

SINO-FOREST CORPORATION

ANNUAL INFORMATION FORM

In respect of the year ended

December 31, 1996

May 16, 1997

GLOSSARY

Certain terms used herein are defined below:

"BDMT" means bone dry metric tonnes;

"CJV" means a co-operative joint venture established under CJV Law;

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

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

"China" or "PRC" means the People's Republic of China;

"Class A Subordinate-Voting Shares" means the Class A Subordinate-Voting Shares of the Company;

"Class B Multiple-Voting Shares" means the Class B Multiple-Voting Shares of the Company;

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

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

"Company's Joint Ventures" means the CJVs and the Leizhou EJV and **"Company's Joint Venture"** means one of them (and shall, unless otherwise specified or unless the context otherwise requires, means a CJV);

"EJV" means an equity joint venture established under EJV Law;

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

"FERT" means the Department of Foreign Economic Relations and Trade;

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

"Hectare" means an area equal to 2.47 acres;

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

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

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

"Leizhou EJV Agreement" means the EJV agreement in respect of the Leizhou EJV;

"LFB" means the Leizhou Forestry Bureau;

"NPC" means the National People's Congress which is the supreme legislative body in China;

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

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

"Plantation Service Contract" means a plantation service contract between the Company's CJV and a Service Company of the PRC;

"PRC" means the People's Republic of China;

"Privately-Owned Enterprises" means businesses operated by private individuals;

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

"Service Companies" means the plantation service companies which are subsidiaries of the Company's CJV PRC partners;

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

"Sino-Forest" means Sino-Forest Corporation;

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

"State" means the government of China;

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

"TSE" means The Toronto Stock Exchange;

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

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

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

TABLE OF CONTENTS

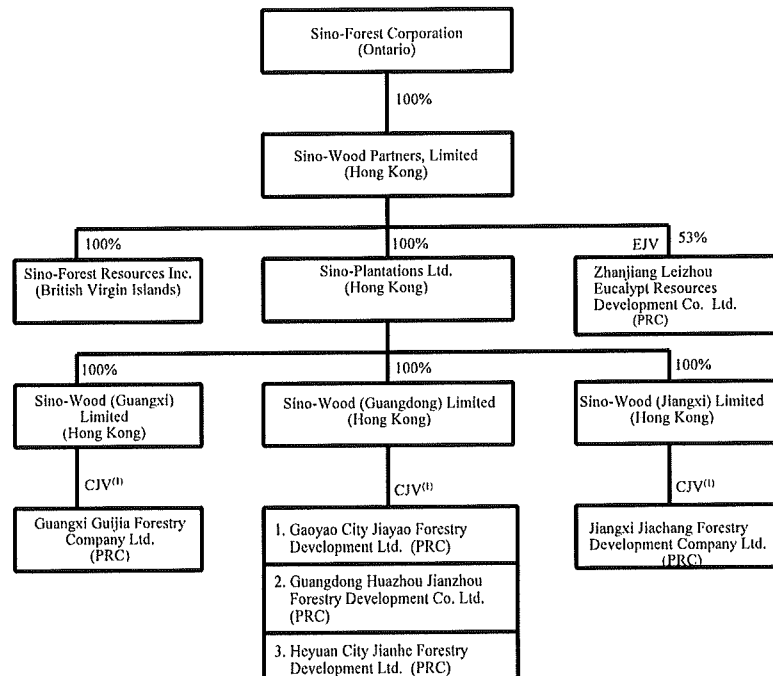
THE COMPANY	1
BUSINESS OF THE COMPANY	2
Overview	2
Products	3
Sales and Marketing	3
Chipping Facilities	5
Fibre Supply and Process	5
Standing Timber from the Local Forestry Bureaus	5
Timber from the Leizhou EJV Plantation	6
Location and Hectarage of Plantations	6
Structure of the CJVs	7
Competition	8
Research and Development	8
Regulatory Structure and Ownership	9
Leizhou EJV	9
Co-operative Joint Ventures	10
Income Tax for CJVs and EJVs	10
Environmental Laws	10
Employees	11
Plantation Service Company	12
Capital Contribution Commitments	13
The Leizhou EJV	13
The Jiangxi EJVs	13
The CJVs	13
Recent Financings	14
Risk Factors	14
SELECTED CONSOLIDATED FINANCIAL INFORMATION	17
Financial Data	17
Quarterly Financial Information	18
Dividend Record and Policy	18
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS	18
MARKET FOR SECURITIES	18
DIRECTORS AND OFFICERS	19
ADDITIONAL INFORMATION	21

THE COMPANY

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

Sino-Forest is a Canadian company with offices located in Toronto, Hong Kong and the PRC. The executive offices of the Company are located at 1409 Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The registered office of the Company is located at Suite 2004, P. O. Box 86, 200 King Street West, Toronto, Ontario, M5H 3T4. The principal business office of the Company in Canada is located at 90 Burnhamthorpe Road West, Suite 1208, Mississauga, Ontario, L5B 3C3.

The following chart illustrates the corporate relationships between Sino-Forest, its subsidiaries and principal joint venture interests and identifies their respective jurisdictions of incorporation or organization and the appropriate percentage of ownership interest beneficially held by the Company:



(1) The Company has a 70% share in the timber the Company determines to cut in each of these CJVs.

BUSINESS OF THE COMPANY

Overview

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

The Company's joint venture tree plantations are all located in southern China where the hot, humid, tropical and sub-tropical weather and soil conditions provide for short cycles (from planting to harvest) of five years for eucalyptus and aspen and 12 years for pine trees. Through its various existing agreements with several State-owned forestry bureaus, management of the Company expects that it will have, when fully phased-in, 623,000 hectares of tree plantation lands under its management and operation, thereby allowing the Company to produce an expected sustainable annual yield of approximately 4 million BDMT of wood chip fibre. In addition to the existing agreements with forestry bureaus in the provinces of Guangxi, Jiangxi and Guangdong, the Company intends to pursue the negotiation and establishment of CJVs in other neighbouring provinces.

The table below sets out the provinces in the PRC in which the Company's Joint Venture plantations are located and the hectareage in each of these provinces when the plantation lands are fully phased-in.

Province	Hectares
Guangxi	250,000
Jiangxi	250,000
Guangdong	123,000
Totals	623,000

Since the commencement of operations in 1994, the Company has grown rapidly, with wood chip shipments handled by the Company, as both principal and sales agent, increasing from 156,300 BDMT in 1994 to 592,800 BDMT in 1996. Wood chip production in the PRC is generally seasonal, with approximately 60% to 70% of the production occurring in the second half of the year.

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

The Company's production will grow significantly over the next few years as a result of the acceleration of the planned annual phase-in of the plantation lands. The Company has phased-in at December 31, 1996 approximately 37,600 hectares of plantations, or approximately 6% of the lands currently under contract. Given its proximity to the marketplace, especially Japan which imports approximately two-thirds of the world supply of pulpwood fibre, the Company has an advantage as a low cost provider to key markets over its competitors in North America, South America and Australia. When all the hectareage of its tree plantations are fully phased-in, the Company will be a significant provider of wood chip fibre to the Asian market.

Products

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

The specifications and characteristics of the different kinds of tree species currently expected to be grown on the 623,000 hectares of plantation lands available to be phased-in by the Company's Joint Ventures are as follows:

Species	Eucalyptus	Aspen	China Southern Pine
Plantation cycle	5 years	5 years	12 years
Standing timber yield per hectare per cycle	90 m ³	128 m ³	135 m ³
Annual growth rate per year	18 m ³	25.6 m ³	11.25 m ³
Wood chip yield per hectare per cycle	40.2 BDMT	42 BDMT	52 BDMT

Sales and Marketing

The Company's wood chips are sold domestically in the PRC and are also sold to export markets, principally in Japan, South Korea and Taiwan. Export sales are all made in U.S. dollars. Wood chip shipments of BDMT for the year ended December 31, 1994, 1995, 1996 are provided below:

Market	1996	December 31 1995 (in thousands of BDMT)	1994
Export	347	291	156
PRC	<u>246</u>	<u>46</u>	<u>—</u>
Total	<u>593</u>	<u>337</u>	<u>156</u>

The Company sets prices for its products without government control and adjusts its prices in response to market conditions. The Company's eucalyptus wood chips are sold at prices competitive with those major suppliers with which it competes. The price of eucalyptus wood chips in Asia is generally determined by the Australian export price because Australia is one of the world's largest suppliers of natural forest eucalyptus wood chips. Prices for hardwood chips and softwood chips in Asia also vary based on the country to which they are sold. It is the Company's experience that prices obtained in Japan are greater than those obtained in Taiwan and South Korea, with Taiwan generally commanding the lowest prices of these three countries. Selling prices obtained in the PRC market have generally been more favourable than those in the export market as a result of the rising demand for fibre due to the large population and increasing literacy rates in the PRC. The average selling price of wood chips, net of VAT, sold through the Leizhou EJV for the year ended December 31, 1996 was \$102 per BDMT compared to \$103 per BDMT attained in fiscal 1995. The average selling price of wood chips sold by the Company's Guangxi CJV joint venture partner with the Company acting as a sales

agent for the year ended December 31, 1996 was \$103 per BDMT. The Company earned commission income of approximately \$5.2 million for the year ended December 31, 1996 as sales agent on these shipments made by its Guangxi CJV PRC partner.

The Company typically enters into arrangements with terms of 6-12 months pursuant to which the Company is required to provide, and the purchaser is required to purchase, specified amounts of wood chips. Under the arrangements, letters of credit are generally required to be posted for payment. In 1996 and early 1997, the Company's Joint Venture PRC partners have entered into contracts governing these arrangements. In the second quarter of 1997, the Company expects to take over the sales and marketing functions from its joint venture PRC partners, and will thereafter be entering into sales contracts with customers directly. Due to the importance of delivering wood chips within a certain time after timber is chipped, so that they maintain their relative freshness, the Company typically maintains about a week's supply of inventory at the CJVs and port locations at any time. The Company negotiates its selling prices for the export market twice a year due to exchange rate fluctuations and current local market rates. Selling prices for the PRC market are usually also determined on a contractual basis twice a year.

Wood chips produced by the Leizhou EJV are sold in the export market by the Company's joint venture partner under an arrangement that was established in 1994. It is the intention of the Company to carry out the sales and marketing function of the Leizhou EJV by the Company's own sales force in 1997.

The \$14,992,000 due from the LFB as at December 31, 1996 represents cash collected from the sale of wood chips on behalf of Leizhou EJV. As originally agreed to by Sino-Wood, the cash was being retained by the LFB to fund the ongoing plantation costs of the Leizhou EJV incurred by the LFB. Sino-Wood and LFB have agreed that the amount due to the Leizhou EJV, after reduction for plantation costs incurred, will be settled in 1997 concurrent with the settlement of capital contributions due to the Leizhou EJV by Sino-Wood.

The \$4,519,000 due from Guangxi Forestry Development Centre as at December 31, 1996 represents commission income earned on wood chips trading during the year. A portion of the amount due will be used in 1997 to cover planting costs on phased-in lands.

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

Export shipments for the year ended December 31, 1996 represented 58% of total shipments. Of the 346,400 BDMT in total export sales of wood chips by the Leizhou EJV and the Guangxi CJV for the year ended December 31, 1996, approximately 64% were to Japan, which is the world's largest importer of wood chips. Sales to Japan by the Company are made to the trading houses, which has historically been the manner in which wood chips are sold in the Japanese market, rather than directly to the end users.

This practice appears to be changing recently as some end users are beginning to source their wood chips directly from the suppliers. The Company is currently engaging in marketing and business development activities with end users in Japan to develop relationships so that it may also be able to sell directly to such customers in the future.

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

Chipping Facilities

The Company's Leizhou EJV operates a three-line chipping plant with an annual capacity of approximately 250,000 tonnes of wood chips. The plant is located approximately 50 km from the Leizhou EJV plantation and approximately 80 km from the Zhanjiang port. The Zhanjiang port is one of the ports that the Company uses to export its wood chips to Japan, South Korea and Taiwan. All of the Company's eucalyptus trees harvested in the Leizhou EJV are chipped in this facility. The wood chips produced in this facility are generally stored in the plant for no more than one week before being transported by trucks to the Zhanjiang port for export.

It is the Company's intention to spend approximately \$5.5 million in 1997 to fund the acquisition or expansion of chipping plants in existing or future provinces in which the Company operates. The Company expects that these additional chipping plants, which are expected to be completed by the end of 1997, will provide it with an additional annual capacity of approximately 1.3 million BDMT of wood chips. These additional chipping plants are to be located in close proximity to ports and the Company's Joint Venture plantations.

Fibre Supply and Process

The Company currently produces its wood chips from two sources of supply: (1) standing timber purchased from the local forestry bureaus; and (2) timber grown on the Leizhou EJV's eucalyptus plantations. As the trees planted by the CJVs on the CJV plantation lands mature and are harvested, 70% of the timber from these trees will be owned by the Company and will provide the bulk of the sustainable fibre base utilized by the Company to produce chips.

The Company currently manages and operates 20,000 hectares of tree plantation lands in the Leizhou EJV. The Company has phased-in approximately 37,600 hectares (including the 20,000 hectares from the Leizhou EJV), or approximately 6% of the lands currently under contract. Under the CJV Agreements, the CJV PRC partners are required to contribute up to 603,000 hectares of tree plantation lands, subject to the Company's determination that such lands are acceptable. Once the Company determines that specified lands are acceptable and it takes control thereof for the purposes of its management and operations under the terms of the relevant CJV Agreement, such lands are considered to be "phased-in".

Standing Timber from the Local Forestry Bureaus

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

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

Due to cash flow constraints in 1996, the Company earned commission income for the 1996 fiscal year of approximately \$5.2 million from wood chips trading on behalf of its CJV PRC partner rather than purchasing the standing timber. The Company expects that future chip shipments from the CJV will be purchased and sold by the Company as principal rather than on an agency basis, thereby providing the Company with a higher margin.

Timber from the Leizhou EJV Plantation

The Leizhou EJV operates 20,000 hectares of eucalyptus tree plantation. The eucalyptus tree plantation of the Leizhou EJV is located on the Zhanjiang Leizhou peninsula in Guangdong Province. This plantation supports crops of eucalyptus trees which in management's experience have a cycle (from planting to harvesting) of approximately five years and which are specifically genetically engineered for the soil and semi-tropical climate conditions of southern PRC. In 1995 and 1996, there were approximately 204,200 BDMT and 212,400 BDMT, respectively, of eucalyptus wood chips produced by the Leizhou EJV.

Location and Hectarage of Plantations

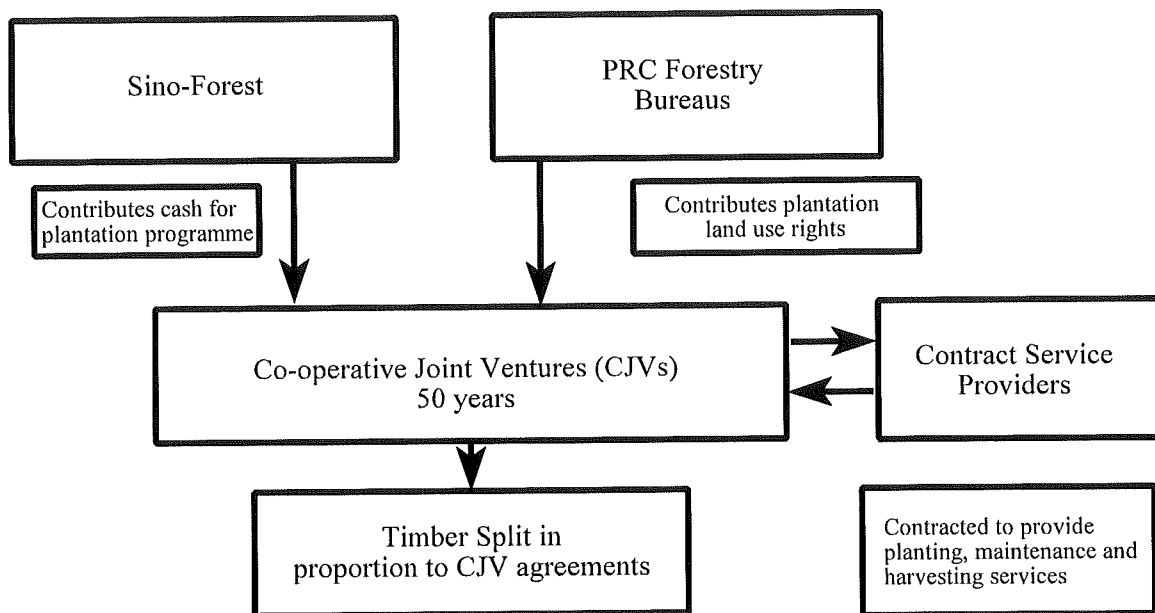
The Company's Joint Venture plantations are all located in southern PRC as set out in the table below:

Names of Joint Ventures	Name of Joint Venture Partners	Province	Term	Hectares
Guangxi Guijia Forestry Company Ltd.	Guangxi Forestry Development Centre	Guangxi	50 years	250,000
Jiangxi Jiachang Forestry Development Company Ltd.	Jiangxi Forestry Economic & Technology Development Co.	Jiangxi	50 years	250,000
Gaoyao City Jiayao Forestry Development Ltd.	Gaoyao City Forestry Trading Development Co.	Guangdong	50 years	33,000
Guangdong Huazhou Jiazhou Forestry Development Co. Ltd.	Guangdong Huazhou Forestry Enterprise Co.	Guangdong	50 years	20,000
Heyuan City Jianhe Forestry Development Ltd.	Heyuan City Forestry Services Ltd.	Guangdong	50 years	50,000
Zhanjiang Leizhou Eucalypt Resources Development Company Ltd.	Leizhou Forestry Bureau	Guangdong	30 years	<u>20,000</u>
			TOTAL	<u>623,000</u>

Other than Zhanjiang Leizhou Eucalypt Resources Development Company Ltd., being the Leizhou EJV in which the Company has a 53% equity interest, all of the other forestry joint ventures of the Company are CJVs in respect of which the Company is entitled to a 70% share in the volume of timber the Company determines to cut.

Structure of the CJVs

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



The term of each CJV is 50 years, subject to extension upon a proposal by the unanimous consent of the board of directors of the CJV and approval of the original examining authority. The CJV may also be terminated under certain circumstances, such as the occurrence of heavy losses in production and the CJV being unable to continue its operations, the failure of a party to perform its obligations such that the CJV is unable to continue its operations, and the CJV conducting its business in violation of the laws of China and the relevant authorities terminating its operations. Upon termination, all land use rights will cease and the CJV shall be liquidated and the remaining assets after liquidation of the CJV shall be distributed to the parties in accordance with their product-sharing ratio subject to the payment of taxation, salaries of staff or other debts.

The CJV PRC partner is required to contribute plantation land use rights to the CJV and the Company is required to contribute cash for the plantation program.

The CJV PRC partner's responsibilities include the following:

- (a) providing suitable plantation lands to the CJV on a timely basis and in the quantity as stipulated in the CJV Agreement, handling procedures for obtaining the plantation land use rights for the CJV and handling all disputes in connection with lands;
- (b) dealing with the relevant authorities in the PRC for the establishment and licensing of the CJV;
- (c) obtaining the harvesting license, timber transportation permit and other certificates required by laws and regulations for the CJV;
- (d) procuring for the CJV the necessary infrastructure such as water, electricity and transportation; and

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

The Company's responsibilities include the following:

- (a) providing capital and funding contributions by instalments based on the progressive needs of the plantation and ensuring that the plantation base is developed as planned;
- (b) providing international operation and management techniques, production technology, quality standards and a system of quality inspection;
- (c) assigning personnel to the plantation base to carry out standard inspections on operations and management and training of technical personnel; and
- (d) providing international market information and technical information to the CJV.

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

Competition

The markets for wood chips are competitive and are sensitive to cyclical changes in pulp production levels and in the economy. Changes in the level of competition, government regulations on timber harvesting, industry capacity and the economy could have a significant impact on the Company's selling prices and overall profitability. The Company competes with Australian and North and South American wood chip producers selling hardwood chips in the East Asian market. The Company has an advantage over its competitors selling in the East Asian market because of its close proximity to its principal export marketplace, being Japan, South Korea and Taiwan. The Company is able to produce eucalyptus wood chips at a lower delivered cost due to lower shipping charges and labour costs. Further, stricter government regulations on timber harvesting in North America and the announcement by the Australian government of its intention to reduce total hardwood chip export licence volume for 1996 by 13% from 1995 have provided the Company the opportunity to meet the demand caused by the resulting loss in supply of hardwood chips to the Asian market.

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

Research and Development

Research and development is carried out at the research facilities of the Leizhou EJV and by independent laboratories and research centres. The Company has a forestry advisory committee which is comprised of professional foresters and experts from the PRC in eucalyptus, aspen and pine trees. These professional foresters are closely associated with the provincial and municipal forestry bureaus and provide industry and plantation operations advice to the Company on a regular basis.

In 1995, the Company engaged two of the principal forestry institutes in the PRC to carry out research and development activities for an annual retainer fee plus project fees. The research and development rights belong to both the Company and the respective forestry institutes. Neither party may sell such rights to a third party without the consent of the other party. One of these forestry institutes, the Nanjing Forestry University of Jiangsu Province, is considered by the Company to be the PRC's leading university for forestry training. The project team for the Company's research is under the leadership of the former President of the University. The other forestry institute, the Institute of Science and Technological Information under the Chinese Academy of Forestry in Beijing, is considered by the Company to be the PRC's foremost forestry scientific and technical information research institute. It has agreed to provide the Company with current information on: (i) forestry policies; (ii) national, provincial and local industrial development; and (iii) world-wide technical developments.

The Company spent approximately \$412,000 for several projects in 1996 including the following:

- genetic banks of cloning species for eucalyptus and aspen;
- growth rate increases and cycle reduction for eucalyptus and aspen;
- mixed cloning and tracing and proving the origin of the cloned species;
- development of new clone species for masson pine to increase growth rate;
- tissue culture propagation in relation to mediums;
- propagation methods which involved fertilizers, irrigation and density;
- pest control by means of genetic re-organization for aspen; and
- wood fibre characteristics and their application in panel board manufacturing.

Regulatory Structure and Ownership

Leizhou EJV

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

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

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

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

Co-operative Joint Ventures

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

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

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

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

Income Tax for CJVs and EJVs

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

Environmental Laws

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

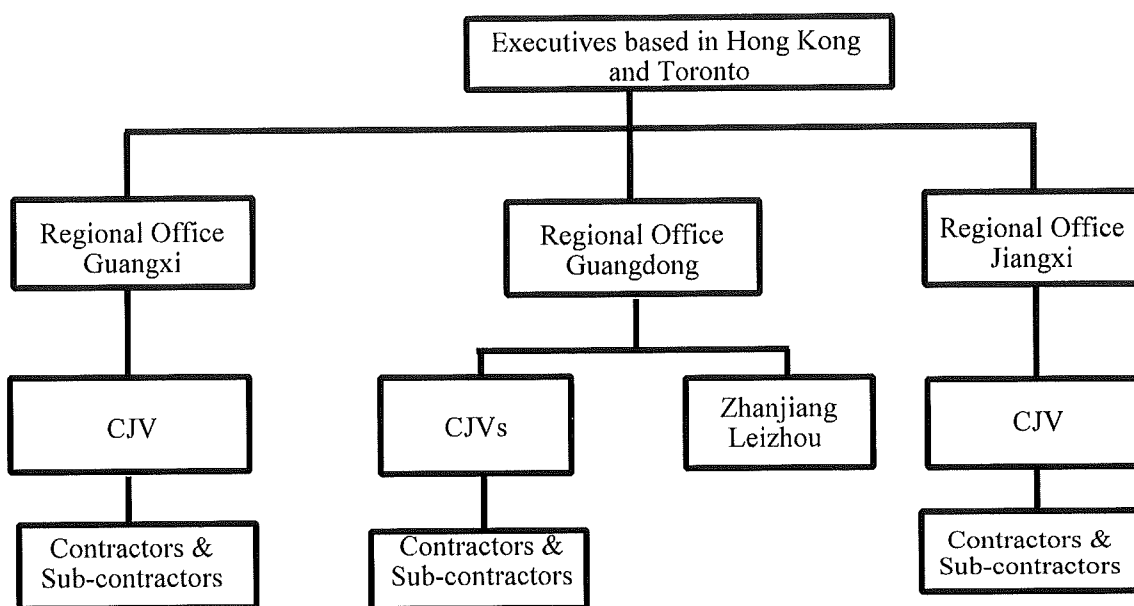
Employees

As of December 31, 1996, the Company employed 374 people who are categorized by function as follows:

Function	Number of Employees
Executives and senior management	5
Regional offices executives and employees in the PRC	16
Sales, marketing and administration	7
Plantation management and technical staff of CJVs	36
Junior staff and workers in Leizhou EJV	310
<hr/>	
Total number of employees	374
<hr/>	

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

The following chart sets out the Company's management and operational structure:



Plantation Service Company

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

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

Capital Contribution Commitments

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

The Leizhou EJV

Under the Leizhou EJV joint venture agreement, Sino-Wood is committed to provide \$5,300,000 in capital to acquire its 53% equity interest in Leizhou EJV. An initial capital contribution of \$1,000,000 was made in 1994 with the balance due January 1996. During 1996, Sino-Wood's EJV partner, the Leizhou Forestry Bureau (the "LFB") agreed to extend payment of the balance of the capital contribution to December 1996. No capital contribution was made in December 1996 as Sino-Wood has agreed with the LFB to settle its capital contribution to the Leizhou EJV concurrent with the settlement of amounts due to the Leizhou EJV by LFB.

The Jiangxi EJVs

Pursuant to memoranda of understanding signed between May 14, 1995 and June 28, 1995 (the "MOU Dates") by Sino-Wood and each of its joint venture partners, the joint venture partners agreed that Sino-Wood would reduce its equity interests in each of the Jiangxi Investments from 55% to 30%. The parties also agreed in the memoranda of understanding to amend the joint venture agreements to change the composition of the board representation in line with the proposed change in equity interests and to reduce the requirement for further capital contribution commitments from \$14,045,000 to \$2,187,000.

Subsequent to the submission to the FERT, Sino-Wood has conducted discussions with its Jiangxi Investments joint venture partners and the FERT to further restructure its Jiangxi Investments. Amendments to the memoranda of understanding will eliminate the requirement to make the capital contribution of \$2,187,000 by Sino-Wood to the Jiangxi Investments. The equity interest of Sino-Wood in the Jiangxi Investments will be reduced accordingly to reflect the amendments to the memoranda of understanding.

Based on discussions by Sino-Wood with the FERT and on the execution of memoranda of understanding with its Jiangxi Investments partners, the Company does not anticipate any problems obtaining the approval required to implement the changes stated above.

The CJVs

Sino-Wood's subsidiaries are committed to contribute \$14,200,000 of capital in total to the five PRC CJVs, of which \$2,130,000 was required to be made within three months from the respective dates of issue of business licenses to the PRC CJVs. As at December 31, 1996 capital contributions of \$1,945,000 had been made in total to the PRC CJVs. An amount of \$185,000 that was due in January 1996 has been withheld pending the satisfactory performance of one of the PRC CJV partners. The remaining capital contribution of \$12,070,000 is to be contributed as costs are incurred for planting, maintenance and harvesting of the tree plantations. The timing and amount of the remaining capital contributions is dependent on the phase-in of land for the tree plantations.

The Company believes that the cash in hand at December 31, 1996 and the cash flow to be generated from operations will provide the Company adequate cash resources to meet its capital contribution commitments, fund its growth strategy and accelerate the planned phase-in of its 623,000 hectares of tree plantation lands.

Recent Financings

During December 1995, the Company entered into a \$3 million convertible loan agreement (the "Loan") with the Hong Kong branch of the Deutsche Bank A.G. of Frankfurt, Germany, which closed on January 15, 1996.

On or after January 15, 1998, the Loan is convertible into Class A Subordinate-Voting Shares at the lower of: (i) five times the fully diluted (including the shares issued on conversion) earnings of the Company for the previous fiscal year; and (ii) at a 40% discount to the average closing prices of the shares on The Toronto Stock Exchange for the five trading days preceding the conversion notice. However, in no circumstances can the conversion price be less than \$0.4426 per share. The Loan is for a period of five years and may be called by the bank on or after January 15, 2000. Interest is payable, at the option of the Company, either quarterly or semi-annually based on the three-month or six-month LIBOR US dollar deposit rate plus 2%. The Loan is guaranteed by Sino-Forest and is collateralized by a first fixed and floating charges on the assets of the Company.

In October 1996, the Company issued and sold to investors, by way of private placement, a total of 24,000,000 special warrants (the "Special Warrants") at Cdn.\$1.25 per Special Warrant, each Special Warrant exercisable into one Class A Subordinate-Voting Share without payment of any additional consideration; all Special Warrants have been exercised. In connection with this offering, the Company qualified 24,000,000 Class A Subordinate-Voting Shares for issuance pursuant to a prospectus dated January 28, 1997. The net proceeds of this offering of Special Warrants to the Company was approximately Cdn.\$27.5 million.

Risk Factors

Political and Economic Considerations

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

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

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

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

Legal System and Enforcement

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

The Company believes its joint ventures have obtained the governmental approvals necessary to permit them to conduct their business. The Company has been advised by its Chinese counsel that if every CJV or EJV carries out its business in accordance with the joint venture contract under which it was formed and under the PRC laws, any further required approval could be obtained. If there is any administrative review, approval or action by various national, provincial or local agencies of the PRC government which causes a CJV or EJV serious damage, the PRC law permits redress to the court with respect to certain of these administrative actions.

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

Environmental Considerations

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

Failure to Make Capital Contribution

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

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

Competition

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

Exchange Rate

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

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Financial Data

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

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

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

Quarterly Financial Information

The following table is a summary of selected quarterly financial information of the Company for each of the eight quarters ended December 31, 1996:

	Revenue (\$000's)	Net Income (\$000's)	Earnings Per Share	
			Basic	Fully-Diluted
1996				
December 31	\$14,231	\$3,661	\$0.08	\$0.05
September 30	6,317	2,667	0.06	0.05
June 30	7,814	1,109	0.03	0.02
March 31	4,066	720	0.02	0.02
1995				
December 31	\$6,669	\$1,554	\$0.04	\$0.04
September 30	4,933	888	0.03	0.03
June 30	9,265	1,084	0.03	0.03
March 31	6,556	827	0.02	0.02

**Note: The 1995 results have been restated to reflect adjustments in the fourth quarter of 1995 which related to previous periods. The net effect of this restatement is to decrease net income by \$215,000 for the three months ended September 30, 1996 and increase net income by \$720,000 for the nine months ended September 30, 1995.*

Dividend Record and Policy

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

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

Reference is made to the section entitled "Management's Discussion and Analysis" on pages 7 to 11 of the Annual Report to the Shareholders of the Company for the year ended December 31, 1996, which section is incorporated herein by reference.

MARKET FOR SECURITIES

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

DIRECTORS AND OFFICERS

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

<u>Name and Municipality of Residence</u>	<u>Position(s) Held</u>	<u>Principal Occupation</u>	<u>Director Since⁽¹⁾</u>
Allen T.Y. Chan ⁽²⁾ Hong Kong	Chairman, Chief Executive Officer and Director	Officer of the Company	1994
Kai Kit Poon Hong Kong	President and Director	Officer of the Company	1994
Leslie W.L. Chan Hong Kong	Executive Vice President	Officer of the Company	-
Kee Y. Wong Toronto, Ontario	Senior Vice President, Corporate Development, Chief Financial Officer and Director	Officer of the Company	1997
Lawrence K.P. Hon Hong Kong	Senior Vice President, Operations	Officer of the Company	-
Andrew R. Agnew Toronto, Ontario	Treasurer	Senior Associate of Gornitzki, Thompson & Little, a merchant banking group	-
John Thompson ⁽²⁾ Toronto, Ontario	Secretary and Director	Principal of Gornitzki, Thompson & Little, a merchant banking group	1994
Edmund Mak ⁽²⁾ Vancouver, B.C.	Director	Real estate marketing, Royal LePage Real Estate Ltd., a real estate company	1994
R. John (Jack) Lawrence ⁽³⁾ Toronto, Ontario	-	Chairman of Lawrence & Company Inc., a private investment company	-
William P. Rosenfeld ⁽³⁾ Toronto, Ontario	-	Partner, Goodman Phillips & Vineberg, a law firm	-

⁽¹⁾ All directors of the Company serve until the next Annual Meeting of Shareholders.

⁽²⁾ Member of the Audit Committee.

⁽³⁾ Nominated to be elected to the Board at the upcoming Annual Meeting of Shareholders.

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

Allen T.Y. Chan

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

Kai Kit Poon

Mr. Kai Kit Poon was one of the founders of Sino-Wood. Mr. Poon has been President of Sino-Wood and a director of Sino-Forest since March 1994. Mr. Poon has over 34 years of experience in the PRC forestry industry. Mr. Poon was General Manager of Ka Hung Woodworks Ltd. (a wood product, manufacturing and trading company) from December 30, 1990 to August 1993. From August 1962 to October 1977, he was employed as a scaling engineer by Guangdong Forestry Bureau. Since June 1979, he has been engaged in the trading and manufacture of forest products in the PRC and Hong Kong. Mr. Poon graduated from Guangzhou Chungnam Forestry University, Guangdong, PRC in 1962.

Leslie W.L. Chan

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

Kee Y. Wong

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

Lawrence K.P. Hon

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

Andrew R. Agnew

Mr. Andrew R. Agnew has been associated with Gornitzki Thompson & Little since March 1991 except for a 15 month period when he was a Vice President of Majendie Securities Inc. during 1993 to 1994. He was appointed Treasurer of the Company in June 1996. Mr. Agnew is a Chartered Financial Analyst and has over 25 years experience in the Canadian securities industry.

John Thompson

Mr. John Thompson is a principal of Gornitzki Thompson & Little, Merchant Bankers. Mr. Thompson is also Chairman of the Board of Directors of Pembridge Inc. and a director of Polyphalt Inc. and SIRIT Technologies Inc.

Edmund Mak

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

R. John (Jack) Lawrence

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

William P. Rosenfeld

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

As at May 16, 1997, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, 10,634,107 Class A Subordinate-Voting Shares, representing 17.3% of the Class A Subordinate-Voting Shares outstanding, and 6,000,000 Class B Multiple-Voting Shares, representing 100% of the Class B Multiple-Voting Shares outstanding.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's information circular in respect of its Annual and Special Meeting to be held on June 16, 1997. Additional financial information is provided in the Company's comparative financial statements for its most recently completed financial year ended December 31, 1996. A copy of such documents may be obtained upon request from the Company.