

Consolidated Statement of Changes in Financial Position

[Expressed in thousands of United States dollars]

<i>(Unaudited)</i>	<i>9 Months Ended September 30</i>	
	1997	1996
OPERATING ACTIVITIES		
Net income for the period	\$9,638	\$4,496
Add items not affecting cash		
Depreciation, amortization and depletion	689	556
Non-controlling interests	604	1,327
Equity in losses of Jiangxi Investments	325	250
	11,256	6,629
Net change in non-cash working capital balances	(12,528)	(1,226)
Cash provided by operating activities	(1,272)	5,403
FINANCING ACTIVITIES		
Cash released from escrow	11,042	—
Issuance of share capital, net	5,856	723
Issuance of convertible debenture	—	3,000
Cash provided by financing activities	16,898	3,723
INVESTING ACTIVITIES		
Increase in amount due from PRC parties	(2,603)	51
Investment in capital assets	(10,592)	(9,014)
Cash used in investing activities	(13,195)	(9,065)
Effect of exchange rate changes on cash	53	5
Net increase in cash during the period	2,484	66
Cash, beginning of period	6,718	323
Cash, end of period	9,202	389

Corporate Data

BOARD OF DIRECTORS

Allen T.Y. Chan
Kai Kit Poon
Kee Y. Wong, F.C.A.
Edmund Mak
John (Jack) Lawrence
William Rosenfeld, Q.C.

AUDITORS

Ernst & Young
Ernst & Young Tower
P.O. Box 251
Toronto Dominion Centre
Toronto, Ontario
M5K 1J7

LEGAL COUNSEL

Aird & Berlis
BCE Place
Suite 1800
181 Bay Street
Toronto, Ontario
M5J 2T9

BANKERS

Hongkong Bank of Canada
Deutsche Bank AG
Standard Chartered Bank

OFFICERS

Allen T.Y. Chan
Chairman of the Board
and Chief Executive Officer

Kai Kit Poon
President

Leslie Chan
Executive Vice President

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

Lawrence Hon
Senior Vice President,
Operations

REGISTRAR AND
TRANSFER AGENT
CIBC Mellon Trust
393 University Avenue
5th Floor
Toronto, Ontario
M5G 1E6

STOCK EXCHANGE
The Toronto Stock Exchange

TRADING SYMBOL
TRE.A



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Sino-Forest Corporation



THIRD QUARTER REPORT 1997

9 months to September 30, 1997

Report To Shareholders

[All amounts in United States dollars, unless otherwise indicated]

During the third quarter of 1997, Sino-Forest reported net income of \$5,128,000 or \$0.06 per share (fully diluted), an increase of 92%, compared to net income of \$2,667,000 or \$0.05 per share (fully diluted) in the third quarter of 1996. The increase in net income was primarily attributable to the continued increase in wood chip shipments from the Guangxi Cooperative Joint Venture ("Guangxi CJV"). Revenue in the third quarter of 1997 was \$11,789,000, an increase of 87% from revenue of \$6,317,000 for the same period in 1996. Revenue in the third quarter would have been significantly higher if the Company had acted as principal rather than as an agent in connection with all the shipments from the Guangxi CJV. For example, pro forma sales from Guangxi CJV shipments in the third quarter would have been \$26.7 million instead of \$4.2 million if the Company had acted as principal in connection with such sales.

For the nine-month period ended September 30, 1997, net income increased by 114%, to \$9,638,000, compared to \$4,496,000 for the corresponding period in 1996. Revenue for the nine months ended September 30, 1997 increased by 20%, to \$21,807,000, from \$18,197,000 for the nine months ended September 30, 1996.

For the quarter ended September 30, 1997, wood chip shipments increased by 33% to 336,000 bone dry metric tonnes (BDMT), compared to 252,000 BDMT in the third quarter of 1996. Of the 336,000 BDMT shipped, 31% was exported to Japan, South Korea and Taiwan. Export shipments in the third quarter of 1997 were 104,000 BDMT compared to 157,000 BDMT in the third quarter of 1996, a decrease of 34% due to the continuing weakness in the Japanese fibre market. However, demand in the domestic People's Republic of China (PRC) market remained strong. In the third quarter of 1997, wood chips sold in the PRC totalled 232,000 BDMT, an increase of 144% over the 95,000 BDMT sold in the third quarter of 1996. Of the 320,000 BDMT of wood chips sold by the Guangxi CJV, 63,000 BDMT relates to sales in which the Company acted as principal producing a profit of \$1,480,000. The remaining 257,000 BDMT relates to shipments in which the Company acted as an agent earning commission income of \$4,200,000, compared to \$803,000 for the same period in 1996. It is the Company's intention to act as principal rather than an agent on future shipments as sales contracts are renewed or new contracts signed. In the third quarter, the Company also earned commission income of \$923,000 from lumber trading compared to \$2,210,000 earned in the third quarter of 1996.

Wood chip prices in Asia have remained relatively stable despite the recent currency problems encountered by some countries in South-East Asia, particularly Thailand, Malaysia and Indonesia. None of these countries are major exporters of wood chips nor does the Company export its wood chips to these countries. Average selling price of wood chips attained by the Company for the third quarter of 1997 remained at approximately \$103 per BDMT. The Company expects wood chip prices to marginally improve in 1998 as inventory level in Japan is expected to decline.

As at September 30, 1997, the amount due to Leizhou EJV from the Leizhou Forestry Bureau amounted to \$16,755,000, of which the Company's equity position in the Leizhou EJV represents \$8,880,000. The Leizhou EJV receivable was satisfied in November 1997 through a payment to the Company of timber holdings of a value of approximately \$8,880,000.

In November 1997, the Company also signed agreements with the local forestry bureaus of the Fujian Province and the Hainan Province to increase its plantation lands by 100,000 hectares in each of the provinces on similar terms and conditions as its existing CJVs. The total capital contributions to be made by the Company's subsidiaries to these new CJVs will amount to \$5,000,000 of which \$750,000, representing 15% of the Company's subsidiaries' total capital contributions, is required to be made within 3 months of the respective dates of the business licenses of these CJVs. The required capital contributions will be funded from cash flow generated from operations and proceeds from the equity offering completed in October 1996.

Despite the tough economic environment in Japan, the Company has shipped in the aggregate 659,000 BDMT during the first nine months of 1997 and believes that the strong demand for wood fibre in China will enable the Company to achieve its shipment target of 1 million BDMT set for 1997.

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



Allen T.Y. Chan
Chairman and C.E.O.
November 20, 1997



Kai Kit Poon
President

Consolidated Statement of Income

[Expressed in thousands of United States dollars, except for earnings per share information]

(Unaudited)	3 Months Ended September 30		9 Months Ended September 30	
	1997	1996	1997	1996
Revenue	\$11,789	\$6,317	\$21,807	\$18,197
Costs and expenses				
Cost of sales	4,383	2,223	6,414	8,657
Selling, general and administration	1,278	728	3,320	1,955
Depreciation, amortization and depletion	359	150	689	556
	6,020	3,101	10,423	11,168
Income from operations	5,769	3,216	11,384	7,029
Equity in income (losses) of Jiangxi Investments	(108)	7	(325)	(250)
Interest income (expense), net	10	(61)	66	(159)
Other income	25	—	35	—
Income before income taxes	5,696	3,162	11,160	6,620
Provision for income taxes	(386)	(189)	(918)	(797)
Income before non-controlling interests	5,310	2,973	10,242	5,823
Non-controlling interests	(182)	(306)	(604)	(1,327)
Net income for the period	5,128	2,667	9,638	4,496
Earnings per share				
Basic	0.07	0.06	0.14	0.11
Fully diluted	0.06	0.05	0.12	0.09
Weighted average number of outstanding Class A and Class B shares (in thousands)				
Basic	71,400	43,000	64,000	42,000
Fully diluted	81,300	54,000	81,200	55,000