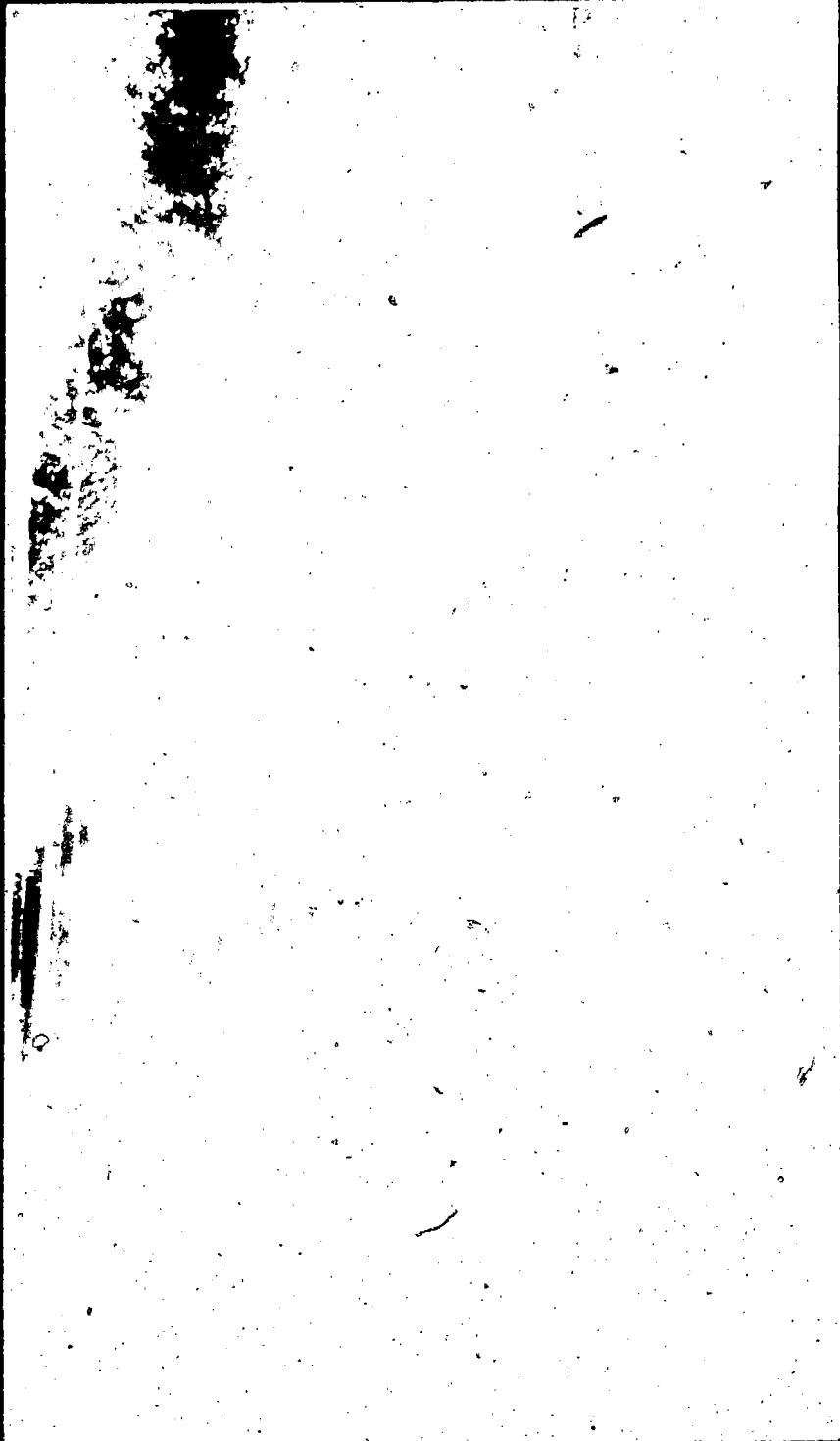




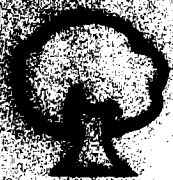
② 161 82934H
Sino-Forest Corporation

12/31/94

***Integrated
Strategies
for Growth***



1994 ANNUAL REPORT



天行健，
君子以自強不息，
地勢坤，
君子以厚德載物。

謙

地勢坤也，
君子以裒多克寡，
卑而自下也，
君子以裒多克寡。

豫

ICHING

The sun is ever
advancing.
An enlightened
person, therefore,
keeps strengthening
and developing
himself.
The earth is gentle
and receptive.
An enlightened
person, therefore,
nurtures the
surroundings with
abundant riches.

SUN TZU

When you are deep
in the strategy,
you should not
show your strength
to the enemy.
When you are
in the strategy,
you should not
show your strength
to the enemy.

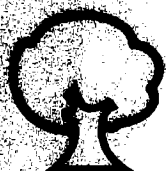
ABOUT THE COMPANY

Sino-Forest Corporation's principal businesses are:

- growing and harvesting eucalyptus, aspen and pine trees under long-term plantation programs in Southern China
- manufacturing, distributing and selling forest products including logs, wood chips, plywood, particle board and forestry chemicals

The company plans to build plants for oriented strand board, medium density fibreboard and pulp. We believe Sino-Forest is the only enterprise using sino-foreign joint ventures in integrated forestry activities in China.





天行健，
君子以自強不息，
地勢坤，
君子以厚德載物。

易經

入深者重地也，
吾將繼其食。
四通者衢地也，
吾將固其結。

孫子

I CHING

*The sun is ever
empowering.
An enlightened
person, therefore,
keeps strengthening
and developing
himself.
The earth is gentle
and responsive.
An enlightened
person, therefore,
nourishes the
surroundings with
absorbing riches.*

SUN TZU

*When you are deep
in alien territory,
you should not
antagonize people
there but try to
secure supplies
locally.
When you are
occupying the
ground which
dominates the whole
territory, you should
build up alliances.*

ABOUT THE COMPANY

Sino-Forest Corporation's principal businesses are:

- growing and harvesting eucalyptus, aspen and pine trees under long-term plantation programs in Southern China
- manufacturing, distributing and selling forest products including logs, wood chips, plywood, particle board and forestry chemicals

The company plans to build plants for oriented strand board, medium density fibreboard and pulp. We believe Sino-Forest is the only enterprise using sino-foreign joint ventures in integrated forestry activities in China.

*The front cover depicts
E. grandis x. urophylla
trees planted in
Guangxi Province,
People's Republic of China.*

FINANCIAL HIGHLIGHTS
Year ended December 31, 1994

Revenue and Income *(in thousands of United States dollars)*

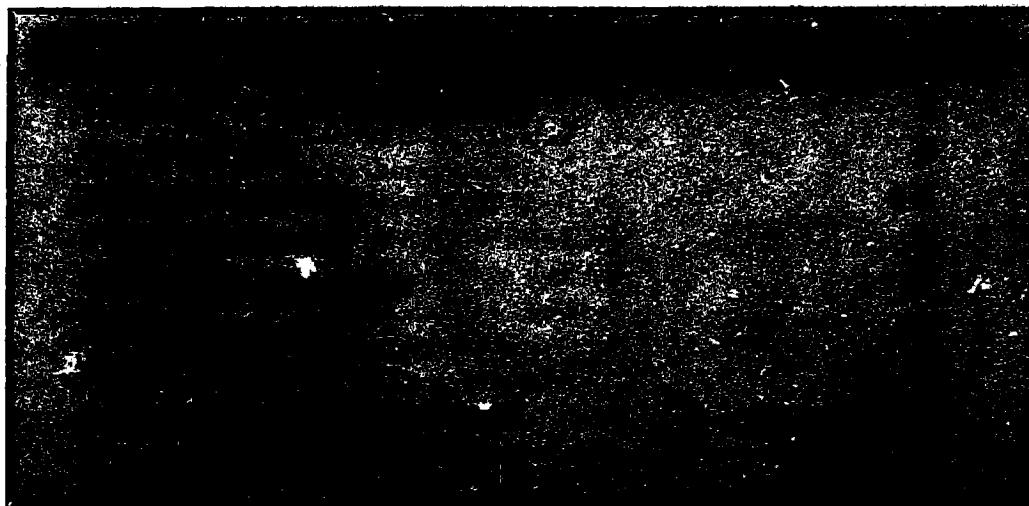
Revenue	\$20,482
Income From Operations	4,308
Net Income Attributable To Shareholders	3,010
Cash From Operations	2,534

Financial Position *(in thousands of United States dollars)*

Working Capital	\$ 6,850
Total Assets	30,610
Non-Controlling Interests	21,112
Shareholders' Equity	8,482
Capital Expenditures (Including Acquisition)	18,589

Common Share Data *(in United States dollars)*

Earnings Per Share	\$ 0.10
Shareholders' Equity Per Share	\$ 0.25
Class A Subordinate-Voting Shares Outstanding	
- 1994 Weighted Average	28,879,178
- Year End Position	33,500,000



FINANCIAL HIGHLIGHTS
Year ended December 31, 1994

Revenue and Income *(in thousands of United States dollars)*

Revenue	\$20,482
Income From Operations	4,308
Net Income Attributable To Shareholders	3,010
Cash From Operations	2,534

Financial Position *(in thousands of United States dollars)*

Working Capital	\$ 6,850
Total Assets	30,610
Non-Controlling Interests	21,112
Shareholders' Equity	8,482
Capital Expenditures (Including Acquisition)	18,589

Common Share Data *(in United States dollars)*

Earnings Per Share	\$ 0.10
Shareholders' Equity Per Share	\$ 0.25
Class A Subordinate-Voting Shares Outstanding	
- 1994 Weighted Average	28,879,178
- Year End Position	33,500,000

Table of Contents	
Overview - First With Integration	2
Our Philosophy	3
Chairman's Message	4-5
President's Message	6
Competitive Advantages	7
Sino-Forest People	8
Market and Pricing	9
Integrated Strategies For Growth	10
Financial Information	11-28

FIRST WITH INTEGRATION

Sino-Forest Corporation is the first integrated forest products company in the PRC (The People's Republic of China). The Company is well positioned to become an Asian leader within five years and subsequently the world. Our growing participation in the commercialization of China's vast forestry resources is intended to create sustained growth and value for our shareholders.

The Company is publicly-traded in Canada and headquartered in Hong Kong. It consists of Canadian, U.S. and Hong Kong investors working in partnership under the Sino-Forest Plantation Plan to satisfy the growing Chinese and Asian demand for high quality wood chip and derivative products.

The Plan is proceeding steadily as scheduled. It involves the planting, harvesting and processing of eucalyptus, aspen and pine trees to produce pulp chips, plus raw materials for particle board, OSB (Oriented Strand Board) and MDF (Medium Density Fibreboard) for domestic and foreign markets.

Under CIV (Co-operative Joint Venture) contracts now in place, Sino-Forest Corporation takes title to the timber at harvesting time and controls the harvesting process, operation of the chipping plants, all shipping operations and sales negotiations with purchasers, ensuring maximum quality and cost control.

Sino-Forest's biotechnology provides a critical advantage by ensuring the rapid growth and superior fibre quality of eucalyptus trees after cloning them in a cost-effective laboratory environment. They are harvested within five years, a sixth of the time required in a natural forest setting.

Due to low transportation and shipping costs, Sino-Forest and its partners are able to profitably deliver the least expensive raw material for pulp chips in the world. As demand for pulp grows in the domestic market, construction of a pulp mill to feed from the Company's chip operations is in the early planning stages. Additional facilities for down-stream and value-added forest products targeting domestic and international markets are also part of the Company's growth strategy.

The outlook for Sino-Forest Corporation is extremely positive. China has the fastest growing economy in the world and contains the greatest number of planted forests which will create an increasing raw materials base. Given the placement of Sino-Forest chip processing sites in some of the most developed and accessible areas of China, the Company looks forward to sustaining a leadership role within the growing U.S.\$2 billion Asian wood chip market.

The cooperative joint ventures with forestry bureaus encompass some 600,000 hectares in Southern China. The annual yield of natural wood fibre will increase progressively over the next ten years. This volume will then represent approximately 14% of the wood fibre harvested in the Province of British Columbia in 1994. As a result, it is anticipated that Sino-Forest will generate significant revenues in the coming years.

Sino-Forest Corporation looks forward to implementing additional integrated strategies for growth during 1995 as we continue to generate value for our shareholders.



This seven-year old forest in Guangdong mirrors the bountiful results of advanced biotechnology combined with plantation farming. Trees of superior fibre quality grow at a rate of 18 cubic metres per hectare per year, amongst the fastest in the world... a significant competitive advantage for our company



Zhanjiang Port in Guangdong Province reflects the emphasis on infrastructure throughout Southern China as commercialization increases

OUR PHILOSOPHY

Sino-Forest Corporation Management Philosophy

1. We believe in People and consider them our competitive edge and the driving force of our company.
2. We believe in Alliances and consider the building and keeping of networks and relationships one of the key elements for our business success.
3. We believe in Total Quality Management and consider the philosophy and practices of TQM the best means of integrating people, products, customers and environmental concerns for maximizing shareholder value.
4. We believe in Community-Friendliness and consider securing acceptance and support from the local community essential for long-term business development.
5. We believe in a Global Orientation.

Sino-Forest Corporation Environment Philosophy

1. We consider "Sustainable Development" the preferred ideology for economic development: meeting the needs of the present generation without compromising the needs of future generations.
2. We are committed to the practices of "Sustainable Management" as the policy and mode for sustained-yield forestry management; the production of a continuous flow of desired products and services without undue reduction of its inherent value and future productivity, and without undue undesirable effects on the physical and social environment.
3. We believe that what is good for the physical and social environment is also good for the economic and business environment. We will be environmentally-friendly and profitable at the same time.

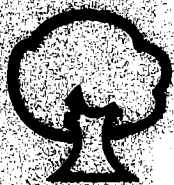
Sino-Forest Corporation "China" Philosophy

1. We recognize China as an established production base with abundant resources in reserve.
2. We recognize China as an emerging and expanding market with tremendous room to grow.
3. We recognize China as a developing economy becoming more rationalized and legalized.
4. We are comfortable with China's improving infrastructures for business and the country's determined transition into a market economy.
5. We consider it the right time to expand our forestry operations in China as both the natural resources and people are ready to enter into the "Commercialization" phase of forestry development.



Wood chip warehouse, Guangdong, helps meet an increasing domestic demand for high-quality wood products





CHAIRMAN'S MESSAGE

Keeping a business simple and focused is the key to competitiveness and flexibility in today's changing commercial environment. Sino-Forest Corporation was formed with the single-minded purpose of being one of the first to commercialize the forestry operations in China in partnership with local partners. Our intent is to achieve efficiency and profitability through integration. During 1994, our first year as a public company, we have become even more focused on the management of short growth cycle plantations in South China, serving the booming Asian economy as our primary market.

With the successful implementation of our strategy to form joint ventures with local partners, we believe that we have established Sino-Forest as the first integrated forest products company in China. That is, we operate plantations, we process the timber and we market the products. And, with the practice of sustainable forestry management and total quality management, we have met the targets that we set for 1994.

The First Year

1994 was a formidable test year for Sino-Forest.

From its inception, Sino-Forest's operating philosophy has been to capitalize on China's avowed intention to commercialize its forestry resources. We also advocated that forming partnerships with local participants is the correct approach to maximize the mutual benefits of these endeavours. Our performance in 1994 was guided by these principles. We have done what we planned to do. With net income for the year of U.S.\$3.0 million, or U.S.\$0.10 per share, our results are in line with management's expectations.

In short, we believe that we have passed our first year test.

In addition to starting operations with six joint ventures - one in eucalyptus plantation operation and five others in forestry products processing - management decided to significantly enlarge the company's plantation operations. In view of the worldwide experience of an increasingly constrained wood supply along with the growing demand (both resulting in rising timber prices), your management considered it of critical importance to expand Sino-Forest's plantation base.

At the end of last year, the Company entered into agreements and memoranda of understanding with various State-owned forestry agencies in South China to encompass 600,000 hectares of plantations in Southern China for a period of 50 years. These plantations will produce high yielding, short-cycle crops of hardwoods and softwoods at very competitive costs. This wood fibre source can initially be exported as wood chips, but more importantly used as the feedstock for value-added projects such as MDF and OSB plants and later a pulp mill.

These agreements will provide for the phasing-in of the new plantation lands to new joint ventures over a ten-year period commencing in 1995.

It is estimated by an independent registered professional forester whose certification is included on page 9 that these plantations can yield 9 million cubic metres of wood fibre per year.

The Second Year

We expect 1995 to be an even more successful year for Sino-Forest. Capitalizing on the global wood fibre shortage and the continuing Asian economic boom, we look forward to an improving market for wood chips.

For 1995, we plan to harvest 14,000 hectares of plantations with each hectare producing an average of 40 BDMTs (*Bone Dry Metric Tonne*) of wood chips. We also plan to re-plant 28 million seedlings during the year.

In addition to further improving wood processing productivity, your management is exploring ways to utilize these assets as the base for co-development with experienced industry partners to process our wood fibre for the expanding domestic Chinese markets.

In order to capitalize on the increasing demand for imported wood logs and structural panels in China, the company will continue to trade and act as the sourcing agent for these products in China.

To finance the plantation program, the company plans to issue a minimum of U.S.\$10 million of new equity financing during the year.

A Few Words of Thanks

A talented, committed and mutually supportive group of employees is the driving force behind our success. The management would like to congratulate and thank them all for the successful and exciting year.

"Community-Friendliness" is one of the cardinal principles for our business. Likewise, our joint venture partners as well as local people have been most supportive since we initiated operations. On behalf of the Board, I would like to extend our appreciation to our partners, associates and friends in China for their continuing cooperation.

Finally, I would like to thank our shareholders for their continued confidence in Sino-Forest, as well as the Board members for their commitment, advice and support. We look forward with enthusiasm and confidence to the challenge and opportunities of the coming year and beyond.

On behalf of the Board,

A handwritten signature in black ink, appearing to read 'A. Chan', with a stylized flourish at the end.

Allen T.Y. Chan
Chairman and Chief Executive Officer
May 2, 1995.



过去一年，本公司積極與中國各省林业
單位締結商緣，本着互助互利的精神，
在此物華天寶、人傑地靈的環境裏，共
為中國林业的建設和發展努力，達到林
商互濟之目的。以此人脈地緣為基礎，
嘉漢大業可期。

總裁：潘家傑

一九九五年五月二日

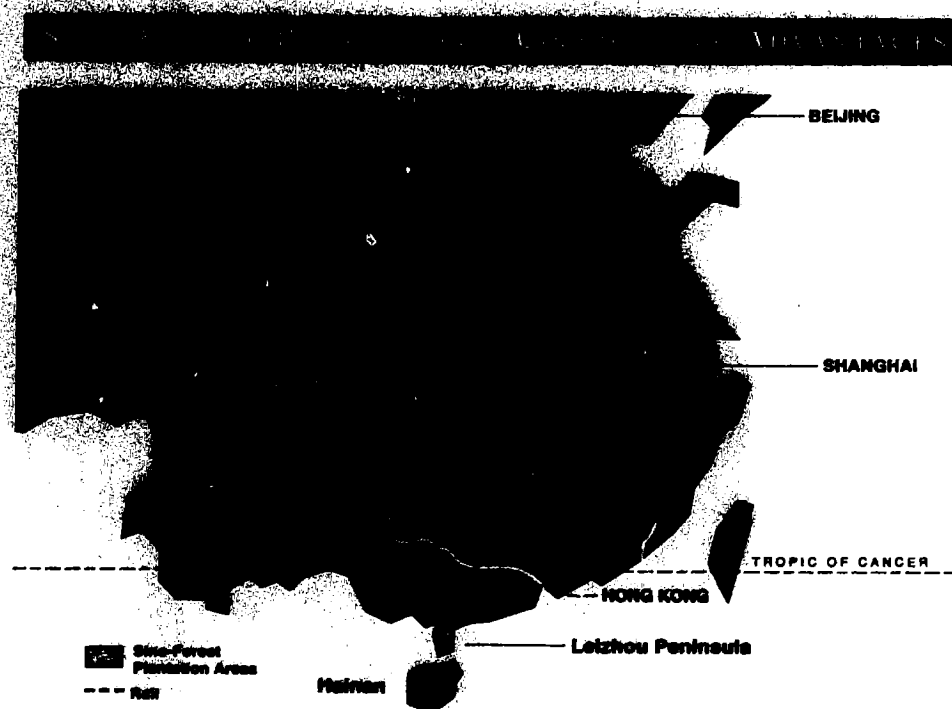
PRESIDENT'S MESSAGE

Over the last year, Sino-Forest Corporation has been actively establishing cooperation with various provincial forestry agencies in China. With mutual support and mutual benefit as the guiding principles and capitalizing on the rich and resourceful environment, we are all working together for the development and commercialization of China's forestry industry.

Building on this substantial and substantiating infrastructure, we see a bright future for Sino-Forest.

Ka Kit Poon
President

May 2, 1995.



China currently has approximately 30 million hectares in forestry plantations or reserves. Due to their proximity to the Tropic of Cancer, Sino-Forest plantations enjoy long growing seasons, highly acidic clay soil and a high water table allowing trees to take in more water and grow more rapidly. Our plantations are supported by nearby roads, ports and railway systems ensuring our premium products are delivered at highly competitive prices.

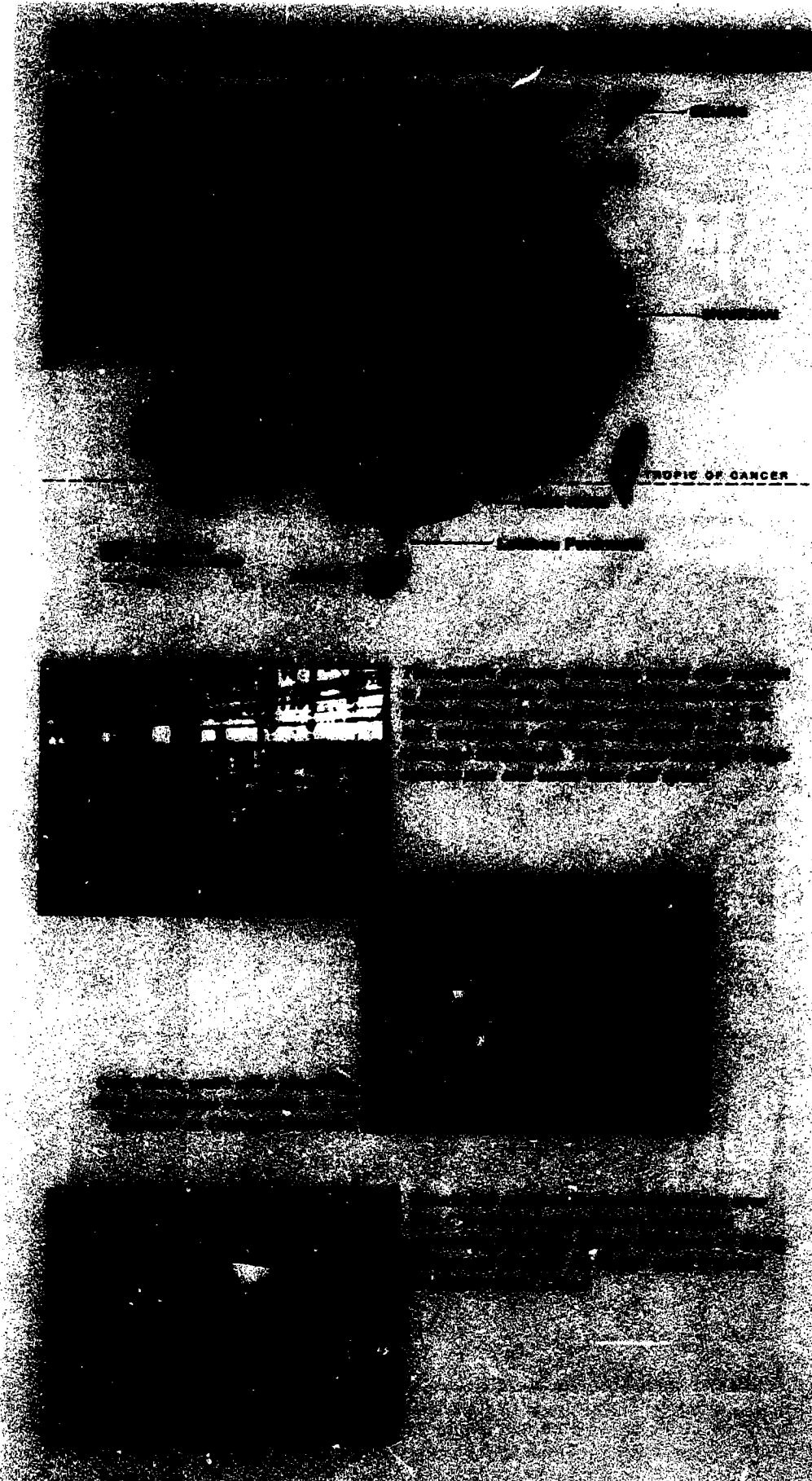


The rapidly growing domestic wood chip market is matched by the efficiency of the Sino-Forest harvesting and manufacturing process. To the left, eucalyptus seedlings are cloned in the Guangxi laboratory. The process ensures a high success rate and saves time and space

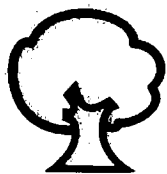
Only three years after planting, this Eucalyptus measures 14 cm diameter in Guangxi Province



Wood chip production capacity reaches over 500,000 tonnes annually at Sino-Forest processing facilities. Rising standards of living will propel demand for higher quality forest products within China



China currently has approximately 30 million hectares in forestry plantations or reserves. Due to their proximity to the Tropic of Cancer, Sino-Forest plantations enjoy long growing seasons, highly acidic clay soil and a high water table allowing trees to take in more water and grow more rapidly. Our plantations are supported by nearby roads, ports and railway systems ensuring our premium products are delivered at highly competitive prices.



過去一年，本公司積極與中國各省林業
單位締結商緣，本着互助互利的精神，
在此物華天寶、人傑地靈的環境裏，共
為中國林業的建設和發展努力，達到林
商互濟之目的。以此人脈地緣為基礎，
嘉漢大業可期。

總裁：潘家傑

一九九五年五月二日

PRESIDENT'S MESSAGE

Over the last year, Sino-Forest Corporation has been actively establishing cooperation with various provincial forestry agencies in China. With mutual support and mutual benefit as the guiding principles and capitalizing on the rich and resourceful environment, we are all working together for the development and commercialization of China's forestry industry.

Building on this substantial and substantiating infrastructure, we see a bright future for Sino-Forest.

Ka Kit Poon
President

May 2, 1995.

The Sino-Forest team consists of internationally recognized silvaculturalists, several of whom played critical roles developing China's reforestation strategy launched during 1989 as part of the country's National Afforestation Project. Their efforts and reputations have resulted in the success of the Sino-Forest joint venture program which relies on positive relations with local forestry departments and bureaus.

SINO-FOREST PROJECT: THE DONGGANG FOREST

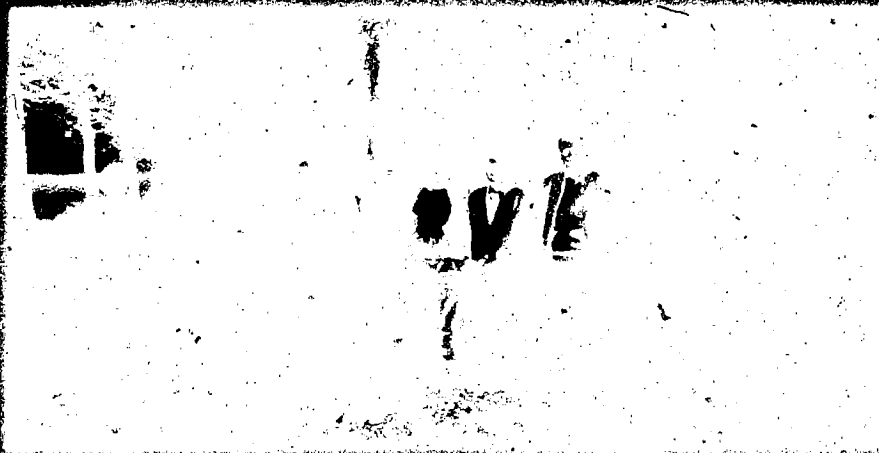


Messrs. Qi and Gao at the Donggang nursery



From top to right: Messrs. Qi and Gao at the Donggang nursery; Messrs. Qi and Gao at a reforestation site; Messrs. Qi and Gao at a reforestation site

Messrs. Qi and Gao at a reforestation site. The photo shows the results of a 20-year reforestation project in 1989.



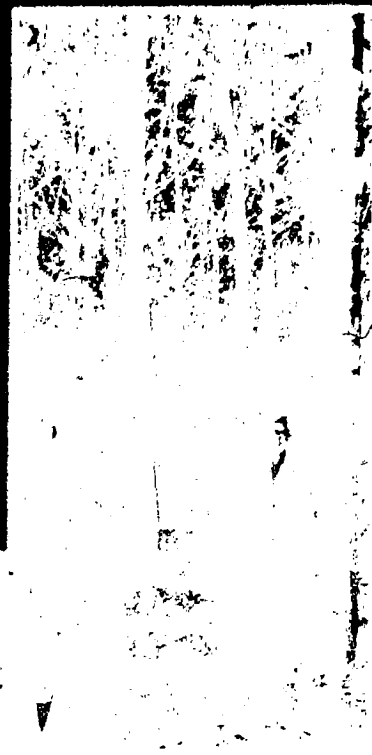
A view of the Donggang Forest, showing the results of a 20-year reforestation project in 1989.

The Sino-Forest team consists of internationally recognized silviculturalists, several of whom played critical roles developing China's reforestation strategy launched during 1980 as part of the country's National Afforestation Project. Their efforts and reputations have resulted in the success of the Sino-Forest joint venture program which relies on positive relations with local forestry departments and bureaus.

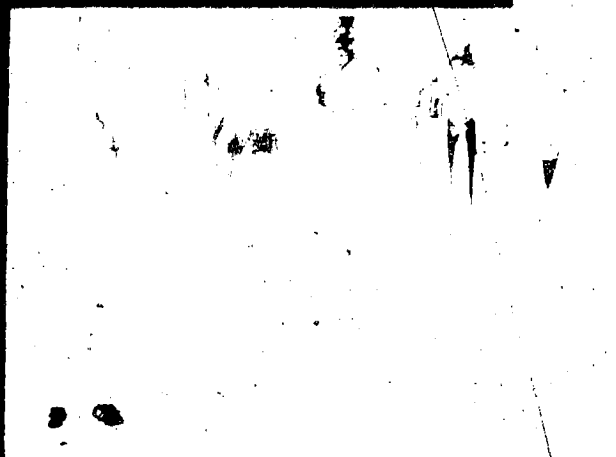
SINO FOREST PEOPLE...THE DRIVING FORCE



Messrs. Qi and Ouyang at the Dongmen nursery



Lawrence Hon, Chief Operating Officer, Sino-Wood, standing beside a 28 cm diameter Aspen planted in Jiangxi in 1988



From left to right: Messrs. Wei, Duncanson, Qi, Poon and Ouyang in Guangxi at a eucalyptus plantation



A team of Jiangxi Province Forestry Department officials in Poyang Hu plantation

MARKET AND PRICING

Sino-Forest Corporation produces wood chips which are bought by pulp manufacturers as a feedstock. These are then mixed with other forms of fibre to produce a desired end-product.

There is a worldwide shortage developing for wood fibre as a result of environmental restraints to cutting timber in North America, clearing of forests in the tropical areas to create farmland, increasing demand in the developing world for forestry related products and export controls in certain supplier nations.

These factors have created dramatic price escalations. For example, certain categories of pulp have risen from U.S.\$300 per tonne in late 1993 to U.S.\$850 per tonne currently. While prices for pulp and paper products have traditionally been cyclical and peaked at the end of an economic expansion, many experts predict this shortage will continue and prices will remain high.

The price of wood chips has a direct relationship to the price of pulp. As a result of the escalation in the cost of pulp, the price for wood chips has also risen. The price for wood chips is currently U.S.\$110 FOB from China versus U.S.\$70-\$90 per BDMT FOB twelve months ago. The largest market for wood chips produced in China is Japan which buys 12.0 million BDMTs annually, representing a market of U.S.\$1.6 billion. Taiwan and Korea represent 14% of sales for wood chips produced in China.

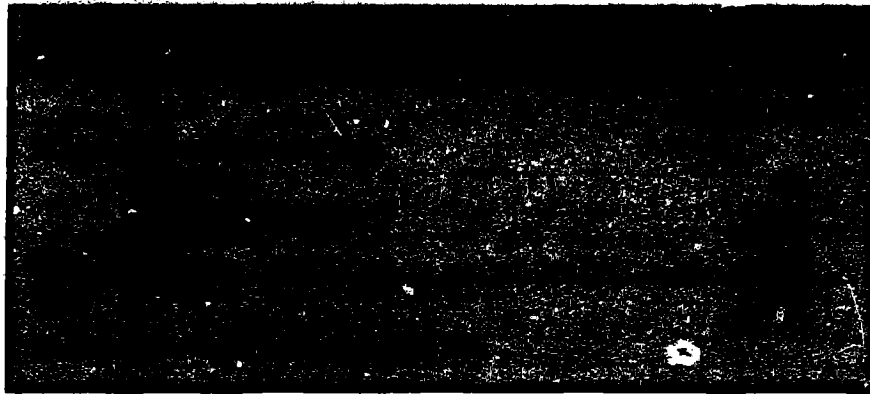
China's projected consumption of non-wood fibre will be 22.2 million tonnes annually from 1998 onward. Sino-Forest's opportunity lies in the rapid shift to wood pulp usage due to a rising standard of living and increasing consumer demand for high-quality goods.

Assessor's Statement

I have examined the Forestry Reserves in the Provinces of Guangdong, Jiangxi, Guangxi and Hubei of the People's Republic of China during the period October 27 - November 5, 1994.

In my opinion, the Forestry Reserves are sustainable at the yields indicated and are sufficient in quantity to meet the requirements of the proposed expansion of the wood chip production facilities and the proposed value-added plants.

Signed



Expansion Plans

Sino-Forest will extend the number of plantations in Southern China to encompass 600,000 hectares over the next ten years. This represents an annual production level of 9 million cubic metres of wood on a sustainable basis according to John Duncanson, an independent professional forester (see Assessor's Statement).

American and Japanese pulp shortages will create increased demand for our products. However, the most significant growth opportunity lies in the PRC market's growing consumption of local high-quality wood products due to clear quality and price advantages.

MARKET AND PRICING

Sino-Forest Corporation produces wood chips which are bought by pulp manufacturers as a feedstock. These are then mixed with other forms of fibre to produce a desired end-product.

There is a worldwide shortage developing for wood fibre as a result of environmental restraints to cutting timber in North America, clearing of forests in the tropical areas to create farmland, increasing demand in the developing world for forestry related products and export controls in certain supplier nations.

These factors have created dramatic price escalations. For example, certain categories of pulp have risen from U.S.\$300 per tonne in late 1993 to U.S.\$850 per tonne currently. While prices for pulp and paper products have traditionally been cyclical and peaked at the end of an economic expansion, many experts predict this shortage will continue and prices will remain high.

The price of wood chips has a direct relationship to the price of pulp. As a result of the escalation in the cost of pulp, the price for wood chips has also risen. The price for wood chips is currently U.S.\$110 FOB from China versus U.S.\$70-\$90 per BDMT FOB twelve months ago. The largest market for wood chips produced in China is Japan which buys 12.0 million BDMTs annually, representing a market of U.S.\$1.6 billion. Taiwan and Korea represent 14% of sales for wood chips produced in China.

China's projected consumption of non-wood fibre will be 22.2 million tonnes annually from 1998 onward. Sino-Forest's opportunity lies in the rapid shift to wood pulp usage due to a rising standard of living and increasing consumer demand for high-quality goods.

Assessor's Statement

I have examined the Forestry Reserves in the Provinces of Guangdong, Jiangxi, Guangxi and Hubei of the People's Republic of China during the period October 27 - November 5, 1994.

In my opinion, the Forestry Reserves are sustainable at the yields indicated and are sufficient in quantity to meet the requirements of the proposed expansion of the wood chip production facilities and the proposed value-added plants.

Signed



	(Million tonnes)
Fibre Supply of Domestic Pulp	
Wood Pulp	2.6
Non-Wood Fibres	22.2
Pulp Imports	0.8
Total	25.6

Source: Hawkins Wright Papermaker January 1994.

Expansion Plans

Sino-Forest will extend the number of plantations in Southern China to encompass 600,000 hectares over the next ten years. This represents an annual production level of 9 million cubic metres of wood on a sustainable basis according to John Duncanson, an independent professional forester (see Assessor's Statement).

American and Japanese pulp shortages will create increased demand for our products. However, the most significant growth opportunity lies in the PRC market's growing consumption of local high-quality wood products due to clear quality and price advantages.



Plantation in Guangxi Province comprises 1,250 hectares of eucalyptus planted in May 1992



Zhanjiang Port in Guangdong Province has an annual handling capacity of over 500,000 tonnes of wood chips

INTEGRATED STRATEGIES FOR GROWTH

Goals

1. Build an integrated forestry company
2. Become one of the major forest product companies in Asia, and subsequently, the world
3. Maintain sustained growth and create sustained value for our shareholders
4. Participate in the commercialization of China's forestry resources.

Objectives

1. Establish, control and manage extensive forestry resource bases in China
2. Penetrate and maintain a substantial market share in Asia's wood chip market
3. Set up manufacturing facilities for down-stream and value-added forest products, for both domestic and international markets.

Strategies

1. Establish long-term relationships with China's Forestry Ministry and local forestry bureaus for the operation and development of plantations in Southern China where high-yield, short-cycle and readily accessible plantations are concentrated
2. Apply sustained forestry management practice in the operation of Sino-Forest's plantations creating a plentiful wood supply for our customers as well as an appreciating asset for the Company
3. Form joint ventures with international forestry companies to build OSB and MDF plants and pulp mills using some of the chips produced from Sino-Forest plantations as feedstock
4. Develop both domestic and international markets to ensure a prudent investment balance
5. Apply Total Quality Management practices in all facets of Sino-Forest's operations with emphasis on process management, productivity, product quality and employee development
6. Maintain the Company's unique competitive position by seeking out and utilizing the latest forestry technologies
7. Operate in the PRC with local management, augmented by direction and capital from Hong Kong and seek out technical and marketing alliances with international forestry groups
8. Access international markets for capital
9. Maintain liquidity for our shareholders by listing on recognizable stock exchanges representing the best interests of our shareholders
10. Enhance shareholder value by growing revenues and profits at a rate that will command a high premium in the industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

[all amounts are in United States dollars, unless otherwise stated]

BACKGROUND INFORMATION OF THE CORPORATION

Sino-Forest Corporation ["Sino-Forest" or the "Corporation"] was formed in March 1994 as a result of the amalgamation of Mt. Kearsarge Minerals Inc. and 1028412 Ontario Inc. Following the amalgamation, Sino-Forest acquired all the issued and outstanding shares of Sino-Wood Partners, Limited ["Sino-Wood"], a company incorporated under the laws of Hong Kong, in exchange for shares in Sino-Forest. Sino-Wood was incorporated on September 2, 1992 and had no active business until late 1993 when it entered into various agreements with certain State-owned enterprises in The People's Republic of China [the "PRC" or "China"] to acquire, effective January 1, 1994, 53% to 55% equity interest in six Sino-foreign equity joint venture enterprises [collectively, "PRC Subsidiaries"]. Reference is made to notes 1 and 3 to the consolidated financial statements of the Corporation.

Sino-Forest through the PRC Subsidiaries manufactures and produces wood chips, particle boards and forestry chemicals in China. Wood chips are produced from eucalyptus plantations at Zhangjiang Leizhou Eucalypt Resources Development Co. Ltd. ["Zhangjiang Leizhou"], Guangdong Province, and are sold for use in pulp mills in Japan, Taiwan and South Korea. Particle board is produced at Jiangxi Ganjia Wood Industrial Co. Ltd. ["Ganjia Wood"], Jiangxi Province, and is primarily targeted on domestic market. The other four PRC Subsidiaries are principally engaged in manufacturing and marketing of forestry chemicals in China. Additionally, in anticipation of the expanding forestry trading business within the region, a wholly-owned subsidiary of Sino-Wood, Sino-Forest Resources Inc., was incorporated in June 1994 under the laws of the British Virgin Islands.

EARNINGS FROM OPERATIONS

The segmented net revenue and net income for 1994 are as follows:

	Wood chips and boards \$	Forestry chemicals \$	Corporate and other \$	Consolidated \$
[in thousands of United States dollars]				
Net revenue				
Sales of products	13,612	4,667	---	18,279
Commission income	---	---	2,203	2,203
	13,612	4,667	2,203	20,482
Income (loss) from operations	3,361	(498)	1,445	4,308
Interest income				58
Other income				52
Income before non-controlling interests				4,418
Non-controlling interests				1,408
Net income				3,010

Sino-Forest recorded net income of \$3.0 million or \$0.10 per share for the year ended December 31, 1994. The results are in line with earlier management's expectation.

World pulp markets improved steadily throughout 1994 as a direct result of good economic growth and strengthening paper markets. The shrinking timber supplies, both in the United States and Canada, have driven paper and pulp manufacturers in East Asia to turn to the region for steady and long-term fibre supply, thereby resulting in moderate increases in prices of wood chips. Total sales volume of wood chips for the year amounted to approximately 156,300 bone dry metric tonnes ["BDMT"], all of which were denominated in United States dollars. Average net realizable sales price per BDMT for 1994 was approximately \$85. Since the production line at Ganjia Wood only completed its commissioning in mid-1994, sales of particle board for the year was limited. It is anticipated that with the improvement in quality control practices, production and sales from this facility can be enhanced.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

[all amounts are in United States dollars, unless otherwise stated]

The forestry chemical operations of the Corporation produced camphor, camphor oil, iso-borneol, gulonic acid, rosin, turpentine oil and acacia gum. The operating levels decreased because of the PRC's austerity programs and credit tightening. Product sales were primarily to other State-owned enterprises in China, the majority of which are under similar operating fiscal and monetary restraints imposed by the central government. A revitalization process, including streamlining of production, improvement in quality control and the implementation of ISO-9000 standards, has been undertaken by local management to widen profit margins and price competitiveness.

To capitalize on the trend of the increasing import of wood logs and value-added board products by China, and the timber sourcing network established throughout the years by management, the Corporation commenced its forestry trading business in the third quarter of 1994. Sino-Forest Resources Inc. acts as the sourcing agent, working on commission basis for companies in China for purchases of wood logs and board products from countries in South East Asia, such as Myanmar, Malaysia and Thailand.

FINANCIAL POSITION AND LIQUIDITY

Cash generated from operations, before changes in non-cash working capital items, was \$5.8 million in fiscal 1994. An increase in prices of wood chip, is the major cause for the positive cash inflow for the year. Non-cash working capital items, which totalled \$3.3 million, reduced net cash flow from operations for 1994 to \$2.5 million. The non-cash working capital items of \$3.3 million were required due to the slightly higher-than-expected carrying values for receivables and inventories.

In March 1994, the Corporation successfully completed two private placements totalling \$5.1 million to finance the acquisition of the PRC Subsidiaries. In addition, to meet working capital requirements, private placements were completed for the issue of, in aggregate, 1,500,000 Class A Subordinate-Voting Shares for \$0.7 million in November and December 1994 by the Corporation.

In December 1994, for purpose of enhancing the company's credit standing, a bank overdraft facility of HK\$4.5 million [\$580,000] was obtained by Sino-Wood from its principal banker in Hong Kong. Total drawdown under the facility was approximately HK\$1.2 million [\$149,000] as at December 31, 1994.

At December 31, 1994, the Corporation had a net cash and short-term deposits position of approximately \$2.0 million, which can be utilized to finance part of the Corporations' working capital requirements in 1995.

CAPITAL EXPENDITURES

Capital assets, primarily comprised of land use rights and buildings, machinery and equipment and timber holdings, of approximately \$18.0 million were acquired in concert with the acquisition of the PRC Subsidiaries. In addition, capital asset additions totalling approximately \$0.6 million were incurred in 1994.

RISKS AND UNCERTAINTIES

Operating results of Sino-Forest could be significantly affected by fluctuations in the selling price of wood chips and in currency exchange rates. Wood chips produced by the Corporation are primarily supplied to pulp manufacturers in Japan, Taiwan and South Korea. The market pulp industry is cyclical in nature. World pulp prices are affected by a number of factors including world economic growth, and the demand for paper products.

A significant portion of the Corporation's sales are denominated in United States dollars, while most of the Corporation's expenses are in Chinese Renminbi ["Rmb"]. Accordingly, the net income of the Corporation is subject to the impact of exchange rate fluctuations.

Based on projected sales volumes in 1995, the impact of changes in the selling price of wood chips and currency fluctuation on the annual net income of Sino-Forest is estimated as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

[all amounts are in United States dollars, unless otherwise stated]

Sensitivity	Increase (Decrease) in Unit Price	Increase in Net Income [in million of U.S.\$]
Wood chips [per BDMT]	U.S.\$5.00	\$ 2.79
Exchange rate (decrease of ¥0.50 Rmb relative to U.S.\$1.00)	(¥0.50) Rmb	\$ 3.58

Pulp demand and prices improved significantly during 1994 and there were also modest improvements for newsprint. These improvements have continued into 1995. The strong pulp and paper markets have resulted in significantly higher wood chip prices. The reduced timber harvest levels and the reduction in the export of wood chips from North America, increased paper and pulp operating rates and higher utilization of residual fibre for structural wood end-products have also contributed to the increase in the market price of wood chips.

The Corporation is subject to a wide variety of environmental laws and regulations in China. It has always been and will be the policy of the Corporation's PRC Subsidiaries to closely monitor their environmental performance. The Corporation has also adopted the practices of sustainable forestry management: the production of a continuous flow of desired forest products and services without undue reduction of its inherent value and future productivity from plantations and plants and without undue undesirable effects on the physical and social environment. The Corporation believes that it has conformed with all requirements under applicable legislation in the countries in which it operates.

In accordance with the contractual obligations set out in the various joint venture agreements and memoranda, the Corporation is required to contribute additional cash of \$18.4 million to the PRC Subsidiaries to fulfill its capital contribution requirement thereof by January 1996. These cash requirements are to be satisfied from the internal resources generated from operations and funding from further equity issues and / or debt financings.

OUTLOOK

The outlook for Sino-Forest's operations in 1995 remains positive. The turnaround in the world pulp and paper industry in 1994 has been much stronger than expected. This cyclical upturn is expected to carry through much of the latter part of the decade. The continuing improvement in all major economies results in heavier demands for all paper products and is expected to support continued escalation in world fibre price throughout this upturn.

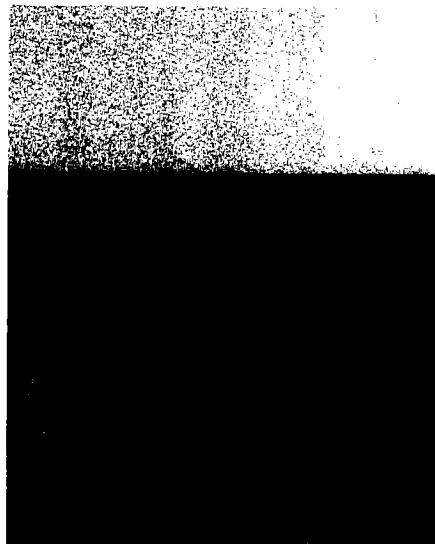
Because of the success of its forestry joint venture operations in the PRC and the continued favourable conditions for forestry products, the Corporation has decided to focus its future activities on expanding the plantation business. Following this decision, Sino-Wood has entered into agreements and memoranda of understanding with various State-owned forestry agencies in Southern China to expand the scale of its plantation activities to encompass some 600,000 hectares in four provinces. The agreements and memoranda will provide for the phasing-in of the lands over a ten-year period commencing in 1995.

This new plantation program will focus on developing short-growing cycle species such as eucalyptus and aspen. With the comparative low production costs, well-developed forestry infrastructure and accessibility to markets, the Corporation believes it can increase its forestry reserves which not only can be utilized for the expanded wood chip business but also can be used as feedstock for value-added forestry product plants in future years. These value-added forestry product plants include medium density fibre, oriented strand board and pulp plants and are expected to be co-developed with experienced industrial partners for targeting the expanding markets in the PRC.

For the forestry chemical business, the Corporation intends to implement the production improvement programs described above to revitalize these subsidiaries in 1995. The Corporation is currently exploring ways of restructuring this operations with a view of enhancing their value to our shareholders.

In light of the increasing demand for high-valued wood logs and structured boards in China, the Corporation believes it can continue to benefit from its forestry trading business. Enhancing supply relationships and sourcing additional sales networks both outside and within China are now being pursued by management.

In connection with the expansion of the plantation program, the Corporation plans to issue a minimum of \$10 million of new equity financing by mid-1995.



20 cm and above, these trees were
found at Guangdong Province in 1989



20 cm Aspens were planted
at Guangdong Province in 1986

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Sino-Forest Corporation and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are prepared fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Sino-Forest Corporation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through the Audit Committee which is appointed by the Board.

The Committee meets periodically with management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approved by the shareholders, the engagement or re-appointment of the external auditors.

Consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.

Allen T. Y. Chan
Chairman and
Chief Executive Officer

Ka-chi Yau
Vice-President & Chief Financial Officer

April 13, 1995

AUDITORS' REPORT

To the Shareholders of
Sino-Forest Corporation

We have audited the consolidated balance sheet of Sino-Forest Corporation [formerly Mt. Kearsarge Minerals Inc.] as at December 31, 1994 and the consolidated statements of income and retained earnings and changes in financial position 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 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, 1994 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Toronto, Canada,
April 13, 1995.



Chartered Accountants

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

CONSOLIDATED BALANCE SHEET

[Expressed in thousands of United States dollars]

As at December 31

1994
\$

ASSETS

Current

Cash and short-term deposits	2,116
Accounts receivable	2,617
Inventories [note 4]	2,197
Other receivables	782
Prepaid expenses	154
Total current assets	7,866
Due from related parties [note 5]	5,633
Capital assets, net [note 6]	17,075
Goodwill, net [note 1]	36
	30,610

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Bank indebtedness [note 7]	149
Accounts payable and accrued liabilities	802
Other payables	65
Total current liabilities	1,016
Non-controlling interests	21,112
Commitments [note 14]	

Shareholders' equity

Share capital [note 8]	5,321
Retained earnings [note 9]	3,010
Cumulative translation adjustments	151
Total shareholders' equity	8,482
	30,610

See accompanying notes

On behalf of the Board:


Allen T.Y. Chan
Director


John Thompson
Director

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

**CONSOLIDATED STATEMENT
OF INCOME AND RETAINED EARNINGS**

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

Year ended December 31

	1994 \$
Revenue	20,482
Costs and expenses	
Costs of sales	12,971
Selling, general and administration	1,777
Depreciation and amortization	1,426
	16,174
Income from operations	4,308
Interest income	58
Other income	52
Income before non-controlling interests	4,418
Non-controlling interests	1,408
Net income for the year and retained earnings, end of year	3,010
Earnings per share [note 11]	
Basic	\$ 0.10
Fully diluted	\$ 0.08

See accompanying notes

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

**CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION**

[Expressed in thousands of United States dollars]

Year ended December 31

	1994 \$
OPERATING ACTIVITIES	
Net income for the year	3,010
Add items not affecting cash	
Depreciation and amortization	1,426
Non-controlling interests	1,408
	<u>5,844</u>
Change in non-cash working capital balances related to operations	
Accounts receivable	(2,617)
Inventories	(625)
Other receivables	(781)
Prepaid expenses	(154)
Accounts payable and accrued liabilities	802
Other payables	65
Cash provided by operating activities	<u>2,534</u>
FINANCING ACTIVITIES	
Issuance of share capital	5,809
Share issue costs	(489)
Cash provided by financing activities	<u>5,320</u>
INVESTING ACTIVITIES	
Investments in the PRC Subsidiaries [note 3]	(3,895)
Cash acquired on investments in the PRC Subsidiaries [note 3]	4,004
Increase in amount due from related parties	(5,633)
Purchase of capital assets	(595)
Purchase of goodwill	(37)
Cash used in investing activities	<u>(6,156)</u>
Effect of exchange rate changes on cash	<u>269</u>
Net increase in cash during the year and cash position, end of year	<u>1,967</u>
Represented by	
Cash and short-term deposits	2,116
Bank indebtedness	(149)
	<u>1,967</u>

See accompanying notes

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

**CONSOLIDATED STATEMENT OF CHANGES IN
FINANCIAL POSITION**

[Expressed in thousands of United States dollars]

Year ended December 31

1994
\$

OPERATING ACTIVITIES

Net income for the year	3,010
Add items not affecting cash	
Depreciation and amortization	1,426
Non-controlling interests	1,408
	<u>5,844</u>

Change in non-cash working capital balances
related to operations

Accounts receivable	(2,617)
Inventories	(625)
Other receivables	(781)
Prepaid expenses	(154)
Accounts payable and accrued liabilities	802
Other payables	65
Cash provided by operating activities	<u>2,534</u>

FINANCING ACTIVITIES

Issuance of share capital	5,809
Share issue costs	(489)
Cash provided by financing activities	<u>5,320</u>

INVESTING ACTIVITIES

Investments in the PRC Subsidiaries [note 3]	(3,895)
Cash acquired on investments in the PRC Subsidiaries [note 3]	4,004
Increase in amount due from related parties	(5,633)
Purchase of capital assets	(595)
Purchase of goodwill	(37)
Cash used in investing activities	<u>(6,156)</u>

Effect of exchange rate changes on cash	<u>269</u>
---	------------

Net increase in cash during the year and cash position, end of year	<u>1,967</u>
--	--------------

Represented by

Cash and short-term deposits	2,116
Bank indebtedness	(149)
	<u>1,967</u>

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

1. BASIS OF PRESENTATION

On March 14, 1994, Mt. Kearsarge Minerals Inc. ["Mt. Kearsarge"], a corporation incorporated under the laws of Ontario, Canada, changed its name to Sino-Forest Corporation ["Sino-Forest" or the "Corporation"] as a result of an amalgamation with 1028412 Ontario Inc. ["Ontario"]. At the time of the amalgamation, Ontario had working capital and shareholders' equity of \$4,550,000 [Cdn. \$6,182,000]. This amalgamation has been accounted for as a pooling of interests.

On March 17, 1994, Sino-Forest acquired all the issued and outstanding common shares of Sino-Wood Partners, Limited ["Sino-Wood"], a company incorporated under the laws of Hong Kong, in exchange for 16,200,000 Class A Subordinate-Voting Shares, 6,000,000 Series A Preference Shares and 8,100,000 Series B share purchase warrants of Sino-Forest. The then existing shareholders of Sino-Wood, as a group, held greater than 50% of Class A Subordinate-Voting Shares of Sino-Forest after the share exchange. This acquisition has been accounted for as a reverse takeover and for accounting purposes Sino-Wood has been treated as the acquiror of Sino-Forest.

Under the purchase method of accounting, the net assets of Sino-Forest were adjusted to reflect the following estimated fair values:

	\$
Net assets acquired	133
Goodwill	37
	<u>170</u>

Sino-Wood was inactive for the period from incorporation on September 24, 1992 to December 31, 1993, except for entering into various agreements in 1993 with certain State-owned enterprises in The People's Republic of China [the "PRC"] to acquire 53% to 55% equity interest in six Sino-foreign equity joint venture enterprises as described in note 3. Accordingly, no comparative figures are included in these consolidated financial statements since Sino-Wood did not commence operation until January 1, 1994.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by management in accordance with generally accepted accounting principles. The statements are expressed in United States dollars, the reporting currency of Sino-Wood. The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, Sino-Wood and Sino-Forest Resources Inc., a company incorporated under the laws of The British Virgin Islands, and the following six indirectly-owned subsidiaries [each, a "PRC Subsidiary", collectively, the "PRC Subsidiaries"] located in the PRC:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

2. SIGNIFICANT ACCOUNTING POLICIES - Basis of consolidation (cont'd)

- 55% equity interest in each of the five Sino-foreign equity joint venture enterprises in Jiangxi Province, namely Jiangxi Ganjia Wood Industrial Co. Ltd., Jiangxi Ganzhou Pencheng Chemical Industry Co. Ltd., Jiangxi Chuigang Forest Products & Chemical Industry Co. Ltd., Jiangxi Dongyuan Chemical Industry Co. Ltd. and Jiangxi Xuesong Forest & Chemical Industry Co. Ltd.; and
- 53% equity interest in a Sino-foreign equity joint venture enterprise in Guangdong Province, Zhangjiang Leizhou Eucalypt Resources Development Co. Ltd. ["Zhangjiang Leizhou"].

All significant intercompany accounts and transactions have been eliminated on consolidation.

Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations, are translated into United States dollars using the temporal method. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rate. Revenue and expense items are translated at the average exchange rates prevailing during the year, except for depreciation and amortization 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.

The Corporation's PRC Subsidiaries are considered self-sustaining. Financial statements of self-sustaining foreign operations are translated into United States dollars using the current rate method. Under this method, assets and liabilities which are denominated in Chinese Renminbi are translated at the rate of exchange in effect at the balance sheet date while revenue and expense items [including depreciation and amortization] are translated at the average exchange rates prevailing during the year. Exchange gains and losses from the translation of such financial statements are deferred and disclosed as a separate component of shareholders' equity.

Inventories

Raw materials are valued at the lower of average cost of acquisition and replacement cost. Work-in-progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred to bring the inventories to their present condition and location, and is calculated using the weighted average method. Net realizable value represents the anticipated selling price less all further costs for completion and distribution.

Goodwill

Goodwill, which is the excess of purchase price over the estimated fair value of the net assets of Sino-Forest acquired by Sino-Wood, is amortized over forty years on a straight-line basis.

Capital assets

Capital assets are recorded at cost. Repairs and maintenance expenditures are charged to income; 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:

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

2. SIGNIFICANT ACCOUNTING POLICIES - Capital assets (cont'd)

Land use rights and buildings	30 years
Machinery and equipment	15 years
Office furniture and equipment	10 years
Vehicles	10 years
Leasehold improvements	over the lease term

Costs of timber holdings are capitalized and depleted on the basis of the volume of timber cut.

Revenue

Revenue from sales of products is recognized upon shipment to customers. Commission income is recognized as revenue when services are rendered.

3. INVESTMENTS IN PRC SUBSIDIARIES

Effective January 1, 1994, Sino-Wood acquired a 53% to 55% equity interest in the PRC Subsidiaries. The interests were acquired for an aggregate purchase price of \$3,895,000 satisfied by initial cash capital contributions by Sino-Wood to the PRC Subsidiaries [note 14[a]]

This acquisition has been accounted for under the purchase method of accounting. A summary of the net assets acquired and consideration given in the acquisition of the PRC Subsidiaries is as follows:

	\$
Net assets acquired	
Capital assets	17,994
Inventories	1,572
Cash	4,004
	23,570
Non-controlling interests	(19,675)
	3,895
Consideration given	
Initial cash capital contributions to the PRC Subsidiaries	3,895

4. INVENTORIES

Inventories consist of the following:

	1994
	\$
Raw materials	1,388
Work-in-progress	494
Finished goods	315
	2,197

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

5. DUE FROM RELATED PARTIES

The amount due from related parties consists of the following:

	1994 \$
Due from Jiangxi Anyuan County Chemical Factory	249
Due from Jiangxi Forestry Economic & Technology Development Company ["JFE&TDC"]	644
Due from Jiangxi Camphor Factory	794
Due from Leizhou Forestry Bureau	3,946
	5,633

Jiangxi Anyuan County Chemical Factory, JFE&TDC, Jiangxi Camphor Factory and Leizhou Forestry Bureau are the PRC joint venture partners of the Corporation's PRC Subsidiaries. Except for the amount due from JFE&TDC which bears interest at 10.5% per annum, the amounts due from related parties are unsecured, non-interest bearing and have no fixed repayment terms.

6. CAPITAL ASSETS

Capital assets consist of the following:

	1994		
	Cost	Accumulated depreciation and amortization	Net book value
	\$	\$	\$
Land use rights and buildings	9,863	309	9,554
Machinery and equipment	5,381	326	5,055
Timber holdings	2,954	856	2,098
Vehicles	232	18	214
Office furniture and equipment	137	5	132
Leasehold improvements	22	—	22
	18,589	1,514	17,075

7. BANK INDEBTEDNESS

Sino-Wood has a bank overdraft facility of HK \$4,500,000 [\$580,000], of which HK \$1,154,000 [\$149,000] was utilized as at December 31, 1994. The facility, against which a fixed deposit of an amount not less than the facility amount is pledged with the bank, is available until December 31, 1995. Overdrafts under the facility bear interest at the bank's fixed deposit rate plus 1%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

8. SHARE CAPITAL

Share capital consists of the following:

	1994
	\$
<hr/>	
Authorized	
Unlimited Class A Subordinate-Voting Shares	
6,000,000 Class B Multiple-Voting Shares	
Unlimited Preference Shares, issuable in series, the first	
thereof shall consist of 6,000,000 Series A Preference Shares	
Issued	
33,500,000 Class A Subordinate-Voting Shares	5,321
6,000,000 Series A Preference Shares	—
	<hr/> 5,321

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 will be entitled to one vote per share whereas each holder of Class B Multiple-Voting Shares will be 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 shall 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 shall be 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 Shares, 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 Shares 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 shall have the rights and other features fixed by the Board of Directors of the Corporation. The Preference Shares of each series shall rank on a parity 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 Corporation and have a preference over the Class A Subordinate-Voting and the Class B Multiple-Voting Shares.

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

8. SHARE CAPITAL (cont'd)

The holders of Series A Preference Shares shall not be entitled to receive any dividends. Except as otherwise required by the Business Corporations Act (Ontario), the holders of the Series A Preference Shares shall not be entitled to receive notice of or to attend any meetings of shareholders of the Corporation or to vote at any such meeting.

The Corporation may at any time after March 31, 1996 redeem the issued Series A Preference Shares at a redemption price of Cdn. \$0.01 per share. Subject to certain conditions, each holder of a Series A Preference Share shall be entitled prior to March 31, 1996 to have all or any part of the Series A Preference Shares held converted into fully paid and non-assessable Class B Multiple-Voting Shares on a share-for-share basis.

Issued

On January 1, 1994, Mt. Kearsarge issued 20,742,773 [2,074,278 post amalgamation] common shares through a private placement for proceeds of \$115,000.

On March 14, 1994, pursuant to the amalgamation described in note 1, every 10 common shares of Mt. Kearsarge were exchanged for one Class A Subordinate-Voting Share of Sino-Forest and 12,800,000 Class A Subordinate-Voting Shares of Sino-Forest were issued to the shareholders of Ontario in exchange for common shares of Ontario. Also, the Series A share purchase warrants previously issued by Ontario will now be exercisable into Class A Subordinate-Voting Shares of Sino-Forest.

In addition, 16,200,000 Class A Subordinate-Voting Shares, 6,000,000 Series A Preference Shares and 8,100,000 Series B share purchase warrants of Sino-Forest were issued on March 17, 1994 in exchange for all issued and outstanding shares of Sino-Wood. Each Series B share purchase warrant will entitle the holder to acquire one Class A Subordinate-Voting Share of Sino-Forest on or before June 30, 1995 for Cdn. \$1.50 per share.

As at December 31, 1994, none of the warrants referred to above were exercised.

On November 30, 1994 and December 7, 1994, Sino-Forest issued 1,200,000 and 300,000 Class A Subordinate-Voting Shares, respectively, in two separate private placements for total net proceeds of \$672,000.

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

8. SHARE CAPITAL (cont'd)

The following summarizes the changes to Class A Subordinate-Voting Shares of the Corporation as a result of the transactions described above:

	Number of shares [Post amalgamation]	\$
Mt. Kearsarge, shares outstanding, December 31, 1993	9,257,227	
Mt. Kearsarge, shares issued for cash, January 1, 1994	20,742,773	
	30,000,000	
Mt. Kearsarge, on amalgamation, March 14, 1994	1 for 10	
Mt. Kearsarge, shares outstanding following amalgamation	3,000,000	
Shares deemed issued on acquisition of outstanding shares of Mt. Kearsarge [see above]	3,000,000	170
Shares issued to Ontario on amalgamation	12,800,000	4,932
Shares issued to Sino-Wood	16,200,000	1
Sino-Forest, shares outstanding after giving effect to the reverse takeover on March 17, 1994	32,000,000	5,103
Shares issued subsequent to March 17, 1994		
Private placements for cash, November 30, 1994 and December 7, 1994	1,500,000	707
Sino-Forest, shares outstanding, December 31, 1994	33,500,000	5,810
Less share issue costs		(489)
	33,500,000	5,321

The legal stated value of Sino-Forest's Class A Subordinate-Voting Shares differs from the carrying value reflected in these consolidated financial statements as a result of the accounting for the acquisition of Sino-Wood as described in note 1. The legal stated capital is Cdn. \$19,754,838.

Stock options

On March 21, 1994, the Board of Directors passed a resolution, subject to the approval of shareholders, to reserve 3,200,000 Class A Subordinate-Voting Shares of the Corporation for future issuance pursuant to a stock option plan. On the same date and November 4, 1994, the Corporation approved options to purchase 200,000 and 750,000 Class A Subordinate-Voting Shares at Cdn. \$0.55 per share and Cdn. \$0.60 per share to certain directors of the Corporation and certain officers of Sino-Wood, respectively. These options are to be vested 20% per annum commencing on the date of the approval. The options will be exercisable within five years from the date they are vested.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

9. DISTRIBUTION OF EARNINGS

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, the earnings of the Corporation's PRC Subsidiaries are available for distribution to each of the joint venture partners after a PRC Subsidiary [a] satisfies all tax liabilities; [b] provides for any losses in previous years; and [c] makes appropriations to reserve funds, as determined at the sole discretion of the Board of Directors of the PRC Subsidiaries. The appropriations include a general reserve fund, an enterprise expansion fund, and staff bonus and welfare benefits. Sino-Wood has been advised that each of the PRC Subsidiaries does not intend to allocate any appropriations of net income as reflected in its statutory financial statements for the year ended December 31, 1994.

The Corporation's share of the PRC Subsidiaries undistributed earnings as at December 31, 1994 amounted to approximately \$1,567,000.

10. INCOME TAXES

No assessable profits were earned in or derived from Hong Kong by Sino-Wood and its wholly-owned subsidiary, Sino-Forest Resources Inc., during the year. Sino-Wood has estimated tax losses available of approximately \$446,000 which can be applied against future years' taxable income earned in Hong Kong, the benefit of which has not been recorded. These tax losses may be carried forward indefinitely.

The PRC Subsidiaries are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax law [the "Income Tax Laws"]. Pursuant to the Income Tax Laws, Sino-foreign equity joint venture enterprises generally 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 accounts. The Income Tax Laws fully exempt Sino-foreign equity joint venture enterprises from state and local income taxes for two years starting from the first profitable year of operations, followed by a 50% exemption for the next three years. No provision for income taxes has been made by the PRC Subsidiaries since the PRC Subsidiaries are either in their first profitable year of operations or in a tax loss position.

In addition, the Corporation has income tax losses of approximately \$260,000 which can be applied against future years' taxable income in Canada, the benefit of which has not been recorded. These tax losses may be carried forward until 2001.

11. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of 28,879,178 Class A Subordinate-Voting Shares outstanding during the year.

Fully diluted earnings per share reflect the dilutive effect which would have resulted if share purchase warrants and stock options had been exercised and converted into Class A Subordinate-Voting Shares as of January 1, 1994 or the grant date, if later. The number of shares used in the calculation of the fully diluted earnings was 46,709,863.

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

12. RELATED PARTY TRANSACTIONS

- [a] During 1994, Sino-Wood had the following related party transactions with a company of which two of the directors of Sino-Wood are also the directors:
- a contract to provide corporate management services and office facilities to Sino-Wood at an aggregate cost of approximately \$291,000 for the year ended December 31, 1994 [the contract was terminated effective January 1, 1995];
 - purchase of capital assets from the company at a total acquisition cost of approximately \$65,000; and
 - payment of \$75,000 to the company with respect to services rendered including reimbursement of expenses in connection with the acquisition of the PRC Subsidiaries.
- [b] During 1994, Zhangjiang Leizhou had the following related party transactions with Leizhou Forestry Bureau, the PRC joint venture partner thereof:
- purchase of wood logs and related services from Leizhou Forestry Bureau in the aggregate amount of approximately \$5,373,000;
 - provision for subcontracting and related services to Zhangjiang Leizhou in the aggregate amount of approximately \$454,000;
 - provision for plantation services to Zhangjiang Leizhou in the amount of approximately \$129,000; and
 - purchase of inventories from Leizhou Forestry Bureau in the amount of approximately \$241,000.
- [c] During 1994, Jiangxi Ganjia Wood Industrial Co. Ltd. received interest income of approximately \$58,000 from JFE&TDC, the PRC joint venture partner thereof.
- [d] Included in share issue costs during the year are amounts aggregating \$279,000 paid to two companies of which a director of the Corporation is one of the principals, with respect to related services rendered.
- [e] A company of which a director of the Corporation is one of the principals, provided investor relations and related consulting services to the Corporation at a cost of \$35,000 for the year ended December 31, 1994.

Sino-Forest Corporation
[formerly Mt. Kearsarge Minerals Inc.]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1994

13. SEGMENTED INFORMATION

	Wood chips and boards	Forestry chemicals	Corporate and other	Elimination	1994 Consolidated
	\$	\$	\$	\$	\$
BY INDUSTRY SEGMENT					
Net revenue					
Sales to external customers	13,612	4,667	—	—	18,279
Commission income	—	—	2,203	—	2,203
	13,612	4,667	2,203	—	20,482
Income (loss) from operations	3,361	(498)	1,445	—	4,308
Identifiable assets	17,722	9,909	7,201	(4,222)	30,610
Depreciation and amortization	1,131	294	1	—	1,426
Capital asset additions	12,387*	6,135*	67	—	18,589

* Includes acquisition [note 3]

BY GEOGRAPHIC SEGMENT

The Corporation conducts substantially all of its operations in one geographic area, East Asia. During 1994, export sales from the PRC amounted to approximately \$13,590,000.

14. COMMITMENTS

[a] Further capital contributions to the PRC Subsidiaries

Pursuant to the contractual obligations set out in the various joint venture agreements and memoranda of implementation, total capital contributions, in the form of cash, to be made by the Corporation's subsidiary, Sino-Wood, to the PRC Subsidiaries in order to maintain its 53% to 55% equity interests therein amount to \$22,240,000 which is to be payable in installments with the final installment due by January 1996. At December 31, 1994, initial cash capital contributions of \$3,895,000 have been contributed by Sino-Wood to the PRC Subsidiaries [note 3].

Details of further capital contributions to the PRC Subsidiaries in the aggregate amount of \$18,345,000 to maintain the Corporation's 53% to 55% equity interests therein are as follows:

	\$
To be contributed in	
December 1995	12,175
January 1996	6,170
	18,345

[b] Operating lease commitment

Sino-Wood is committed to an operating lease for premises in Hong Kong at an approximate annual amount of \$70,000 for a period of three years, commencing January 1, 1995.

BOARD OF DIRECTORS

Allen T.Y. Chan

Kai Kit Poon

John Thompson

Edmund Mak

James F. O'Donnell

EXECUTIVE OFFICERS

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

Kai Kit Poon
President

Ka-Chi Yau
*Vice-President and
Chief Financial Officer*

John Thompson
Secretary

AUDITORS

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

LEGAL COUNSEL

Blake, Cassels & Graydon
P.O. Box 25, 28th Floor
Commerce Court West
Toronto, Ontario
M5L 1A9

BANKERS

Hongkong Bank of Canada
Bank of America (Asia) Ltd.

COMMON SHARES

The Class A Subordinate-Voting Shares
of the Company are listed on the
Alberta Stock Exchange.

Stock Symbol: TRE

REGISTRAR AND TRANSFER AGENT

The R-M Trust Company
393 University Avenue
5th Floor
Toronto, Ontario
M5G 1E6

**ANNUAL
SHAREHOLDERS' MEETING**

The Annual Meeting of Shareholders
will be held at:

The Board of Trade of
Metropolitan Toronto
First Canadian Place
Toronto, Ontario
4:00 pm on Wednesday,
June 21, 1995

ABOUT THIS REPORT

Copies of this report or a corporate
video are available from:

Sino-Forest Corporation
200 King Street West, Suite 2004
Toronto, Ontario
M5H 3T4
Tel: (416) 597-1100
Fax: (416) 597-2818

OR

Sino-Wood Partners, Limited
2408 Sun Kung Kai Centre
30 Harbour Road
Hong Kong
Tel: (852) 2827-6628
Fax: (852) 2827-2445

Design & Production:
Exclusive Communications Ltd.
Printing: Klein Graphics