestry and Environmental Studies and China's Nanjing Forestry University, is to teach leaders and professionals (from some of China's key corporations and institutions) about sustainable development -- the use of resources in a manner that allows economic growth while protecting the environment.

The objective of Sino-Forest's EMS is to strive for excellence, leadership, sustainability and continuous improvement in environmental performance. Sino-Forest has established its EMS to include clear policies on social and environmental aspects of its operations. The Company is committed to applying sustainable management to its plantation operations and to achieving continuous improvement in its environmental performance. During 2000, an independent environmental audit was carried out on Sino-Forest's plantations. This audit ranked us favourably in the areas of forest planning, social issues and environmental protection. For instance, Sino-Forest's particleboard mill in Gaoyao has modern pollution control equipment that meets the World Bank Group's environmental and health and safety guidelines.

Average Growth Rate of a Eucalyptus Tree in China

This illustration represents the average growth rate to maturity of a Sino-Forest eucalyptus plantation tree.



Technology

Technology is the trunk that allows Sino-Forest to branch out from its roots.

Sino-Forest uses technology in two key areas of our business to deliver sustained and profitable growth for the entire company. One use, biotechnology, relates to the trees element of our business. The other use, the Internet, relates to the trading element of our business.

Biotechnology

Biotechnology encompasses a range of technologies including genetic mapping, genetic engineering and propagation. In conventional forest plantations, biotechnology offers the opportunity to increase plantation yields; improve the quality of timber; and produce more uniform trees.

Sino-Forest's biotechnology expertise ensures that the plantation trees developed in laboratories and nurseries grow with improved quality, reduced cost, increased yield and environmentally positive results. More uniform plantations increase harvesting efficiency; reduce waste; and provide higher quality timber for market.

In short, biotechnology can produce larger, higher quality trees more quickly and consistently. By growing more timber per hectare, the cost of production is reduced and profit increased. Also, less land is required to produce a given volume of timber, and this may allow sufficient timber supplies to be grown nearer to the mill, reducing the cost of log transportation, which represents a significant proportion of the cost of timber.

The merger of traditional forestry practices with the application of biotechnology offers opportunities for Sino-Forest to add substantial value, increase profits, improve market competitiveness, and find solutions to major environmental problems.

The Internet

In 2000, Sino-Forest launched Sino-Forest Online to use the Internet to bring Chinese wood products to the world. www.sinoforestonline.com is dedicated to providing full procurement services and the latest market information to buyers around the world and adds important trading capabilities to Sino-Forest's existing plantation, processing and engineered wood products businesses.

The site provides an extensive network of more than 1,000 sellers from 29 provinces in China and includes a comprehensive catalogue of more than 10,000 wood products, including particleboard, medium density fibre board, veneers, engineered wood products, flooring, plywood, furniture and furniture parts.

For buyers, Sino-Forest Online expands purchasing options while reducing costs; assures superior quality and timely delivery; and provides relevant technical information. For sellers, Sino-Forest Online is a convenient e-commerce solution that extends distribution channels at a minimal cost.

As a key component of the Company's integrated forest products strategy, Sino-Forest Online will significantly increase the Company's exporting activities and expand the range of its products.

Sino-Forest's position as an industry leader in China, combined with our use of the latest technology, will make Sino-Forest Online an important portal for buying and selling high-quality Chinese wood products throughout the world.

Trading

Trading provides the branches that enable Sino-Forest to diversify and sustain growth opportunities.

With well established plantations providing an abundant and sustainable supply of fibre, Sino-Forest is now branching out into new areas of business that capitalize on our existing resources to provide higher profit margins.

In 2000, Sino-Forest made significant advances in diversifying our revenue base by vertically integrating our operations; growing our timber asset base; and by increasing our activities in the higher margin business of processing and trading lumber and wood products.

Sino-Forest's lumber and wood products trading business generated revenue of $29.7 million for the Company in 2000. This represents a decrease of 20 per cent over the $37.2 million in revenues generated in 1999, and an increase of 1,250 per cent over the $2.2 million in revenues generated in 1994. For 2001, Sino-Forest expects growth from this business as our mills and sales and trading operations strengthen.

One of the most significant opportunities emerging in the forestry industry in China is the use of eucalyptus timber for production of high value, solid wood products such as lumber and veneers for plywood.

Globally, solid wood products represent one of the fastest growing segments of the wood trade market. And, with the reduced availability and acceptability of logs from tropical rain forests, there is an increasing demand for timber produced from sustainably managed plantations.

This new application for eucalyptus timber presents a major opportunity for Sino-Forest to capture a substantial proportion of the emerging market for solid wood products and to increase profits through conversion of timber to higher value applications.

To better serve this market, Sino-Forest built a new particleboard mill in 2000, which began commercial production in the second quarter of 2001. With a maximum production capacity of 100,000 cubic metres of international-quality particleboard per year, the mill is one of the largest facilities in China, and the largest such facility that uses only plantation wood.

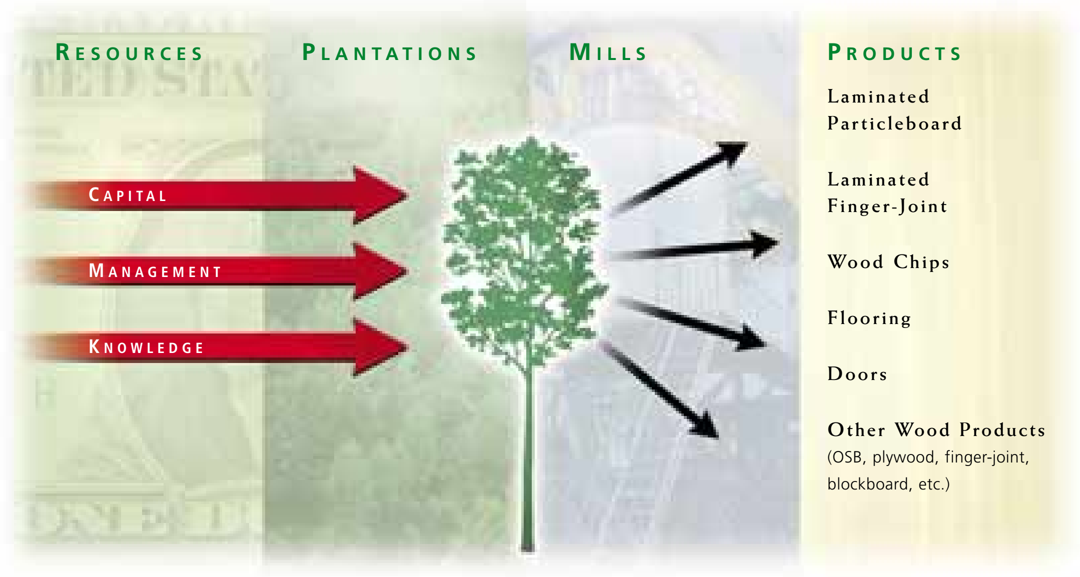
The mill will serve as Sino-Forest's base from which to expand our capabilities in the growing wood processing market and it will allow Sino-Forest to develop a comprehensive wood-processing complex for a wide range of engineered wood products. Similar complexes will be built in other regions of China.

The 21-hectare mill site is located in Guangdong Province (southern China), a major region for furniture manufacturing. With its close proximity to a port facility for shipping of products to both domestic and international destinations, and its access to low-cost wood fibre from nearby plantations, the mill will provide Sino-Forest with cost advantages over other producers in China.

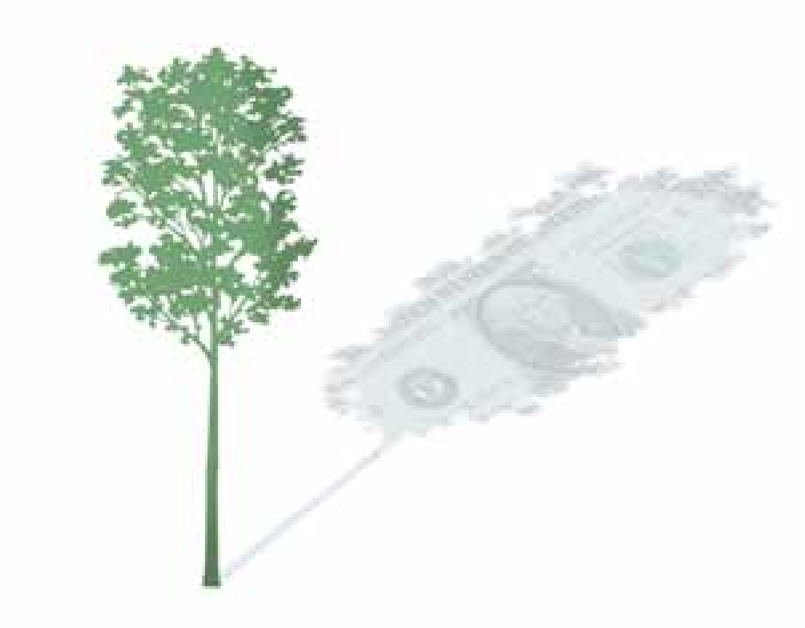
The mill also has ample room for future expansion into lamination (expected in early 2002), finger-joint, door, cabinet and furniture production. Laminated particleboard products are the next step in Sino-Forest's downstream vertical integration strategy to add higher margin products to the Company's portfolio.

The mill is the first step of our whole-tree utilization and value-added processing strategy that will expand our operations from plantation, harvesting and processing to include finished-engineered wood products. Our vertical integration strategy gives us a diversified revenue base and improves our position in the fast-growing Asian market.

Multiple-Utilization of Wood Fibre to be Produced from Sino-Forest Plantations



2000 Financial Report



Management's Discussion and Analysis

[All amounts are expressed in U.S. dollars, unless otherwise indicated.]

REVIEW OF OPERATING RESULTS

A summary of the results of operations of the Company by segment for the years ended December 31, 2000 and 1999 is as follows:

	Year Ended December 31, 2000			Year Ended December 31, 1999		
[thousands of U.S. dollars]	**Wood Chips $**	**Wood-Based & Other $**	**Total $**	Wood Chips $	Wood-Based & Other $	Total $
Revenue						
Sales	**79,984**	**28,210**	**108,194**	89,503	34,162	123,665
Commission income	**16,968**	**1,539**	**18,507**	14,827	3,085	17,912
	96,952	**29,749**	**126,701**	104,330	37,247	141,577
Income from operations	**29,384**	**3,102**	**32,486**	28,463	5,342	33,805

Income from operations for the year ended December 31, 2000 was $32.5 million, a decrease of 4% compared to income from operations of $33.8 million for 1999. Earnings per share on a fully diluted basis decreased 6% to $0.29 per share compared to $0.31 per share attained in 1999. Income for the wood chip operations increased by 3% from $28.5 million in 1999 to $29.4 million in 2000 as a result of higher commission income. Income from wood-based and other business decreased by 42% to $3.1 million compared to $5.3 million in 1999 as a result of a decrease in business activity from trading of lumber and wood products on a principal basis as well as lower commission income earned on an agency basis. The decrease in commission income on lumber and wood products trading was attributable to a non-recurring one-time fee earned from a new customer in 1999 of approximately $1.8 million.

Sales from principal wood chip shipments decreased 11% from $89.5 million in 1999 to $80.0 million in 2000. The decrease in revenue from principal wood chip sales was largely attributable to a new arrangement with customers in 2000 whereby transportation and delivery charges were paid by the customers instead of by the Company as in the past. Accordingly, sales to customers on a principal basis were reduced by the amount of transportation and delivery charges of approximately $16.0 million. This new arrangement has no impact on earnings as cost of sales would have been reduced by a similar amount. Revenue from wood-based and other business has decreased by approximately $7.5 million in fiscal 2000 primarily due to difficulties in sourcing lumber and wood products from third parties as a result of a new environmental policy adopted by the Chinese government in 2000. The new environmental policy encourages the use of wood from sustainable forestry operations.

In 2000, wood chip and log shipments totalled 2,201,000 BDMT compared to 2,045,200 BDMT shipped in 1999, an increase of approximately 8%. Of the total wood chips and logs shipped in 2000, 123,000 BDMT were exported to Japan and Taiwan and 2,078,000 BDMT were sold in the domestic People's Republic of China ("PRC") market. Export and domestic shipments for 1999 were 123,000 BDMT and 1,922,200 BDMT, respectively. For the year ended December 31, 2000, the Company acted as principal on 1,030,000 BDMT compared to 1,036,500 BDMT in 1999, a decrease of less than 1%. Export shipments have remained the same as in 1999 at 123,000 BDMT. Shipments of wood chips and logs in China increased by 8% to 2,078,000 BDMT from 1,922,200 BDMT in 1999.

A summary of the wood chip and log shipments for the year ended December 31, 2000 compared to 1999 is set out in the table below:

	Wood Chip and Log Shipments for the Year Ended December 31 [Thousands of BDMT]					
	Principal		Agency		Total	
Market	2000	1999	2000	1999	2000	1999
Export	64.0	12.0	59.0	111.0	123.0	123.0
PRC domestic	966.0	1,024.5	1,112.0	897.7	2,078.0	1,922.2
Total	1,030.0	1,036.5	1,171.0	1,008.7	2,201.0	2,045.2

The average price of wood chips, net of VAT, transportation and delivery charges, in 2000 was approximately $78 per BDMT. The average price of wood chips, net of VAT, attained in 1999 was $95 per BDMT, which included approximately $16 of transportation and delivery charges. With respect to sales in which the Company acted as an agent, the Company earned an average of $14.49 per BDMT in 2000 compared to $14.70 per BDMT earned in 1999.

Quarterly Financial Information

The following table is a summary of selected quarterly financial information of the Company for each of the eight quarters ended December 31, 2000:

	Fiscal 2000				Fiscal 1999			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
[THOUSANDS OF U.S. DOLLARS]								
Revenue	$41,627	$35,950	$27,633	$21,491	$58,440	$37,722	$28,277	$17,138
Net income	$8,763	$9,210	$5,674	$3,036	$9,908	$9,045	$6,302	$2,900
[U.S. DOLLARS]								
Net income per share								
Basic	$0.11	$0.12	$0.08	$0.04	$0.13	$0.12	$0.08	$0.04
Fully diluted	$0.09	$0.10	$0.06	$0.04	$0.11	$0.10	$0.07	$0.03

Investment in SJXT

The Company has a 34.4% equity interest in Shanghai Jin Xiang Timber Ltd. ("SJXT"), an equity joint venture ("EJV") that was formed by the Ministry of Forestry in China. The purpose of the investment is to establish strategic partnerships with key local wood product suppliers and to build a strong distribution network for the lumber and wood products trading and wood-based panel businesses. The total capital investment of SJXT was $1,509,000 [Chinese renminbi 12.5 million] of which the Company's required capital contribution was $519,000. As at December 31, 2000, the Company's required capital contribution of $519,000 was fully made.

The operation of SJXT is to organize and manage the first and only national sub-market for timber and log trading in eastern China. The investment in SJXT will provide the Company good accessibility to a large base of potential customers and companies in the timber and log businesses in eastern China.

Investment in Wood-Based Panel Operation

The Company is in the process of establishing a wood-based panel manufacturing business for the sale of value-added wood products in the PRC. These operations will be carried out through Sino-Panel (Gaoyao) Limited ["Sino-Panel"], a wholly owned subsidiary of the Company. In February 2000, approval was obtained to convert the EJV established in Gaoyao to a wholly foreign-owned enterprise [the "Gaoyao WFOE"] as a result of the PRC EJV partner's voluntary withdrawal of its entire equity interest in the EJV in 1998. The term of the Gaoyao WFOE is for 50 years and Sino-Panel is required to contribute $11,840,000 for its 100% equity interest. Sino-Panel's capital contribution commitment was fully satisfied by the contribution of machinery, equipment and cash. The principal business activity of the Gaoyao WFOE is to manufacture wood-based panels.

In November 2000, the Company completed construction of its first particleboard mill in Gaoyao. The particleboard mill is one of the largest facilities in China and is capable of producing international quality board. The production facility is expected to have the capacity to produce 100,000 cubic metres of particleboard per annum, utilizing equipment and production technology imported from Finland. The mill is expected to have a significant competitive cost advantage over other producers in China due to Sino-Forest's ability to access low cost fibre and the close proximity of the mill to markets. The mill was completed in November 2000 and commercial production commenced in the second quarter of 2001.

In 1999, the Company also acquired certain machinery and equipment to establish a flooring factory with a production capacity of approximately 100,000 square metres per annum, a sawmill with a production capacity of 100,000 cubic metres per annum, and an OSB (oriented strand board) mill with a production capacity of 15,000 cubic metres per annum. The flooring plant commenced commercial operations during the year, while the sawmill and the OSB mill are still under construction. Construction of these mills is expected to be completed by the end of 2001.

In February 2001, two subsidiaries of the Company entered into long-term loan facilities totalling $25 million with the International Finance Corporation ("IFC"), part of the World Bank Group. The IFC loans are subject to matching loans from other lenders thus providing an aggregate of $50 million to these subsidiaries. The loans are subject to certain additional conditions, including the requirement to obtain all necessary authorizations and confirmations from the PRC government and the delivery of reports of independent consultants relating to certain aspects of the projects being financed.

Part of the loans will be used to finance the expansion of the Company's construction of wood-related manufacturing plants in the Guangdong and Jiangsu provinces of China. The new production facilities will manufacture laminated particleboard, block board, finger-joint, doors and cabinets for use in China's interior decoration and furniture manufacturing industries. The project also has important environmental benefits, such as reducing deforestation and increasing environmental conservation of forested areas. These new production facilities are expected to be completed in 2002 and will provide the Company with a strong manufacturing base to increase its wood product trading business.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operations in 2000 were $26.6 million, which together with the proceeds from the financing completed in 1999 of approximately $40 million were sufficient to finance investment in capital assets of $54.4 million in 2000. Investment in capital assets includes plantation costs, acquisition of young trees, construction of plants, and the purchase of land-use rights.

As at December 31, 2000, the Company has cash and short-term deposits of $26.4 million and approximately $9.5 million of unutilized bank credit facilities. As at December 31, 2000, the Company's total debt (excluding the equity component of the Exchangeable Notes) was $47.9 million, compared with $35.1 million at the end of 1999. The increase in debt was primarily due to the increase in bank borrowings to fund working capital for the lumber and wood product trading business. On December 31, 2000, the debt-to-equity ratio for the Company was 0.31:1 compared with a debt-to-equity ratio of 0.28:1 at the end of 1999.

Cash and short-term deposits on hand at the year-end of $26.4 million and the unutilized credit facilities available will be sufficient to meet all planned capital expenditures for the year 2001. The new production facilities to be constructed will be funded from long-term loans to be provided by the IFC and other lenders as mentioned under Investment in Wood-Based Panel Operation.

Capital Contribution Commitments

Sino-Wood's subsidiaries were committed to contribute an aggregate of $14,200,000 of capital to the five existing co-operative joint ventures ("CJVs"). This amount was subsequently increased to $17,650,000 upon approval by the Commission of Foreign Trade and Economic Co-operation ("CFTEC") in 1999. As at December 31, 2000, total capital contributions of $16,025,000 have been made. Accordingly, the remaining capital contribution outstanding as at December 31, 2000 is $1,625,000. In 1999, the Company decided not to proceed with its investment in one of the CJVs. The Company is in the process of dissolving this CJV and accordingly, the required capital contribution of $1,375,000 to this CJV was not made.

In 1999, a subsidiary of the Company established a WFOE to facilitate the establishment of the wood-based manufacturing business in the Greater Shanghai Region. The WFOE was formed for a period of 30 years and the subsidiary is required to contribute $10,000,000 for its 100% equity interest. As at December 31, 2000, the Company has made a capital contribution in the amount of $3,000,000. The remaining capital contribution of $7,000,000 is required to be made by July 2002.

In 1999, the Leizhou EJV was converted to a WFOE as a result of the Leizhou Forestry Bureau's [the "LFB"] voluntary withdrawal of its entire equity interest in Leizhou EJV. The conversion from an EJV to a WFOE was approved by the CFTEC in May 1999. Sino-Wood is required to contribute $10,000,000 for its 100% equity interest, of which $1,500,000 is required to be made within three months from the issue of a business licence. Sino-Wood has obtained approval to reduce the original total capital contribution of $10,000,000 to $1,400,000 in April 2000. As at December 31, 2000, Sino-Wood has made capital contributions of $1,000,000. The remaining capital contribution of $400,000 must be made by May 2002.

Environmental Matters

Sino-Forest has established an Environmental Management System ("EMS"), with clear policies on social and environmental aspects of its operations. The Company is committed to applying sustainable management to its plantation operation and to achieving continuous improvement in its environmental performance. In this regard, the Company is currently in the process of preparing for environmental certifications (Forestry Stewardship Council ("FSC") and ISO 14001 Certification). During the year, an independent environmental audit was carried out on Sino-Forest's plantations. This audit ranked the Company favourably in the areas of forest planning, social issues and environmental protection. The Company's particleboard mill in Gaoyao has modern pollution control equipment that meets World Bank Group environmental and health and safety guidelines.

Outlook

The Company enters the year 2001 with strong fundamentals and is well positioned to continue developing its plantation program and value-added production facilities. When these value-added production facilities for panel and wood products are completed, the Company will be well positioned to become the dominant integrated forest products supplier and the leader in practising sustainable forestry management in China.

The demand for wood chips in the domestic PRC market is expected to remain strong as the Chinese economy is projected to grow at an average annual rate of 7% per year over the next 5 years. Paper and board consumption in China will continue to increase as a result of population growth, increasing literacy rates, and the conversion of non-wood pulp to traditional wood pulp. It is expected that the supply of wood chips in China over the next decade will lag behind the projected strong growth in wood chip demand.

The most dynamic growth in the forestry industry sector in China is in the production of engineered wood products, with the main growth coming from reconstituted wood panels such as particleboard, OSB, and medium density fibreboard ("MDF"). Advances in the manufacture of wood products have allowed reconstituted wood products to be substituted for many solid wood products. These panels are used mainly for furniture, tables and chairs, built-in kitchens and office furniture. Global production of these engineered wood products has risen by 80% over the past decade as these products replace traditional solid wood products. Further vertically integrated end-uses include joinery for interior decoration, doors and mouldings, flooring and permanent construction. Sino-Forest's plan to develop its downstream integration projects will allow the Company to position itself to take advantage of this very encouraging trend within the Chinese market.

RISKS AND UNCERTAINTIES

Failure to Make Capital Contribution

The CJV Law stipulates that the first installment 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 made within three months of the issuance date of the business licence of the CJV. In the event of a breach of the statutory requirement, the CJV 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 installment on capital contribution, the CJV Law provides that where a joint venture party fails to meet its subsequent obligation to make the 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 and all prior approvals, thereby forcing the CJV into wind-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.

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 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 or lower prices from other Chinese manufacturers of particleboard and other wood products.

Joint Venture Arrangements

Co-operation among the Company's joint venture partners is important 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, 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 experienced any significant disagreements with its partners to date.

Limited Operating History of the Wood Product Manufacturing Business

The Company's wood product manufacturing business is in the early stages of development and has no operating history. The wood product manufacturing business 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 wood product manufacturing business 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 the wood product manufacturing business will grow and be profitable.

Exchange Rate

The fluctuations in the U.S./Canadian dollar exchange rate that have occurred in the past are not necessarily indicative of fluctuations in that rate that may occur in the future. Exchange rate fluctuations relative to other currencies are also a risk factor. A portion of the Company's sales revenue is currently received in U.S. dollars. The Company remits only foreign exchange funds to the PRC to cover contracted operating costs in the local Chinese renminbi ("RMB"). 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.

Management's Report

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

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

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

The consolidated financial statements have been reviewed by the Audit Committee prior to submission to the Board of Directors. The consolidated financial statements have also been audited by Ernst & Young, who have full access to the Audit Committee, with and without the presence of management, to discuss the scope of their audit, the adequacy of the system of internal controls and the adequacy of financial reporting.

Allen T. Y. Chan
Chairman and Chief Executive Officer

Kee Y. Wong
Executive Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of Sino-Forest Corporation

We have audited the consolidated balance sheet of **Sino-Forest Corporation** as at December 31, 2000 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 1999 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 28, 2000.

Ernst & Young LLP
Chartered Accountants

Toronto, Canada,
April 6, 2001.

Consolidated Balance Sheets

[EXPRESSED IN THOUSANDS OF U.S. DOLLARS]

As at December 31	2000 $	1999 $
ASSETS		
Current		
Cash and cash equivalents	18,244	39,591
Accounts receivable [note 4]	15,118	15,926
Short-term deposits	8,129	—
Other receivables and prepaid expenses	3,467	1,819
Due from PRC CJV partners [note 7]	3,169	3,275
Inventories [note 5]	2,404	—
Total current assets	50,531	60,611
Capital assets, net [note 6]	167,194	113,907
Deferred financing costs	1,820	1,783
SJXT Investment [note 3(b)]	519	1,315
Jiangxi Investments [note 3(c)]	76	624
Goodwill, net	30	31
	220,170	178,271
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 8]	18,228	4,127
Income taxes payable	10,423	7,764
Accounts payable and accrued liabilities	7,626	9,222
Current portion of long-term debt [note 9]	941	742
Total current liabilities	37,218	21,855
Long-term debt [note 9]	28,740	30,218
Deferred exchange gain related to long-term debt	1,888	—
Total liabilities	67,846	52,073
Commitments [notes 3 and 15]		
Shareholders' equity		
Share capital [note 10]	46,024	46,273
Retained earnings	106,300	79,925
Total shareholders' equity	152,324	126,198
	220,170	178,271

See accompanying notes

On behalf of the Board:

Allen T.Y. Chan
Director

William Rosenfeld
Director

Consolidated Statements of Income

[Expressed in thousands of U.S. dollars, except for earnings per share information]

Years ended December 31	2000 $	1999 $
Revenue		
Sales	108,194	123,665
Commission income	18,507	17,912
	126,701	141,577
Costs and expenses		
Cost of sales	88,067	101,794
Selling, general and administration	6,044	5,891
Depreciation and amortization	104	87
	94,215	107,772
Income from operations	32,486	33,805
Interest expense	(3,920)	(2,290)
Interest income	599	692
Gain on disposal of Jiangxi Investments [note 3(c)]	248	—
Amortization of deferred exchange gain	245	—
Amortization of deferred financing costs	(198)	(69)
Equity in losses of Jiangxi Investments [note 3(c)]	(96)	(235)
Write-off of Jiangxi Investments [note 3(c)]	—	(211)
Income before income taxes	29,364	31,692
Provision for income taxes - current [note 11]	2,681	3,537
Net income for the year	26,683	28,155
Earnings per share [note 12]		
Basic	$0.35	$0.37
Fully diluted	$0.29	$0.31

See accompanying notes

Consolidated Statements of Retained Earnings

[Expressed in thousands of U.S. dollars]

Years ended December 31	2000 $	1999 $
Retained earnings, beginning of year	79,925	52,182
Net income for the year	26,683	28,155
Excess of repurchase price of Class A Subordinate-Voting Shares over stated value [note 10]	(308)	—
Interest on equity component of Exchangeable Notes [note 9(b)]	—	(412)
Retained earnings, end of year	106,300	79,925

See accompanying notes

Consolidated Statements of Cash Flows

[EXPRESSED IN THOUSANDS OF U.S. DOLLARS]

Years ended December 31	2000 $	1999 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**26,683**	28,155
Add (deduct) items not affecting cash		
Accretion of Exchangeable Notes	**1,000**	1,402
Depletion of timber holdings included in cost of sales	**1,058**	2,526
Gain on disposal of Jiangxi Investments	**(248)**	—
Amortization of deferred exchange gain	**(245)**	—
Amortization of deferred financing costs	**198**	69
Depreciation and amortization	**104**	87
Equity in losses of Jiangxi Investments	**96**	235
Reduction in amount due from PRC CJV partners in exchange for timber holdings	**—**	(10,134)
Interest on equity component of Exchangeable Notes	**—**	(412)
Write-off of Jiangxi Investments	**—**	211
	28,646	22,139
Net change in non-cash working capital balances [note 13]	**(2,075)**	4,913
Cash flows from operating activities	**26,571**	27,052
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bank indebtedness	**14,101**	2,130
Repayment of long-term debt	**(941)**	(742)
Issuance of long-term debt	**795**	24,738
Issuance (repurchase) of share capital	**(557)**	18
Increase in deferred financing costs	**(235)**	—
Issuance of equity component of Exchangeable Notes	**—**	13,266
Cash flows from financing activities	**13,163**	39,410
CASH FLOWS USED IN INVESTING ACTIVITIES		
Investment in capital assets	**(54,448)**	(27,505)
Increase in short-term deposits	**(8,129)**	—
Repayment of SJXT advances	**796**	—
Proceeds on disposal of Jiangxi Investments	**700**	—
Investment in SJXT	**—**	(278)
Cash flows used in investing activities	**(61,081)**	(27,783)
Net increase (decrease) in cash and cash equivalents	**(21,347)**	38,679
Cash and cash equivalents, beginning of year	**39,591**	912
Cash and cash equivalents, end of year	**18,244**	39,591
Supplemental cash flow information		
Cash payment for interest charged to income	**2,905**	1,019
Cash payment for interest capitalized	**227**	216

See accompanying notes

Notes to Consolidated Financial Statements

[Tabular figures expressed in thousands of U.S. dollars, unless otherwise indicated]

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Sino-Forest Corporation ["Sino-Forest" or the "Company"] have been prepared in U.S. dollars and in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated on consolidation.

The Company's investments in Sino-foreign, co-operative joint ventures [each a "PRC CJV", collectively, the "PRC CJVs"] are accounted for on the proportionate consolidation basis. Accordingly, the accounts reflect the Company's pro-rata share of the assets, liabilities, revenue, expenses, and cash flows of the PRC CJVs.

The Company's investments in wholly foreign-owned enterprises [the "WFOEs"] and Sino-foreign equity joint ventures and equity joint ventures [collectively, the "EJVs"] which are controlled by the Company are accounted for on the consolidation basis. Investments in EJVs over which the Company exercises significant influence are accounted for under the equity method.

Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations, are translated into U.S. dollars using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the consolidated balance sheet dates. Non-monetary items are translated at the historical exchange rate. Revenue and expense items are translated at the average exchange rates prevailing during the year, except for depreciation, amortization and depletion which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year. Exchange gains and losses relating to foreign currency denominated monetary items with a remaining life extending beyond one year after the balance sheet date are deferred and amortized over the remaining life of the monetary items.

Inventories

Wood products are valued at the lower of average cost and net realizable value. Raw materials are valued at average cost or the greater of net realizable value and replacement cost if lower than average cost.

Capital assets

Timber holdings include acquisition costs for young trees and standing timber and planting, maintenance and harvesting costs, which are capitalized over a period of 5 to 12 years based on the growth cycle of the type of tree. Timber holdings are depleted when the trees are harvested on the basis of the volume of timber cut.

Other capital assets are recorded at cost including interest capitalized on assets under construction. Repairs and maintenance expenditures are charged to income and major betterments and replacements are capitalized.

Depreciation and amortization are provided on a straight-line basis to reduce the original cost of capital assets to estimated residual values over the following estimated useful lives:

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

Deferred financing costs

Financing costs are deferred and amortized over the term of the related long-term debt on a straight-line basis.

Goodwill

Goodwill is amortized over 40 years on a straight-line basis.

Revenue recognition

Revenue from the sale and trading of wood chips and other products is recognized when the products are shipped. Commission income relating to wood chip and other product sales is recognized as revenue when the products are shipped and services rendered.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the period reported. Actual results could differ from those estimates.

Fair value of financial instruments

The Company estimates the fair value of its financial instruments based on current interest rates, market value and the current price of financial instruments with similar terms. Unless otherwise disclosed herein, the carrying value of financial instruments, especially those with current maturities such as cash and cash equivalents, accounts receivable and accounts payable, and accrued liabilities, is considered to approximate their fair value.

Stock-based compensation plan

The Company has a stock option plan, which is described in note 10. No compensation expense is recognized for this plan when stock options are issued. Any consideration paid on the exercise of stock options is credited to share capital.

Interest rate and currency contracts

The differentials to be received or paid under interest rate and currency contracts are recognized in income as adjustments to interest expense. Premiums paid on contracts are deferred and amortized to income over the remaining term of the contracts.

Cash and cash equivalents

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

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by The Canadian Institute of Chartered Accountants' Section 3465, "Accounting for Income Taxes". There was no impact on the current and prior year financial statements as a result of this change in the method of accounting for income taxes.

3. ORGANIZATION AND OPERATIONS

The Company's principal business activities include the management and operation of tree plantations in the People's Republic of China [the "PRC"] and sales and trading of logs, lumber, wood chips and wood-based products in the PRC, and other Asia-Pacific markets. Apart from these activities, the Company also provides agency services for the sale of logs, lumber and wood chips in the PRC and other Asia-Pacific markets from which it earns commission income. Details of the Company's principal business activities are as follows:

[a] Tree plantation and wood chip operations

In 1995, the Company, through wholly owned subsidiaries of Sino-Wood Partners, Limited ["Sino-Wood"], entered into agreements to form five PRC CJVs. Under the terms of the agreements, the CJV partners are required to provide the PRC CJVs with land-use rights for up to 603,000 hectares of land for tree plantations. The land-use rights are for a period of 50 years and will be phased in over a number of years. Sino-Wood's subsidiaries are responsible for providing funds to the PRC CJVs for all planting, maintenance and harvesting costs incurred on the phased-in land. The subsidiaries are entitled to 70% of the timber harvested on the phased-in land and the CJV partners are entitled to the balance. The CJV partners retain ownership of the land-use rights and, accordingly, no value is assigned to the land-use rights for accounting purposes.

Sino-Wood's subsidiaries were committed to contribute an aggregate of $14,200,000 of capital to the five PRC CJVs, which was subsequently increased to $17,650,000. The increase in capital contributions was approved by the Commission of Foreign Trade and Economic Co-operation ["CFTEC"] in 1999. Up to December 31, 2000, the Company had made capital contributions of $16,025,000 [1999 – $10,825,000] to meet costs for planting, maintenance and harvesting of the PRC CJVs' tree plantations. Accordingly, the outstanding capital contributions required with respect to these five PRC CJVs as at December 31, 2000 are $1,625,000 [1999 – $6,825,000]. In 1999, the Company decided not to proceed with its investment in one of the PRC CJVs. The Company is in the process of dissolving this PRC CJV and accordingly, the required capital contribution of $1,375,000 has not been made.

The major components of the Company's interests in these five PRC CJVs are as follows:

	2000	1999
	$	$
Consolidated balance sheets		
Current assets	**15,927**	11,090
Long-term assets	**19,178**	13,644
Current liabilities	**(11,501)**	(4,182)
Long-term liabilities	**(5,851)**	(8,000)
Consolidated statements of cash flows		
Cash flows from financing activities	**1,400**	12,234
Cash flows from (used in) investing activities	**2,951**	(3,792)

In 1999, Leizhou EJV was converted to a WFOE as a result of the Leizhou Forestry Bureau's [the "LFB"] voluntary withdrawal of its entire equity interest in Leizhou EJV in April 1998. The conversion from an EJV to a WFOE [the "Leizhou WFOE"] was approved by the CFTEC in May 1999. Sino-Wood is required to contribute $10,000,000 for its 100% equity interest, of which $1,500,000 is required to be made within three months from the issue of a business licence. Sino-Wood has obtained approval to reduce the original total capital contribution of $10,000,000 to $1,400,000 in April 2000. As at December 31, 2000, Sino-Wood has made capital contributions of $1,000,000. The remaining capital contribution of $400,000 has to be contributed by May 2002.

[b] Wood-based panel and other operations

In February 2000, the CFTEC approved the conversion of the EJV established by Sino-Panel (Gaoyao) Limited ["Sino-Panel"], a wholly owned subsidiary of the Company, and a local PRC company, to a WFOE [the "Gaoyao WFOE"]. Prior to this date, Sino-Panel had an 85% equity interest in the EJV and a requirement to contribute $10,064,000 for its 85% equity interest, which was fully satisfied in 1998 by the contribution of certain machinery and equipment with an aggregate value of approximately $11,021,000. The Gaoyao WFOE retained the life of the EJV, which was formed for a period of 50 years. Sino-Panel's capital contribution was increased from $10,064,000 to $11,840,000 to reflect the increase in its equity interest from 85% to 100%. Sino-Panel's increased capital contribution commitment was fully satisfied in 1999 by the contribution of cash and certain machinery and equipment with a value in excess of the initial required capital contribution. The principal business activity of the Gaoyao WFOE is to manufacture wood-based panels.

In 1999, Shanghai Jin Xiang Timber Ltd. ("SJXT") applied to increase the original total capital contributions of $868,000 [Chinese renminbi 7.2 million] to $1,509,000 [Chinese renminbi 12.5 million]. Sino-Wood is required to make an additional contribution of $278,000 as a result of the increase in total capital contributions. The additional capital contribution of $278,000 was made in 1999 increasing its equity interest in SJXT from 27.8% to 34.4%. The principal activity of SJXT is to organize the trading of timber and logs in the PRC market. During the year, advances to SJXT of $796,000 were repaid.

In July 1999, SFR (China) Inc. ["SFR China"], a wholly owned subsidiary of the Company, established a WFOE [the "SFR WFOE"]. The principal business activity of the SFR WFOE is to manufacture wood-based panels. The SFR WFOE is formed for a period of 30 years and SFR China is required to contribute $10,000,000 for its 100% equity interest. As at December 31, 2000, the Company has made total contributions in the amount of $3,000,000 [1999 – $1,500,000]. The remaining capital contribution of $7,000,000 has to be made by July 2002.

[c] Forestry chemical operations

Sino-Wood held a 30% equity interest in each of the four forestry chemical and one wood-based panel EJVs [collectively, the "Jiangxi Investments"]. As a result of continuous losses in two of the Jiangxi Investments in the forestry chemical business, the Company decided to write off the remaining value of these two investments totalling $211,000 in 1999. The other two investments in the forestry chemical business were disposed off during the year for proceeds of $700,000. The sale resulted in a gain of $248,000 for the year. The remaining carrying value of the Jiangxi Investments amounted to approximately $76,000 as at December 31, 2000.

4. ACCOUNTS RECEIVABLE

The Company reviews its outstanding accounts receivable and records an allowance for doubtful accounts when accounts are determined to be uncollectable. As at December 31, 2000 and 1999, no allowance had been recorded by the Company. Accounts receivable are substantially from companies located in the PRC. Accounts receivable as at December 31, 2000 included $9.1 million due from three customers [1999 – $11.7 million due from one customer].

5. INVENTORIES

Inventories consist of the following:

	2000 $	1999 $
Wood products	2,243	—
Raw materials	161	—
	2,404	—

6. CAPITAL ASSETS

Capital assets consist of the following:

	2000		1999	
	Cost $	Accumulated depreciation and amortization $	Cost $	Accumulated depreciation and amortization $
Timber holdings	118,521	—	91,684	—
Machinery and equipment	37,314	—	21,710	—
Buildings	7,268	—	—	—
Land-use rights	3,322	—	—	—
Office furniture and equipment	704	292	529	264
Vehicles	495	138	362	114
	167,624	430	114,285	378
Less accumulated depreciation and amortization	430		378	
Net book value	167,194		113,907	

Timber holdings include 602,289 cubic metres [1999 – 664,333 cubic metres] of standing timber valued at $10,242,000 [1999 – $11,305,000] to be provided by the LFB to Sino-Wood as part of an agreement executed in April 1998 to exchange Sino-Wood's interest in the net assets of Leizhou EJV [note 3(a)]. The standing timber is to be provided by the LFB as required by Sino-Wood. Sino-Wood is responsible for harvesting and transportation costs. During the year, 62,044 cubic metres of standing timber were delivered to Sino-Wood by the LFB with an attributed value of $1,063,000 [1999 – 66,107 cubic metres with an attributed value of $1,125,000].

Land-use rights, buildings, and machinery and equipment amounting to approximately $47,904,000 [1999 – $21,710,000] are not being depreciated as the production facilities are under construction and installation and have not yet been put into commercial operation.

7. DUE FROM PRC CJV PARTNERS

The amounts due from PRC CJV partners relate primarily to commission income and accounts receivable related to wood chip trading and sales and for reimbursement of office expenses. The amounts are unsecured, non-interest bearing and without pre-determined terms of payment.

8. BANK INDEBTEDNESS

Subsidiaries of the Company have established several revolving lines of credit facilities to a maximum of approximately $27,720,000. These credit facilities bear interest at the prevailing prime rate in Hong Kong of 9.5% as at December 31, 2000 [1999 – 8.5%] and are repayable on demand. Each of Sino-Forest and Sino-Wood has provided guarantees in an amount equal to the facilities.

As at December 31, 2000, credit facilities for the following were utilized:

	2000 **$**	1999 $
Trust receipt loans	**8,803**	4,127
Bank indebtedness	**9,425**	—
	18,228	4,127

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2000 **$**	1999 $
Equipment loan	**2,822**	2,968
Debt component of Exchangeable Notes	**8,992**	7,992
Plantation loan	**17,867**	20,000
	29,681	30,960
Less: long-term debt due within one year	**941**	742
	28,740	30,218

[a] Equipment loan

In November 1997, Sino-Wood entered into two loan agreements for credit facilities in the amount of $4,505,000 to purchase certain machinery and equipment in connection with the construction of two particleboard mills in the PRC. A total of $3,710,000 was disbursed under the facilities in 1998 and the balance of $795,000 was disbursed during 2000 after installation of the machinery and equipment. The loans are repayable in ten equal consecutive semi-annual installments commencing on June 15, 1999. Sino-Wood may repay the loans at any time with 30 days written notice. The loans bear interest at LIBOR plus 0.625% payable semi-annually. As at December 31, 2000, the interest rate on the long-term debt was 7.6% [1999 – 5.8%].

Interest capitalized as part of the cost of asset under development for the year amounted to $227,000 [1999 – $216,000].

Principal repayments on the equipment loan are as follows:

	$
2001	941
2002	941
2003	940
	2,822

[b] Debt component of Exchangeable Notes

In 1999, Sino-Wood entered into an agreement to issue an aggregate of $20 million Guaranteed Exchangeable Redeemable Notes ["Exchangeable Notes"]. The Exchangeable Notes are for a period of five years from January 29, 1999 to January 28, 2004, and bear interest at a rate of 5% per annum payable semi-annually in arrears.

The Exchangeable Notes are exchangeable in minimum amounts of $1 million into Class A Subordinate-Voting Shares of the Company at a price of $1.11 [equivalent of CDN$1.72] per share during the period from January 29, 2000 to January 28, 2002 and at a price of $1.21 [equivalent of CDN$1.88] during the period from January 29, 2002 to January 28, 2004. Sino-Wood is entitled, at any time between January 29, 2000 to January 28, 2002, to require the Noteholders to exchange no more than $10 million of the Exchangeable Notes into Class A Subordinate-Voting Shares provided that the weighted average price per share of the Company on the Toronto Stock Exchange for the 60 trading days and the seven trading days immediately preceding the date of such exchange shall both exceed two times the exchangeable price then in effect. The Exchangeable Notes not exchanged into Class A Subordinate-Voting Shares of the Company that are outstanding on the maturity date are entitled to interest for the entire five-year period at a rate of 15% per annum compounded annually less any interest already paid.

The Exchangeable Notes are being accounted for in accordance with their substance and are presented in the financial statements in their component parts, measured at their respective fair values at the time of issue. The debt component has been calculated as the present value of the required interest payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the Exchangeable Notes were issued. Interest expense is determined on the debt component, with such component being reduced by the required semi-annual interest payments. The difference between the debt component and the face value of the Exchangeable Notes is classified as equity, net of issue costs.

Interest expense for the year on the debt component of the Exchangeable Notes was $2,000,000 [1999 – $1,907,000]. Interest on the equity component of the Exchangeable Notes charged to retained earnings for the year ended December 31, 2000 amounted to $nil [1999 – $412,000].

[c] Plantation loan

In 1999, Sino-Wood entered into a loan agreement for a long-term loan of Euro 18,970,710 [$20 million] to fund part of its plantation program.

The loan is for a period of ten years. Principal repayment of the loan will commence on May 15, 2005 in ten equal semi-annual installments. Sino-Wood may repay the loan at any time with 45 days written notice. The loan bears interest at the six-month EUR LIBOR rate plus 3.5% per annum. As at December 31, 2000, the six-month EUR LIBOR rate was 4.4% [1999 – 3.5%]. Interest expense for the year amounted to $1,346,000 [1999 – $208,000].

The Company pays certain of its interest expense in Euro and enters into various foreign currency options in managing its foreign exchange risk. The Company does not hold financial instruments for trading purposes. As at December 31, 2000, the Company held Euro 1,570,000 [1999 – Euro 2,920,000] in currency options at an exchange rate of Euro 1.2 to US$1 expiring at various dates to November 2001. Premiums of Euro 63,000 were paid for the currency options. There is no market risk of loss beyond the premiums paid. The premiums paid are amortized over the term of the options.

The Company also pays certain of its interest expense at floating EUR LIBOR interest rate and enters into an interest rate cap agreement in managing its interest rate risk. The cap agreement reduces the Company's exposure to EUR LIBOR movements by fixing the EUR LIBOR at a maximum of 7% per annum. The counterparty will pay to Sino-Wood the excess of EUR LIBOR over 7% on the notional amount of the debt. Premiums of Euro 565,000 were paid for the interest rate cap. There is no market risk of loss beyond the premiums paid. The premiums paid are amortized over the term of the options.

As at December 31, 2000, the amount of the plantation loan outstanding was $17,867,000 [1999 – $20,000,000].

[d] Covenants

Under the terms of the above various debt agreements, the Company and Sino-Wood must meet certain financial and non-financial covenants. These covenants include the maintenance of certain financial ratios, restrictions and limitations, including those on changing the nature of its business and payment of dividends. Management considers that respecting these covenants will not affect the normal operations of the Company.

10. SHARE CAPITAL

Share capital consists of the following:

	2000 $	1999 $
Authorized		
Unlimited Class A Subordinate-Voting Shares		
6,000,000 Class B Multiple-Voting Shares		
Unlimited Preference Shares, issuable in series		
Issued		
74,300,228 [including 4,619,000 issued under share purchase loans] Class A Subordinate-Voting Shares [1999 – 74,827,228, including 4,619,000 issued under share purchase loans]	**32,758**	33,007
6,000,000 Class B Multiple-Voting Shares [1999 - 6,000,000]	—	—
	32,758	33,007
Equity component of Exchangeable Notes [note 9(b)]	**13,266**	13,266
	46,024	46,273

The legal stated capital of the Company's Class A Subordinate-Voting Shares differs from the carrying value reflected in these consolidated financial statements. The legal stated capital as at December 31, 2000 is CDN$66,466,253 [1999 – CDN$66,828,829].

Authorized

Except with respect to voting, dividends and the rights of conversion described below, each Class A Subordinate-Voting Share and each Class B Multiple-Voting Share have the same rights and are equal in all respects:

- each holder of Class A Subordinate-Voting Shares is entitled to one vote per share whereas each holder of Class B Multiple-Voting Shares is entitled to five votes per share;
- the Class A Subordinate-Voting Shares rank in priority to the Class B Multiple-Voting Shares as to the payment of dividends; however, no dividends may be declared or paid on the Class B Multiple-Voting Shares in any fiscal year unless in that fiscal year dividends shall have been declared or paid on Class A Subordinate-Voting Shares in an amount per share at least equal to or equivalent to the amount of the dividend per share proposed to be declared or paid on Class B Multiple-Voting Shares;
- each holder of Class B Multiple-Voting Shares is entitled at any time and from time to time to have all or any part of the Class B Multiple-Voting Shares held converted into Class A Subordinate-Voting Shares on a share-for-share basis; and
- as a condition of the issue of any Class B Multiple-Voting Share, the registered holder will be required to execute a Coattail Agreement under which the holder will agree not to effect a transfer of any Class B Multiple-Voting Share unless such transfer is made in accordance with the terms thereof and is a Permitted Transfer, as defined in the provisions attaching to the Class B Multiple-Voting Shares.

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

Changes in issued share capital

During the year, the Company purchased and cancelled 527,000 [1999 – nil] Class A Subordinate-Voting Shares at a total cost of $557,000 [1999 – $nil]. The premium on the repurchase of shares over its stated value amounted to $308,000 [1999 – $nil] and was charged to retained earnings.

Share purchase loans

During 1999, options to purchase 150,000 Class A Subordinate-Voting Shares were exercised under the terms of the Company's stock option plan [the "Plan"]. The Company made an interest free loan in 1999 amounting to $102,000 to a former director, pursuant to the terms of the Plan, to finance the acquisition of 100,000 Class A Subordinate-Voting Shares. The average purchase price of the shares acquired subject to the share purchase loan was $1.02. In accordance with the terms of the Plan, the shares acquired under share purchase loans are pledged to the Company and the indebtedness is repayable upon the sale of the pledged shares. The Company has recorded the share purchase loans as a reduction in share capital. As at December 31, 2000, $4,719,000 [1999 – $4,719,000] of these loans remained outstanding.

Stock options

The Company's Plan provides for the issuance of up to a maximum of 10,000,000 Class A Subordinate-Voting Shares at an exercise price equal to the market price of the Company's Class A Subordinate-Voting Shares on the date of the grant. The option period for the Plan is five years. Options granted may be vested over certain time periods within the option period, which will limit the number of options exercisable during each option year. As at December 31, 2000, options to purchase 8,762,000 Class A Subordinate-Voting Shares have been granted and options to purchase 1,238,000 Class A Subordinate-Voting Shares remain available to be granted under the Plan.

The following table summarizes the changes in stock options outstanding during the year:

	2000		1999	
	Shares	**Weighted average exercise price**	Shares	Weighted average exercise price
Balance, beginning of year	**479,000**	**CDN$1.84**	629,000	CDN$1.69
Options granted	**800,000**	**CDN$1.64**	—	—
Options exercised	—	—	(150,000)	CDN$1.20
Balance, end of year	**1,279,000**	**CDN$1.72**	479,000	CDN$1.84
Exercisable at year-end	**749,000**	**CDN$1.77**	479,000	CDN$1.84

The following table summarizes the weighted average exercise prices and the weighted average remaining contractual life of the options outstanding and exercisable at December 31, 2000:

Range of exercise prices	**Options outstanding**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Options exercisable**	**Weighted average exercise price**
CDN$0.60-CDN$1.35	154,000	0.39 years	CDN$1.20	154,000	CDN$1.20
CDN$1.55-CDN$1.75	900,000	3.99 years	CDN$1.63	370,000	CDN$1.63
CDN$1.93-CDN$2.79	225,000	1.56 years	CDN$2.41	225,000	CDN$2.41
	1,279,000	3.13 years	CDN$1.72	749,000	CDN$1.77

11. INCOME TAXES

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

	2000 $	1999 $
Income before income taxes	**29,364**	31,692
Expected statutory tax rate	**43.95%**	44.6%
Expected income tax provision	**12,905**	14,135
Increase (decrease) in income taxes resulting from		
Unrecognized income tax losses arising from losses of the Company and its subsidiaries	**3,559**	2,523
Income tax at different rates in foreign jurisdictions	**(13,804)**	(13,337)
Permanent differences	**21**	216
	2,681	3,537

The PRC WFOEs and CJVs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws [the "Income Tax Laws"]. Pursuant to the Income Tax Laws, WFOEs, Sino-foreign equity and co-operative joint venture enterprises are subject to income tax at an effective rate of 33% [30% state income taxes plus 3% local income taxes] on income as reported in their statutory financial statements. The PRC WFOEs and CJVs are eligible for an exemption from state and local income taxes for two years starting from the first profitable year of operations after offsetting losses carried forward, followed by a 50% exemption for the next three years.

Hong Kong profits tax has been provided at the rate of 16% [1999 – 16%] on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rate of taxation prevailing in the countries in which the Company operates.

As at December 31, 2000, the Company has income tax losses of approximately $3,704,000 which can be applied against future years' taxable income in Canada, the benefit of which has not been recorded in these consolidated financial statements. Approximately $171,000 of these tax losses will expire in 2001, $250,000 in 2002, $217,000 in 2003, $705,000 in 2004, $905,000 in 2005, $825,000 in 2006, and the remainder will expire in 2007. The benefit of these losses, if realized, will be at Canadian tax rates, which are 43.95% for the year ended December 31, 2000.

12. EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding during the year. The Class A Subordinate-Voting Shares pledged under the Company's share purchase loans are deducted from the weighted average number of Class A Subordinate-Voting Shares outstanding in calculating basic earnings per share. Fully diluted earnings per share is based on the weighted average number of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding, adjusted for stock options outstanding and shares acquired under share purchase loans and assumes the full conversion of the Exchangeable Notes described in note 9(b). The weighted average number of Class A Subordinate-Voting and Class B Multiple-Voting Shares outstanding were as follows:

	Weighted average Basic	Fully diluted
December 31, 2000	**75,690,000**	**99,018,000**
December 31, 1999	76,198,000	97,593,000

13. CHANGE IN NON-CASH WORKING CAPITAL

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

	2000 **$**	1999 $
Cash provided by (used for)		
Accounts receivable	**808**	(13,283)
Due from PRC CJV partners	**106**	8,473
Other receivables and prepaid expenses	**(1,648)**	110
Inventories	**(2,404)**	—
Deposits	**—**	2,250
Accounts payable and accrued liabilities	**(1,596)**	3,826
Income taxes payable	**2,659**	3,537
	(2,075)	4,913

14. SEGMENTED INFORMATION

By Industry Segment

	2000			1999		
	Wood chips $	**Wood-based & other $**	**Total $**	Wood chips $	Wood-based & other $	Total $
Revenue from external customers						
Sales	**79,984**	**28,210**	**108,194**	89,503	34,162	123,665
Commission income	**16,968**	**1,539**	**18,507**	14,827	3,085	17,912
	96,952	**29,749**	**126,701**	104,330	37,247	141,577
Income from operations	**29,384**	**3,102**	**32,486**	28,463	5,342	33,805
Identifiable assets	**151,104**	**69,066**	**220,170**	146,173	32,098	178,271
Interest income	**72**	**527**	**599**	692	—	692
Interest expense	**1,346**	**2,574**	**3,920**	208	2,082	2,290
Depreciation and amortization	**102**	**2**	**104**	87	—	87
Investment in capital assets	**27,901**	**26,547**	**54,448**	26,950	10,689	37,639

Revenue transactions with the Company's largest customer for the year amounted to approximately 38% [1999 – 30%] of total revenue. During the year, there were three [1999 – four] customers each individually accounted for more than 10% of the Company's revenue and this revenue in aggregate represented approximately 63% [1999 – 61%] of total revenue.

Purchase transactions with the Company's largest vendor for the year accounted for approximately 41% [1999 – 57%] of total purchases. During the year, two [1999 – two] vendors each individually accounted for more than 10% of the Company's purchases and these purchases in aggregate represented approximately 56% [1999 – 68%] of total purchases.

By Geographic Segment

The Company conducts substantially all of its operations in one geographic area, East Asia. During the year, sales in the PRC and to other Asian countries amounted to approximately $102,929,000 [1999 – $122,072,000] and $5,265,000 [1999 – $1,593,000], respectively.

At December 31, 2000, approximately $3,629,000 [1999 – $12,094,000] of the Company's cash and cash equivalents and $1,812,000 [1999 – $nil] of its short-term deposits were denominated in Chinese renminbi.

15. COMMITMENTS

As at December 31, 2000, the Company has various commitments to make capital contributions to the PRC CJVs and WFOEs, the details of which are disclosed in note 3.

The Company's future annual commitment under operating leases is as follows:

	$
2001	177
2002	35
	212

16. SUBSEQUENT EVENT

Subsequent to the year-end, two wholly owned subsidiaries of the Company entered into long-term loan facilities totalling $25 million with International Finance Corporation ["IFC"], part of the World Bank Group. The IFC loans are subject to matching loans from other lenders, as a result of which a total of $50 million will be available to these subsidiaries. The loans are subject to certain additional conditions, including the requirement to obtain all necessary authorizations and confirmations from the PRC government and the delivery of reports of independent consultants relating to certain aspects of the projects being financed.

Sino-Forest's subsidiaries, Guangdong Jia Yao Wood Product Development Company Limited and Jiafeng Wood (Suzhou) Company Limited, will receive $14 million and $11 million respectively from the IFC loans, which will be available until December 31, 2002. Proceeds from these loans will be used to invest in plantations and wood-based panel manufacturing facilities connected to the Gaoyao WFOE and the SFR WFOE. The loans will be repaid in twelve semi-annual installments commencing on June 15, 2003, with the final installment due on December 15, 2008. The loans will bear interest at six-month LIBOR plus 3% per annum. Sino-Forest has guaranteed the IFC repayment obligations of both subsidiaries.

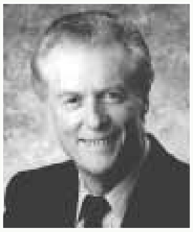
17. COMPARATIVE FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2000 consolidated financial statements.

Directors

Allen T.Y. Chan [1, 2]

Chairman and
Chief Executive Officer,
Sino-Forest



John (Jack) Lawrence [2]

Chairman,
Lawrence & Company

Simon Murray

Chairman,
GEMS
(General Enterprise Management
Services Limited)

Edmund Mak [1, 3]

Real Estate Marketing,
Re/Max Select Properties

William Rosenfeld [1, 2, 3]

Partner,
Goodmans LLP

Kee Y. Wong, F.C.A.

Executive Vice-President and
Chief Financial Officer,
Sino-Forest

K.K. Poon

President,
Sino-Forest

1 Member of the Audit Committee
2 Member of the Compensation Committee
3 Member of the Corporate Governance Committee

Corporate and Shareholder Information

Corporate Head Office

Sino-Forest Corporation

1208 – 90 Burnhamthorpe Road West, Mississauga, Ontario, Canada L5B 3C3

Tel: 905.281.8889 Fax: 905.281.3338 E-mail: info@sinoforest.com Web site: www.sinoforest.com

Executive Head Office

Sino-Forest Corporation

1409 Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong

Tel: 852.2877.0078 Fax: 852.2877.0062

Auditors

Ernst & Young LLP

Ernst & Young Tower, P.O. Box 251, 222 Bay Street

Toronto-Dominion Centre, Toronto, Ontario, Canada M5K 1J7

Legal Counsel

Aird & Berlis

BCE Place, 1800 – 181 Bay Street, Box 754, Toronto, Ontario, Canada M5J 2T9

Exchange Listing

The Class A Subordinate-Voting Shares of the Company are listed on the Toronto Stock Exchange under the symbol TRE.A

Registrar and Transfer Agent

CIBC Mellon Trust Company

320 Bay Street, P.O. Box 1, Toronto, Ontario, Canada M5H 4A6

Tel: 416.643.5500 Toll-free North America: 1.800.387.0825

Investor Relations

Kee Y. Wong, F.C.A.

Executive Vice-President and Chief Financial Officer

Tel: 905.281.8889 Fax: 905.281.3338

Allen T.Y. Chan

Chairman and Chief Executive Officer

Tel: 852.2877.0078 Fax: 852.2877.0062

Web Sites

www.sinoforest.com

www.sinoforestonline.com

Annual Shareholder Meeting

4 p.m., Tuesday, June 19, 2001

The Royal York Hotel, Upper Canada Room, 18th Floor

100 Front Street West, Toronto, Ontario, Canada M5J 1E3

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

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Sino-Forest Corporation