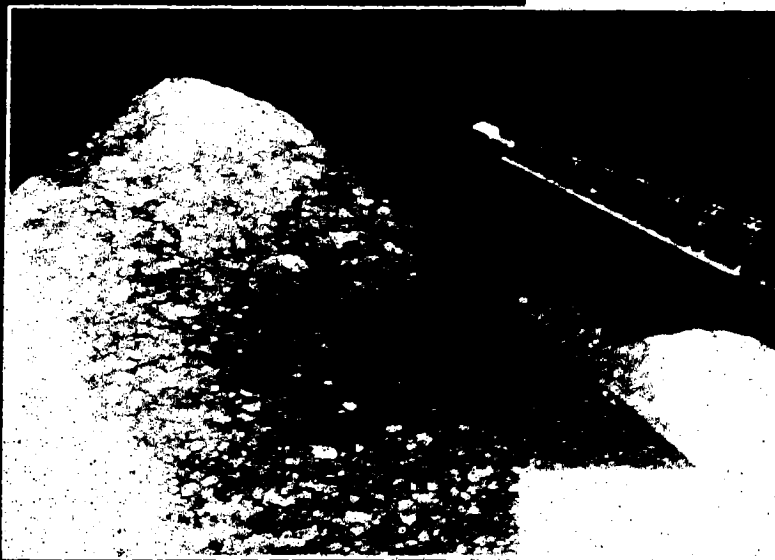
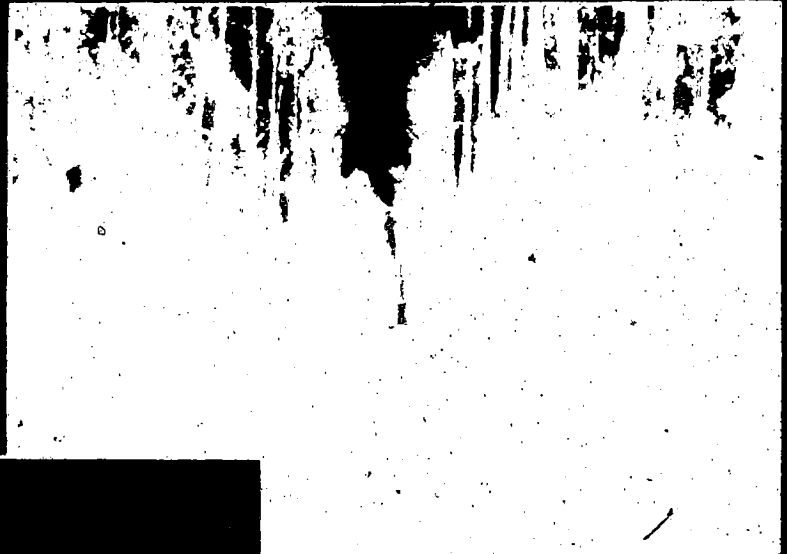


Sino-Forest Corporation

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101. 12/31.

**Commercializing
China's Forest
Resources**



**1 9 9 5
A N N U A L
R E P O R T**



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 and particle board.



The company intends 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.



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天行健，
君子以自強不息，
地勢坤，
君子以厚德載物。

易經

入深者處地也，
吾勝繼其食。
四通者衢地也，
吾勝繼其結。

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.*

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Front cover depicts 3 year old Aspen Plantation in Poyang Lake, Jiangxi Province and Chipping plant in Zhanjiang, Guangdong Province.

FINANCIAL HIGHLIGHTS
Year Ended December 31, 1995

	1995	1994	Change %
Revenue and Income (in thousands of United States dollars)			
Revenue	\$27.423	\$20.482	33.9%
Income from Operations	8,742	4,308	102.9
Net Income Attributable to Shareholders	4,354	3,010	44.7
Cash from Operations	7,727	2,534	204.9

Financial Position (in thousands of United States dollars)

Working Capital	\$ 3,613	\$ 6,850	47.3%
Total Assets	31,549	30,610	3.1
Non-Controlling Interests	17,026	21,112	19.4
Shareholders' Equity	13,689	8,482	61.4

Common Share Data (in United States dollars)

Basic Earnings Per Class A and Class B Share	\$0.12	\$0.10	20.0%
Fully Diluted Earnings Per Class A and Class B Share	\$0.12	\$0.08	50.0
Shareholders' Equity Per Class A and Class B Share	\$0.33	\$0.25	32.0

Class A Subordinate-Voting Shares Outstanding

- Average During Year	34,053,425	28,879,178	17.9
- Year End Position	35,500,000	33,500,000	6.0

Class B Multiple-Voting Shares Outstanding

- Average During Year	1,841,096	-	N/A
- Year End Position	6,000,000	-	N/A

Hardwood Chip Sales

(in Bone Dry Metric Tonnes)	336,744	156,300	115.4%
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FIRST WITH FORESTRY INTEGRATION IN CHINA

Sino-Forest Corporation is the first integrated forest products company in the People's Republic of China. Our growing participation in the commercialization of China's vast forestry resources will create sustained growth and value for our shareholders. This base will allow Sino-Forest to become a major Asian forestry company.

The Company is a Canadian corporation, publicly-traded in Canada, with its principal offices in Hong Kong. The Company is controlled by management and owned by Canadian, U.S., European and Hong Kong investors. Under the Sino-Forest Plantation Plan, the Company plans to meet the growing Chinese and Asian demand for high quality wood chip and derivative products.

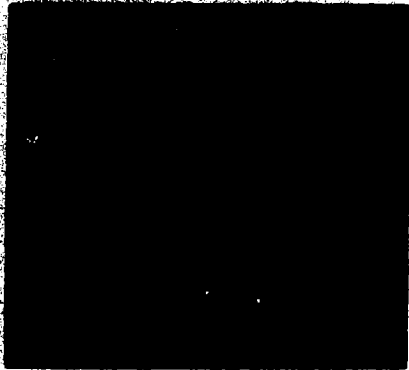
In 1995, the second stage of our Plan was put in place as five new co-operative joint ventures (CJVs) were established in three provinces of southern China. These joint ventures significantly expanded the scope of our plantations to 620,000 hectares, allowing for a sustainable annual yield of 4 million tonnes of fibre when fully operational in approximately ten years. The joint ventures are with provincial and municipal forestry bureaus and cover five groups of forestry plantations. In the initial years of the Plan, the majority of the chips will be from eucalyptus trees, but it is expected that some smaller quantities of aspen and pine trees will begin to be harvested next year. Under the 50 year CJV agreements, Sino-Forest covers the cost of plantation and is entitled to 70% of the fibre produced, while our partners retain a 30% carried interest.

The corporate office in Hong Kong provides marketing services to the CJVs and controls the execution of the sales contracts for chips with buyers in the Asian market. The Corporation maintains full-time staff in China but mainly sub-contracts with its partners for the provision of services. The Corporation's multi-faceted involvement as an integrated forestry company ensures provision of the highest quality of goods and services in the most cost-efficient manner.


Due to low production costs in China and relatively shorter shipping routes to Asian customers than some competitors, Sino-Forest and its partners are able to deliver very competitively priced pulp chips. As environmental restrictions grow in North America and Australia, Asian buyers have turned to Sino-Forest as a dependable alternative source of supply.

As China's economy continues to grow at an annual rate of 10% per year, the demands for forest products in the China market makes the outlook for Sino-Forest particularly attractive. Accordingly, the Corporation is examining several proposals for further processing of its wood fibre supply in China. Representatives from several international forest products companies visited the Corporation's plantations in China during 1995. Detailed follow-up negotiations with some of the visiting companies have already commenced on new joint ventures for OSB or MDF board plants. The variety of fibre sources and the geographic reach of the Corporation's operations in China offer numerous investment opportunities.

Sino-Forest Corporation is the first company in China to integrate the growing of trees with their processing and marketing. It will be the first to integrate forward into the downstream processing of its significant fibre resource.



This seven-year old forest in Guangdong mirrors the beautiful 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.



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



一九九五年，是嘉漢積極加強與擴大與中國林業界合作的一年，也是我國跨向現代化、科技化、高產化、商業化及企業化營林第二步的一年。千里之行始於此，是極重要的一步，也是積極有效發揮中國森林資源潛力的一步。由這一步始，嘉漢切望與合作各方開拓中國永續商業與林的新局面。

總裁

潘家傑

一九九五年

PRESIDENT'S MESSAGE

For Sino-Forest, 1995 was a year of strengthening and expanding our cooperation with various forestry agencies in China. Together, we took the initial steps toward the modernization and commercialization of China's forestry industry using new science and technology, while also adopting advanced management techniques to attain our joint objective of higher fibre yields.

A thousand miles begins with one step - the step towards more effective realization of China's rich forestry resources. Beginning with this step, it is Sino-Forest's most earnest wish to work with all our partners to open a new chapter in China's forest industry - commercialization of China's forests, but always stressing sustainable forestry management practices.

Ka Kit Poon
President

May 15, 1996



CHAIRMAN'S MESSAGE

We are proud of our accomplishment in 1995, our second year as a public company. Operationally, we increased our sales revenues by 33.9% and our net income by 44.7% on a 115.4% increase in production. Of particular significance, we formed five new CIVs, significantly expanding the scope of our operations. We also negotiated a U.S.\$16 million equity-related financing with new investors, including one of the largest banks in the world. To support our export business, the Company established commercial letters of credit of U.S.\$4.5 million with two European banks.

These achievements demonstrate the successful implementation of our strategy of forming joint ventures with local partners to establish Sino-Forest as the first integrated forest products company in China. We operate plantations, we process the timber and we market the products. At every step of our operations, we stress the practice of sustainable forestry management and total quality management. We met the targets that we had set for ourselves in 1995 and your company is in an excellent position to make further gains in production and profitability in 1996.

New Plantation CIVs Formed in 1995

In 1995, our operations still relied largely upon the success of one of our initial joint ventures in the province of Guangdong, the 53% owned Zhangjiang Leizhou Eucalypt Development Co. Ltd. ["Leizhou JV"]. The principal operation of the Leizhou JV is 20,000 hectares of eucalyptus plantations located on the Leizhou peninsula. 1995 chip sales from Leizhou increased to 204,000 tonnes from 156,300 tonnes sold in 1994. The balance of 338,000 tonnes of chips sold in 1995 were processed by our new CIV partners in Guangxi Province. The sale of those chips was handled on an agency basis by our trading subsidiary, Sino-Forest Resources Inc. For the first time, some of these sales were made to domestic Chinese purchasers.

In 1995, our main task both operationally and administratively, was to ensure the successful launch of these new CIVs in China. The experience we gained at the Leizhou JV was very valuable to us in bringing our new plantations on stream quickly and efficiently. The new CIVs have increased the plantation lands under Sino-Forest's management by 600,000 hectares to a total of approximately 620,000 hectares.

Our partners are various state-owned forestry agencies in three provinces of Southern China and our agreements are for a period of 50 years. The agreements provide for phasing in the new plantation lands over a ten year period. Sino-Forest has a 70% ownership position in each joint venture. An area of 7,100 hectares was ceded to the CIVs in 1995. An additional 61,400 and 60,300 hectares are expected to be ceded to the CIVs in 1996 and 1997, respectively. Through annual increments, we will build-up to our full contracted hectare of 603,000 hectares in the year 2004. We intend on planting 20,000 hectares in 1996 and 35,000 in 1997.

Equity Related Financings Negotiated

Our plans for Sino-Forest are ambitious and require financing from investors who appreciate our goals and the potential of our Chinese dream. Management spent considerable time in 1995, seeking appropriate new equity investors for your company. We are happy to report that in December 1995, we were able to negotiate a very significant agreement with the Hong Kong branch of the Deutsche Bank of Frankfurt, Germany for a U.S.\$3 million Convertible Loan financing. This financing closed on January 15, 1996. The agreement with the Deutsche bank provides for them to invest a further U.S.\$7 million. We are expecting to close this second tranche before the end of June 1996.

The conversion term of the first Loan is five years, although no conversion is allowed prior to the second anniversary date of the Loan. The Loan may be converted into Class A Shares of the Company at the request of the Bank at a 40% discount to the share price of the Class A shares or at 5 times the fully diluted earnings per share of Sino-Forest Corporation in the 12 months prior to the actual conversion rate of the Loan. Similar conversion terms are expected to apply to the U.S.\$7 million second loan now being negotiated. The Deutsche Bank is also expected to act as agent on an additional U.S.\$6 million convertible loan financing on behalf of a second German Bank; this financing is

scheduled to close later in the third quarter of this year. Management anticipates that if we meet our plans, these equity related financings will not result in a dilution of more than 20%.

The Company also completed a private placement of 2 million Class A Shares for Cdn.\$1.2 million in September 1995.

We welcome the Deutsche Bank as a future major shareholder in Sino-Forest Corporation. This relationship is expected to assist in our raising project financing for the construction of downstream manufacturing facilities such as MDF, OSB and pulp plants.

Technical Partner

In last year's Annual Report, we included as part of our strategies the intention of working towards forming joint ventures with international forestry companies to build OSB and MDF plants in China using chips produced from Sino-Forest plantations as feedstock. Your management hosted visits to our plantations for representatives from several major international forest products companies in 1995. Our objective has been to seek potential partners who appreciate our unique position in China, and have technical expertise in board plant design and in the manufacturing and marketing of these products in both China and Asia - a very tall order. We are confident of concluding such an arrangement in 1996.

Our 1996 Operating Plan

Our efforts in 1995 were largely concentrated on solidifying our long term access to wood fibre supply at a competitive price and raising the capital required to enable the corporation to implement its long term plan.

This year will see us triple chip production as we begin our production and reforestation programs in Guangxi Province, the province to the west of Guangdong Province. It is also our intention to start small scale harvesting and chipping operations of aspen in Jiangxi Province in the final quarter of 1996. Sales from this source are not planned for 1996, however, we expect shipments to customers to commence early in 1997.

Chip production from our plantations is planned to increase to 460,000 tonnes or 125% over the 204,000 tonnes attained in 1995. Overall, our shipments will exceed 610,000 tonnes, an 82% increase over the 336,000 tonnes achieved in 1995. Already we have orders for two thirds of our 1996 sales target and are in advanced stages of negotiations for the balance. Our reforestation activities will be significant: we will plant 40 million seedlings as we phase 20,000 hectares into production. This is a large undertaking. We will utilize approximately 14,200 part time workers: 12,000 in harvesting, 1,200 in chip production, 500 in planting, and 500 in transportation.

A Note of Thanks

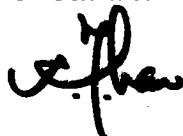
Our successes in 1995 are due to our talented and hardworking group of employees. The management would like to congratulate and thank them for their efforts this year in transforming our ambitious plans into realities. Achieving a 100% increase in the quantity of chips sold in 1995 over 1994, our staff has succeeded in laying the necessary groundwork to again double chip sales in 1996.

"Community-Friendliness" is more than a slogan at Sino-Forest. In the regions where we operate, our operations are often at the centre of local community activities. Our joint venture partners, as well as the local administrations, are most supportive of the changes we often bring through our day-to-day involvement in their life. On behalf of the Board of Directors, I extend our sincere appreciation to our partners, associates and friends in China for their co-operation.

To you our shareholders, I would like to thank you for your strong support and confidence in Sino-Forest. Our Board on your behalf has worked hard in the past year, always ready with timely advice and encouragement.

We have now completed two years as a public company and feel we have a strong foundation to make 1996 another record year of achievement and profitability.

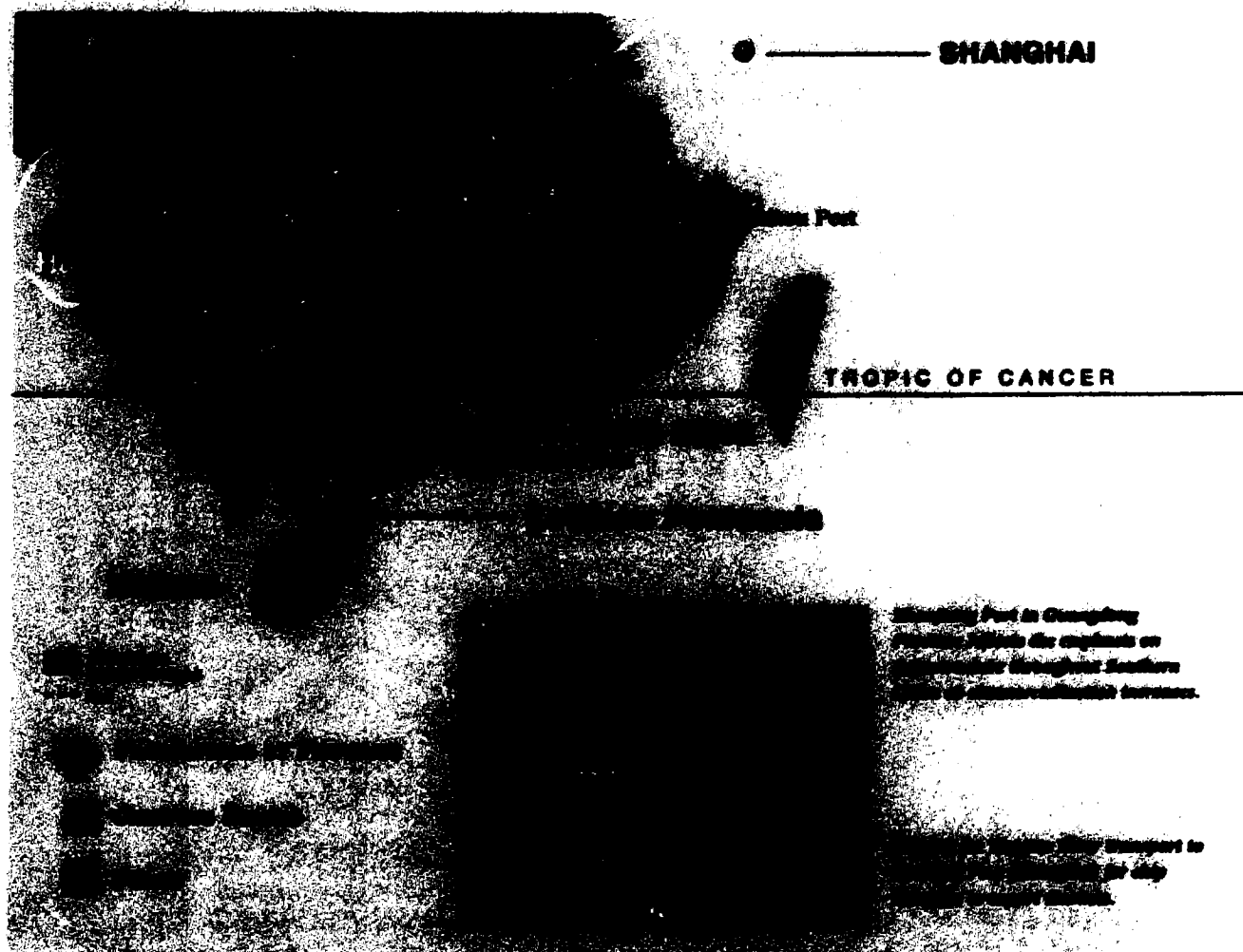
On behalf of the Board



Allen T.Y. Chan
Chairman and Chief Executive Officer

May 15, 1996

SINO-FOREST PLANTATIONS AND PEOPLE



Wood chip yard at Zhanjiang Port, Guangdong. Visited by Deutsche Bank. Third from right, Mr. Johannes Schuster, General Manager China, Hong Kong, Macau. Accompanied by Sino-Forest management and General Manager of Zhanjiang joint-venture.

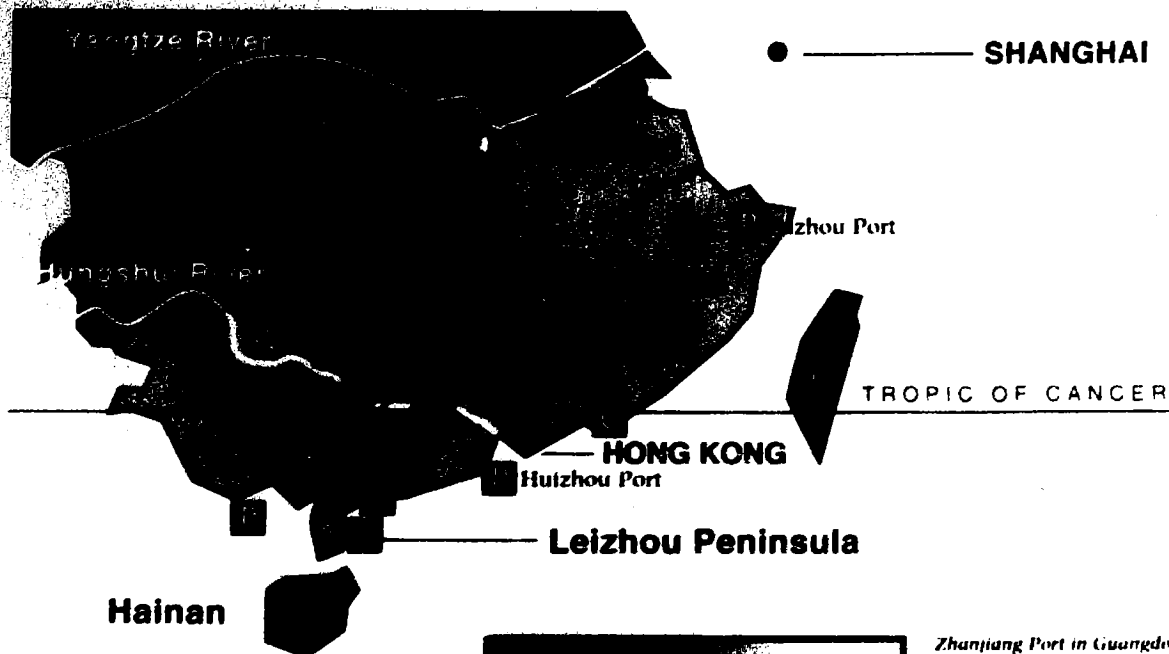


Eucalyptus plantation in Heyuan, Guangdong with Chinese partners. Second from left, Mr. K.K. Poon, President Centre; Mr. Au Yang, Chief of Heyuan Forestry Bureau. Fourth from left, Mr. Qi Shu-Xiong, China Director of Sino-Wood based in Guangdong.



Jiangxi Plantation, Jiangxi. Visited by Huber Wood Products Division, U.S.A. Accompanied by Sino-Forest management and local people. Mr. Chang centre, first row, Deputy Director of Jiangxi Forest Department; Mr. Li Heibo, second from left, first row, General Manager of particle board joint-venture, and Mr. Lin Bijin, first from right, second row.

SINO-FOREST PLANTATIONS AND PEOPLE



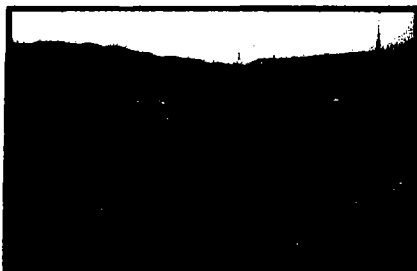
□ Sino-Forest
Plantation Areas
--- Rail

● PLANTATIONS BY PROVINCE
■ CHIPPING PLANTS
P PORTS



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

Jiulong for Yangtze River transport to Nantong Port (Shanghai) for chip transfers to export markets



Wood chip yard at Zhanjiang Port Guangdong. Visited by Deutsche Bank Third from right: Mr. Johannes Schoeter General Manager China, Hong Kong, Macau. Accompanied by Sino-Forest management and General Manager of Zhanjiang joint-venture



Eucalyptus plantation in Hevuan Guangdong with Chinese partners. Second from left: Mr. K.K. Poon, President Centre. Mr. Au Yang, Chief of Hevuan Forestry Bureau. Fourth from left: Mr. Qi Shu Xiong, China Director of Sino-Wood based in Guangdong



Jiulong Plantation, Jiangxi. Visited by Huber Wood Products Division, U.S.A. Accompanied by Sino-Forest management and local people. Mr. Chang centre, first row. Deputy Director of Jiangxi Forest Department. Mr. Li Huibo, second from left, first row. General Manager of particle board joint-venture, and Mr. Lin Hui, first from right, second row

REVIEW OF PLANTATION OPERATIONS

The Plantation operation is the core activity of Sino-Forest and the basic building block of its strategic plan to become one of the largest integrated forestry companies in Asia.

In the two short years since the Corporation became a Canadian public company, it has formed joint ventures with local Chinese partners to build one of the largest privately managed forestry plantation land holdings in China. During the period from 1995 to 2004, or earlier as allowed under its joint venture agreements, Sino-Forest will take over the management control of 623,000 hectares of lands in three provinces of southern China. In the United States forestry industry, this area would give Sino-Forest a "top-ten" ranking of forestry companies in terms of hectareage, owned or managed.

The management of Sino-Forest has moved quickly to secure access to this significant land position because of the early success that was realized in the Corporation's initial Sino-foreign economic joint venture. This investment in plantation management, hardwood chip processing and sales activities was made in early 1994 by a predecessor private corporation of Sino-Forest, Sino-Wood Partners, Limited, a Hong Kong company. Sino-Wood is now the major wholly-owned subsidiary that holds the Corporation's investments in China.

At that time, Sino-Wood acquired a 53% majority equity interest in Zhangjiang Leizhou Eucalypt Resources Development Co. Ltd. (the "Leizhou EJV" or "Leizhou"). Leizhou is located on the Leizhou peninsula in Guangdong Province of the PRC. It is located approximately 700 km to the west of Hong Kong. The Leizhou plantation supports crops of 5 year short cycle growth eucalyptus trees specifically genetically engineered for the soil and semi-tropical climate conditions of southern China. It is the superior wood fibre yields of 18 cubic metres per hectare available from these trees that is gaining the attention of many major forestry companies around the world.

In addition, the fast growing economies of China and in the rest of Asia provide a ready market for the hardwood pulp chips generated from the operations, as well as an opportunity to build "value-added" plants to further process the fibre supply into board and wood pulp products.

The Leizhou EJV operates 20,000 hectares of plantation lands and a chipping plant with an annual capacity of approximately 250,000 tonnes of chips. This operation has provided most of the revenues and net income of Sino-Forest in 1994 and 1995. From this successful start in the plantation business, the management of Sino-Forest determined that there were several other state controlled plantations in southern China that could benefit from a working partnership with Sino-Forest. The technical and management expertise of Sino-Forest's staff and the easier access to foreign capital that the Corporation could provide were sought after by some of these government forestry bureaus in southern China.

During late 1994 and the first half of 1995, Sino-Forest was successful in negotiating five cooperative joint ventures with provincial and municipal government agencies. Over the next several years, these will add 603,000 hectares of land to Sino-Forest plantation business. Under these agreements, the land will be ceded to the CIVs for 50 years and the Corporation will have a 70% interest in each CIV.

The contributions of each partner to the CIVs can be summarized as follows:

Sino-Forest provides:

- Management personnel to control the plantation operations for the planting, fertilizing and harvesting of the trees.
- Management of design, environmental process and quality control systems of the chipping plants.
- Administration of land transport of logs and chips and the shipping of the final product to customers.
- Provision of periodic cash capital contributions, as defined in the CJV agreements, to finance the plantation costs of the trees through their five-year growth cycle, until the revenues from the resultant chip sales are received and distributed to the CJV partners.

The accounting, marketing and sales functions and operational centres are centered in Hong Kong and the customer payments are received in U.S. dollars. Sino-Forest remits only sufficient funds to cover contracted operating costs in the local Renminbi currency in China. This reduces the Corporation's currency risk affecting its operations in China.

The local Chinese CJV partner provides:

- Plantation lands described under the CJV agreement, together with its infrastructure of roads and services, such as the availability of power and water over the term of the 50 year lease.
- Contracted local work force for the day-to-day operations of the plantations.
- Drivers for the required tractors and trucks for the transportation of logs and chips.
- Contract workers for the chipping plants.

To meet the Corporation's management obligations at the CJVs in China, there are now over fifteen supervisory personnel resident in the country. This number is expected to nearly double by the end of 1996 as new plantation areas are ready to start chip production later this year.

The following charts demonstrate the Corporation's projected growth through the years to 2004, although annual fibre yields will continue to expand for a further five years. By the year 2010, the 603,000 hectares of plantation lands will be fully productive, with approximately one-sixth of the land area being available for harvesting each year. At full production rates, Sino-Forest's annual wood fibre yield will be approximately 2% of all the wood fibre now produced annually in the United States. Sino-Forest has under its control one of the largest uncommitted wood-fibre sources in the world, and it has a detailed strategic plan in place to capitalize on its increasing value over the next 15 years.

Land Acquisition

Chart 1 shows the gradual build-up of the total 603,000 hectare plantation area of the CJVs under Sino-Forest management to be completed by the year 2004. The land to be transferred each year will contain approximately: one-third of the area that is supporting mature trees ready for harvesting aged five years or more; one-third that contains growing trees of between one to five years old, and one-third that is bare land which is ready for planting new trees or must receive some preparation before reforestation can occur.



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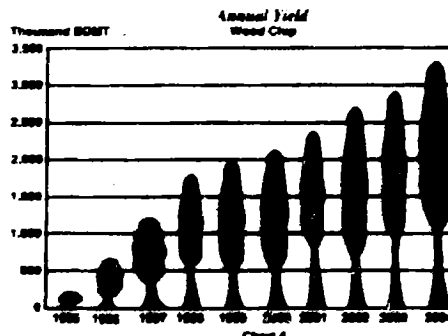
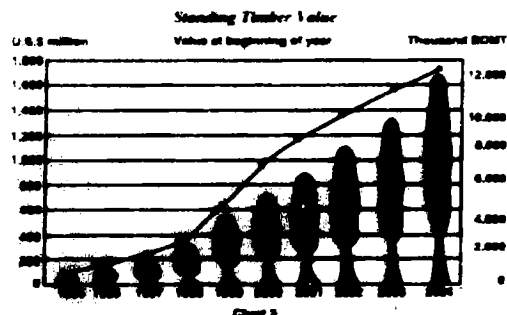
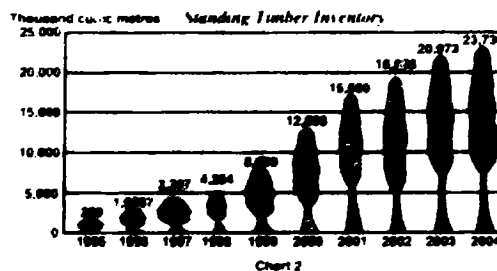
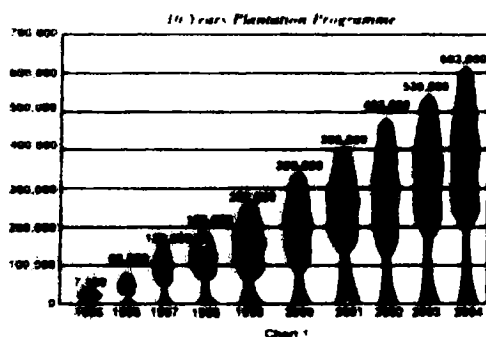
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Land Acquisition

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Timber Inventory

Chart 2 shows the estimated increasing volume of standing timber inventory expected to be available at the end of each year to 2004. No allowance has been made for the value of any trees on the lands that are less than four years old. It is from this reserve that sufficient trees will be harvested and chipped to meet the growth that is expected in customer demand for finished products such as boards and paper in China and the Asian export market. Chart 3 translates Chart 2 into U.S. dollars illustrating the potential to generate a U.S.\$2 billion inventory of fibre by the year 2005.

Annual Chip Demand

Chart 4 shows the annual estimates of saleable BDMT of wood fibre. These figures provide a proxy for the expected rapid annual growth in revenues between 1996 and 1998 as increased supplies of chips become available from the chipping plants operated by the CJVs. A slower growth pattern is evident from 1999 to 2004. However, the Corporation is planning to build and operate, with experienced industry partners, board plants for OSB and MDF that would add considerable value to the processed chips used as feedstock in these projected plants. As these facilities come on stream, a higher rate of annual consolidated revenue growth for the Corporation should be attained in the latter years than that delivered solely from chip sales.

In our discussion of the plantation operations provided above, the operations of the Leizhou EJV have not been included. The Corporation expects that Leizhou will continue to produce and sell approximately 200,000 to 220,000 BDMT of chips annually in the projected period to 2004. It is also expected that Sino-Forest will maintain its 53% majority interest in this equity joint venture.

1996 Sales Forecast

The table below summarizes the Corporation's 1996 forecast:

Wood Chip Business Forecast for 1996 (in BDMT)			
	Plant Locations		Annual Total
	Leizhou EJV	Guangxi CJV	
Market			
Corporation Production			
Export	210,000	250,000	460,000
Sino-Forest Resources Ltd.			
(Acting as sales agent)			
Export	—	75,000	75,000
China Domestic	—	<u>75,000</u>	<u>75,000</u>
Total	210,000	<u>400,000</u>	<u>610,000</u>

In addition to the production target contained in the table, the Corporation expects production of aspen chips to begin in northern Jiangxi Province in the last quarter of 1996. These inventories will then support the 1997 start of shipments to customers through the Yangtze River system to a port location near Shanghai. Aspen chips are a very desirable feedstock for the production of OSB.

During 1996, our attention will be directed towards the implementation of our long term plans. Our corporate structure has now been adjusted to meet our needs. It will be necessary to have some additional supervisory process engineering and accounting staff in Hong Kong as 1996 progresses, but we will continue to maintain the culture of a dynamic entrepreneurial enterprise, keeping our overhead expenses as low as possible.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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

Overview

Sino-Forest Corporation ["Sino-Forest" or the "Corporation"] commenced operations in 1994 as a result of the acquisition of 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 in September 1992 and had no active business until late 1993 when it entered into agreements with certain state-owned enterprises in the People's Republic of China [the "PRC" or "China"] to acquire, effective from January 1, 1994, a 53% to 55% equity interest in six Sino-foreign equity joint venture enterprises [collectively, the "1994 PRC Subsidiaries"]. See notes 3 and 4 to the 1995 consolidated financial statements of the Corporation for further details.

The businesses of the 1994 PRC subsidiaries include the following principal activities:

1. Production of wood chips from the eucalyptus tree plantation at Zhangjiang Leizhou Eucalypt Resources Development Co. Ltd. ["Zhangjiang Leizhou"] in Guangdong Province. The wood chips produced by Zhangjiang Leizhou are exported to pulp mills in Japan, Taiwan, South Korea and Indonesia. This operation provided the major source of revenues and earnings for the Corporation in 1994 and 1995.
2. Production of particle boards at the Jiangxi Ganjia Wood Industrial Co. Ltd. ["Jiangxi Ganjia"] in Jiangxi Province. The output from this plant is primarily targeted towards the Chinese domestic market.
3. The remaining four 1994 PRC subsidiaries in Jiangxi Province are now described as the "Other Jiangxi Investments". See note 4[a] of the 1995 consolidated financial statements for further details. These Other Jiangxi Investments are engaged in the manufacture of chemicals derived from forestry products which do not have the same potential as the Corporation's core plantation and wood chip businesses. Accordingly, in 1995, management made a strategic decision to develop and focus its resources on the larger and more profitable segment of its plantation and wood chip businesses. Through new memoranda of understandings ["MOUs"] signed with its Jiangxi joint venture partners in 1995, the Corporation reduced its equity interest in each of the Other Jiangxi Investments and Jiangxi Ganjia, from 55% to 30%. Simultaneously, the Corporation also reduced its involvement in the operations of these equity joint ventures in Jiangxi, thus allowing management more time to focus on its plantation and wood chip businesses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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

In 1995, as part of its expansion in the forestry plantation business in Southern China, the Corporation entered into agreements and memoranda of understandings with various state-owned forestry agencies in Southern China to encompass a further 603,000 hectares of plantations for a period of 50 years. These agreements formed the basis of five new Sino-foreign co-operative joint ventures [the "1995 CJVs"]. Zhangjiang Leizhou and the five 1995 CJVs now comprise the Corporation's plantation business totaling 623,000 hectares summarized as follows:

Provinces and Names of Equity Joint Venture ["EJV"] and Co-operative Joint Ventures ["CJVs"]	Total Plantation Area	Sino-Forest		Year Formed	JV Type
		Equity Interest	Pro Rata Share of CJVs		
Guangxi Province Guangxi Guyia Forestry Company Ltd.	250,000		70%	1995	CJV
Jiangxi Province Jiangxi Jiachang Forestry Development Ltd.	250,000		70%	1995	CJV
Guangdong Province Gaoyao City Jiayao Forestry Development Ltd.	33,000		70%	1995	CJV
Huazhou City Jiazhou Forestry Development Ltd.	20,000		70%	1995	CJV
Heyuan City Jiahe Forestry Development Ltd.	50,000		70%	1995	CJV
Zhanjiang Leizhou Eucalypt Resources Development Co. Ltd	20,000	53%		1994	EJV

Over the next several years, the Corporation is expected to grow significantly as a direct result of the annual addition of forestry lands being ceded to the 1995 CJVs. It is anticipated that the Corporation will be able to harvest progressively larger annual wood fibre volumes from the short cycle growth species of eucalyptus, aspen and pine trees, which are specially propagated to maximize wood chip production from the plantation areas managed by the Corporation in Southern China.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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

Earnings from Operations

The segmented net revenue and net income for 1995 and 1994 are as follows:

	Wood Chips & Boards \$	Forestry Chemicals \$	Corporate and Other \$	Consolidated 1995 \$
[expressed in thousands of United States dollars]				
By Industry Segment				
Revenue				
Sales	23,949	1,525	—	25,474
Commission income	—	—	1,949	1,949
	<u>23,949</u>	<u>1,525</u>	<u>1,949</u>	<u>27,423</u>
Income (loss) from operations	8,905	(109)	(54)	8,742
Equity in losses of JIANGXI Investments	—	(262)	—	(262)
Other income	8	—	12	20
Interest income (expense)	—	—	(6)	(6)
Income before non-controlling interests	8,913	(371)	(48)	8,494
Non-controlling interests	4,140	—	—	4,140
Net income for the year	4,773	(371)	(48)	4,354

	Wood Chips & Boards \$	Forestry Chemicals \$	Corporate and Other \$	Consolidated 1994 \$
[expressed in thousands of United States dollars]				
By Industry Segment				
Revenue				
Sales	13,612	4,667	—	18,279
Commission income	—	—	2,203	2,203
	<u>13,612</u>	<u>4,667</u>	<u>2,203</u>	<u>20,482</u>
Income (loss) from operations	3,361	(498)	1,445	4,308
Other income	45	7	—	52
Interest income (expense)	58	—	—	58
Income before non-controlling interests	3,464	(491)	1,445	4,418
Non-controlling interests	1,629	(221)	—	1,408
Net income for the year	1,835	(270)	1,445	3,010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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

Sino-Forest recorded net income of \$4.4 million for the year ended December 31, 1995, a 44.7% increase compared to 1994 net income of \$3.0 million. This increase in earnings is primarily attributable to:

- increased production of wood chips in Zhangjiang Leizhou from 156,300 bone dry metric tonnes ["BDMT"] to 336,700 BDMT [including 132,500 BDMT supplied by the Guangxi CIV partner], and
- increased average selling prices for wood chips from \$97 per BDMT in 1994 to \$102 BDMT in 1995.

The annual addition of forestry lands to the 1995 CIVs have not contributed to the 1995 results as they have just commenced operations.

Net income for the year ended December 31, 1995 was approximately 10% lower than management's expectation. This was the result of a number of reasons including the attainment of a lower than expected average selling price per BDMT of wood chips during the year. On average, a selling price of \$102 per BDMT was realized in 1995, still a healthy gain of 5% over the \$97 per BDMT attained in 1994, but slightly short of the budgeted price of \$105 per BDMT. In addition, the delays in arranging new long-term equity financing during 1995 slowed down the completion of certain capital projects at the 1995 CIVs. This delayed the Corporation from beginning its own chipping operations in Guangxi until early 1996. Consequently, overall profit margins in the wood chip business were lower than budget as the Corporation was required to fulfill contracts with wood chips supplied by the Guangxi CIV partner outside of the CIV agreement. On these sales, the Corporation earned commission fees of \$663,000 in 1995 [1994 - nil].

These wood chip trading opportunities on behalf of the Guangxi CIV partner in the second half of 1995 allowed the Corporation to build its customer list to include domestic wood chip sales to local pulp mills in China for the first time and to test the operational capabilities of the Corporation in handling higher overall volumes of wood chips on a continuing basis.

An analysis of the wood chip sales in 1995 and 1994 in '000s of BDMT is provided below:

Wood Chip Business Analysis in 1995 and 1994						
Market	Plant Locations				Total	
	Leizhou EJV		Guangxi CJV			
	1995	1994	1995	1994	1995	1994
Export	204.2	156.3	86.3	—	290.5	156.3
Domestic	—	—	46.2	—	46.2	—
Total	204.2	156.3	132.5*	—	336.7	156.3

* Sino-Forest Resources Inc. earned commission fees of \$663,000 as a sales agent on these contracts in 1995.

The Corporation's original 1995 export sales target into the Asian market was 250,000 BDMT. The above table indicates that this targeted volume would have been achievable if the formation of the 1995 CIVs had not been delayed.

The Jiangxi forestry chemical operations produce camphor, camphor oil, iso-borneol, gularic acid, rosin, turpentine oil and acacia gum. As noted earlier, the Corporation negotiated with its joint venture partner in the second quarter of 1995 to reduce its equity interest in the Jiangxi Investments from 55% to 30%. As part of these agreements, the Corporation's obligations to make further capital contributions of \$14 million by January 1996 to these Jiangxi Investments was reduced to \$2.2 million with the capital contribution deadline extended to December 1996.

The effect of the lower equity participation in the Jiangxi Investments has reduced the segmented loss from operations in 1994 of \$498,000 to \$371,000 [including \$262,000 of the Corporation's share of equity losses for the 6 months period ended December 31, 1995]. The Corporation will continue to work with its joint venture partners in Jiangxi to improve the profitability of these chemical operations.

Financial Position and Liquidity

Cash generated from operations, before changes in non-cash working capital items, was \$9.5 million in 1995, compared to \$5.8 million in 1994. The increased tonnage of wood chips sold in 1995 was the major contributing factor to the significant improvement in operating cash flow. The change in non-cash working capital balances, which totaled \$1.8 million in 1995, reduced net cash flow from operations for 1995 to \$7.7 million, compared to \$2.5 million in 1994.

At the beginning of 1995, the Corporation had planned to complete a major equity financing of approximately \$10.0 million by mid-1995. However, as emerging market equities fell out of favour in 1995, particularly after the Mexican currency crisis early in the year, the Corporation was faced with some difficulties in realizing its equity financing plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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

To overcome this shortcoming, the Corporation obtained new trade financing of \$4.5 million through two European banks to assist in the execution of its wood chip contracts with its Asian customers in the second half of 1995. In addition, in September 1995, a private placement for Cdn.\$1.2 million was obtained.

In December 1995, the Corporation signed an agreement with Deutsche Bank to issue \$3.0 million of Convertible Loan Securities with a 5 year term. This transaction was closed in mid-January 1996. The agreement with Deutsche Bank also allowed the Bank the first right of refusal to negotiate the issue of a further \$7.0 million of Convertible Loan Securities during the first half of 1996. The Corporation expects this latter transaction to be completed before the end of June 1996. The Deutsche Bank has also advised the Corporation that it wishes to act as an agent in a separate \$6.0 million issue of Convertible Loan Securities to be completed in the third quarter of 1996. Terms of these prospective Convertible Loan Securities are expected to be similar to the initial Convertible Loan Securities completed in January 1996.

At December 31, 1995, the Corporation had cash and short term deposit of approximately \$0.3 million, which together with the funds generated from operations and the two prospective Convertible Loan Securities financings noted above, will be utilized to finance the Corporation's working capital requirements and plantation costs. The \$14.0 million due from its joint venture partner in Zhangjiang Leizhou can be used to fund the ongoing plantation costs of Zhangjiang Leizhou and as payment for the remaining required capital contribution of \$4.3 million.

Capital Expenditures

No significant capital expenditures were made in 1995. Capital asset purchases in 1995 were \$0.5 million compared to \$0.6 million in 1994.

Risk and Uncertainties

The operating results of Sino-Forest can be significantly affected by fluctuations in the selling price of wood chips. Wood chips produced by the Corporation are primarily supplied to pulp manufacturers in Japan, Taiwan, South Korea and Indonesia and more recently in China. The pulp market industry is cyclical in nature. World pulp prices are affected by a number of factors including the world's economic growth rate and the demand for paper products.

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. Accordingly, the net income of the Corporation is subject to the impact of exchange rate fluctuations.

Pulp demand and prices, after improving significantly in 1994 and in the first half of 1995, began to fall in the second half of 1995, especially in the fourth quarter. The decline was caused by adverse buyer reaction to the large price increases in the previous year and a half. Producer and customer inventories are now in better balance and price declines have begun to give way to some producer price increases in the second quarter of 1996 in North America.

The Asian hardwood chip market has escaped some of the price volatility experienced in North America in the past year as the growth of the Asian economy continues to outstrip most other regions of the world.

Environmental concerns continue to restrict timber harvesting in parts of western Canada and the United States, with resultant local shortages of wood chips restraining the volume of exports to Asia. Environmental laws have been tightened in Australia, particularly affecting the permitted level of wood chips being processed from natural eucalyptus forests which is the native home of the Koala bear. Australia now has a program to curtail all such exports by the year 2000. Australian exports, which were made chiefly to Japan, have recently been running at about one million tonnes per year. It is believed that a net reduction of 400,000 tonnes from Australian sources could occur in the Asian market during the next twelve to eighteen months.

Indonesia is currently constructing several pulp mills which will all be completed over the next few years. Some wood chips that were formerly exported from Indonesia to the Asian markets will begin to be used locally as feedstock in these new mills. Chinese mills continue to utilize over 20 million tonnes per year of inferior quality vegetable fibre and wood chip imports as part of their pulp mill feedstock. Therefore, while demand and price fluctuations will continue to be a normal business risk for wood chip producers, the Corporation believes that the Chinese domestic market for high quality hardwood chips will continue to be in high demand in 1996 and beyond. The domestic prices for wood chips in China are high and can be equal to or better than those countries outside of China.

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 to closely monitor their environmental performance in the PRC. 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 lands and without undue undesirable effects on the physical and social environment. The Corporation believes that it is in compliance with all requirements under applicable legislation in the countries in which it operates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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

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 Corporation is required to contribute additional cash as described below in 1996:

a) The Jiangxi Investments

Subject to the approval of the Department of Foreign Economic Relations and Trade of the PRC, the Corporation is required to make a further \$2.2 million by December 1996 in order to maintain its 30% equity interest in each of the equity joint ventures in Jiangxi Province.

b) Zhangjiang Leizhou

A \$4.3 million capital contribution by December 1996 is required for Zhangjiang Leizhou to maintain its 53% equity interest. As mentioned under "Financial Position and Liquidity", the \$14.0 million due from the joint venture partner of Zhangjiang Leizhou could be partly used to offset the remaining capital contribution requirement.

c) The 1995 CJVs (Plantation Business)

In January 1996, the Corporation's subsidiaries made a capital contribution of \$1.7 million to the 1995 CJVs. A further \$185,000 payment due at that time has been withheld by the Corporation pending the performance of its PRC joint venture partner. An agreement between the parties on this matter is expected during 1996. No further capital contributions are due in 1996. An additional \$12.0 million capital contribution is required as part of the ongoing annual expenses for plantation costs [i.e. such as planting and fertilizing costs incurred in the 5 year growing cycle]. The 1997 payment could be varied, subject to changes in the plantation development plan.

These cash requirements are expected to be satisfied from the internal resources generated from operations, the amount due from the joint venture partner of Zhangjiang Leizhou and from further equity related issues and/or debt financing.

Outlook

The outlook for Sino-Forest's operations in 1996 remains very positive. While the recent downward adjustment of prices for most forestry products appears to have abated in the second quarter of 1996, the continuing strength in many Asian economies is expected to result in heavier demands for all paper products in the region. Sino-Forest expects to see a general escalation of average wood chip prices during 1996 to the range of \$105 to \$108 per BDMT.

In 1996, the new co-operative joint venture in Guangxi Province has already contributed to wood chip sales in the first quarter of the year. Shipments from the 1995 CJVs in Guangdong Province are expected to augment the previously established Zhangjiang Leizhou supply by the fourth quarter this year. Beyond 1996, the Corporation believes that its long term Plantation Plan, which provides for the phasing in of new lands under Sino-Forest management, will produce a growing stream of revenues and earnings from the plantation business.

The Corporation will continue its strategy of investigating the upgrading of its wood fibre resource into "value-added" products, such as oriented strand board and medium density fibreboard, through technical liaison agreements with well-established international partners. To this end, the Corporation, in May 1996, signed a memorandum of understanding with a unit of Boise Cascade Corporation of Idaho, U.S.A. to jointly carry out an assessment of the Corporation's fibre supply and to examine the most effective way for it to be used as a feedstock for new board plants to be built in the PRC. The Corporation is also currently in negotiations with other North America forestry companies that are interested in forming strategic alliances with Sino-Forest on selected appropriate projects in the PRC.

The \$13.0 million equity-related financing to be arranged by the Deutsche Bank is important to the Corporation in attaining its planned production and sales target of 610,000 tonnes of wood chips in 1996. The Corporation believes that it can also arrange for alternative means of financing, such as increasing the proportion of leased production facilities. The Corporation will continue to seek other new investors of long term capital to realize its Plantation and Business Plan.

For 1996, the Corporation has book orders with customers in Japan, Taiwan, Korea and Indonesia for approximately two-thirds of the 1996 sales target. Discussions are also in the advanced stage with potential customers for the balance of the 610,000 tonnes sales target, including sales to Chinese pulp mills located in provinces containing Sino-Forest plantation properties. The Corporation continues to look for new opportunities in its forestry trading business. New supply relationships to enhance two-way trade in wood building products between China and selected other Asian countries will be the subject of further investigation and negotiation in 1996.

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.

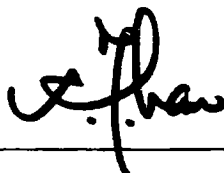
The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include 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



Lawrence Hon
Vice-President
Operations and Finance

May 8, 1996



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



Aspen Plantation in Poyang Lake, Jiangxi
3 year old Aspen.

AUDITORS' REPORT

To the Shareholders of
Sino-Forest Corporation

We have audited the consolidated balance sheets of Sino-Forest Corporation as at December 31, 1995 and 1994 and the consolidated statements of income and retained earnings and changes in financial position for the years 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 audits.

We conducted our audits 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, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada
May 8, 1996

Ernst & Young
Chartered Accountants

CONSOLIDATED BALANCE SHEETS
[Expressed in thousands of United States dollars]

As at December 31

	1995 \$	1994 \$
ASSETS		
Current		
Cash and short-term deposits	323	2,116
Accounts receivable	2,607	2,617
Inventories [note 6]	200	2,197
Other receivables and prepaid expenses	1,317	936
Total current assets	4,447	7,866
Due from related parties [note 7]	14,737	5,633
Long-term investments [note 4]	2,342	—
Capital assets, net [note 8]	9,988	17,075
Goodwill, net [note 3]	35	36
	31,549	30,610
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness	—	149
Accounts payable and accrued liabilities	655	802
Other payables	179	65
Total current liabilities	834	1,016
Non-controlling interests	17,026	21,112
Shareholders' equity		
Share capital [note 9]	6,151	5,321
Retained earnings	7,364	3,010
Cumulative translation adjustment	174	151
Total shareholders' equity	13,689	8,482
	31,549	30,610

See accompanying notes

On behalf of the Board:



Allen T.Y. Chan
Director



John Thompson
Director

Sino-Forest Corporation**CONSOLIDATED STATEMENTS
OF INCOME AND RETAINED EARNINGS**

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

Years Ended December 31

	1995 \$	1994 \$
Revenue	27,423	20,482
Costs and expenses		
Cost of sales	15,191	12,971
Selling, general and administration	2,697	1,777
Depreciation, amortization and depletion	793	1,426
	18,681	16,174
Income from operations	8,742	4,308
Equity in losses of Jiangxi Investments [note 4]	(262)	—
Other income	20	52
Interest income (expense)	(6)	58
Income before non-controlling interests	8,494	4,418
Non-controlling interests	4,140	1,408
Net income for the year	4,354	3,010
Retained earnings, beginning of year	3,010	—
Retained earnings, end of year	7,364	3,010
Earnings per share [note 11]		
Basic	\$0.12	\$0.10
Fully diluted	\$0.12	\$0.08

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

[Expressed in thousands of United States dollars]

Years Ended December 31

	1995	1994
	\$	\$
OPERATING ACTIVITIES		
Net income for the year	4,354	3,010
Adjustments not affecting cash		
Depreciation, amortization and depletion	793	1,426
Non-controlling interests	4,140	1,408
Equity in losses of liangxi Investments	262	—
	9,549	5,844
Changes in non-cash working capital balances		
related to operations		
Accounts receivable	(60)	(2,617)
Inventories	349	(625)
Other receivables and prepaid expenses	(2,711)	(935)
Accounts payable and accrued liabilities	229	802
Other payables	371	65
Cash provided by operating activities	7,727	2,534
FINANCING ACTIVITIES		
Issuance of share capital	885	5,809
Share issue costs	(55)	(489)
Cash provided by financing activities	830	5,320
INVESTING ACTIVITIES		
Increase in amount due from related parties	(9,104)	(5,633)
Decrease in cash on reduction of equity interest in		
liangxi Investments [note 4]	(675)	—
Purchase of capital assets	(547)	(595)
Investments in the PRC [note 4]	—	(3,895)
Cash acquired on investments in the PRC [note 4]	—	4,004
Purchase of goodwill	—	(37)
Cash used in investing activities	(10,326)	(6,156)
Effect of exchange rate changes on cash	125	269
Net increase (decrease) in cash during the year	(1,644)	1,967
Cash and short-term deposits, net of bank indebtedness,		
beginning of year	1,967	—
Cash and short-term deposits, net of bank indebtedness,		
end of year	323	1,967

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

1. DESCRIPTION OF BUSINESS

Sino-Forest Corporation ["Sino-Forest" or the "Corporation"] is involved in forestry related businesses in the People's Republic of China ["PRC"] through its subsidiaries and long-term investments in Sino-foreign equity joint venture enterprises. In 1995, the Corporation, through its newly incorporated wholly-owned subsidiaries in Hong Kong, expanded its plantation business by entering into several joint venture agreements to form five Sino-foreign co-operative joint ventures [each a "PRC CIV", collectively, the "PRC CIVs"] in the PRC [note 5].

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Sino-Forest have been prepared in United States dollars and in accordance with accounting principles generally accepted in Canada. The significant accounting policies are as follows:

Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries, some of which have a minority interest. All significant intercompany accounts and transactions have been eliminated on consolidation.

The Corporation's investments in the PRC CIVs are accounted for on the proportionate consolidation basis. Accordingly, the accounts reflect the Corporation's pro rata share of the assets, liabilities, revenue and expenses of its PRC CIVs.

Investments in Sino-foreign equity joint venture enterprises in which the Corporation does not have joint control are accounted for under the equity method.

Translation of foreign currencies

Foreign currency transactions and balances, and the financial statements of integrated foreign operations are translated into 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 dates. Non-monetary items are translated at the historical exchange rate. Revenue and expense items are translated at the average exchange rates prevailing during the year, except for depreciation, amortization and depletion which are translated at the same exchange rates as the assets to which they relate. Exchange gains and losses are included in income in the current year.

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 dates while revenue and expense items [including depreciation, amortization and depletion] 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

December 31, 1995

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 direct labour costs including applicable overheads 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 Partners, Limited ["Sino-Wood"], is amortized over forty years on a straight-line basis.

Permanent impairment in unamortized goodwill is determined based on an estimation of its fair market value.

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:

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. ACQUISITION OF SINO-WOOD PARTNERS, LIMITED

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 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 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 the 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.

Sino-Forest Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

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
	170

4. INVESTMENTS IN THE PRC

Effective January 1, 1994, Sino-Wood acquired the following Sino-foreign equity joint venture enterprises in the PRC:

- 53% equity interest in Zhangjiang Leizhou Eucalypt Resources Development Co. Ltd. ["Zhangjiang Leizhou"] in Guangdong Province; and
- 55% equity interest in 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. [collectively, the "Jiangxi Investments"].

The interests were acquired for an aggregate purchase price of \$3,895,000 satisfied by initial cash capital contributions by Sino-Wood.

These acquisitions have been accounted for under the purchase method of accounting. A summary of the net assets acquired and consideration given in the acquisitions of Zhangjiang Leizhou and Jiangxi Investments are 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	3,895
------------------------------------	-------

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 Sino-Wood to Zhangjiang Leizhou and Jiangxi Investments in order to maintain its 53% and 55% equity interests therein respectively, amounted to \$22,240,000 of which \$3,895,000 was contributed in 1994 and the remaining balance of \$18,345,000 was to be paid in installments in December 1995 and January 1996. However, during 1995, the terms of the capital contributions obligations were amended as described below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

(a) Jiangxi Investments

In 1995, the Corporation made a strategic decision to develop and focus on the plantation and wood chip businesses and to reduce its involvement in the chemical business conducted by the Jiangxi Investments. As a result of this decision, Sino-Wood conducted negotiations with its Jiangxi Investments joint venture partners to reduce its equity interest and operational involvement in the Jiangxi Investments.

Pursuant to the memoranda of understanding signed between Sino-Wood and Jiangxi Xuesong Forest & Chemical Industry Co. Ltd. and each of the other four Jiangxi Investments on June 28, 1995 and May 14, 1995 [the "MOU Date"], respectively, the Jiangxi Investments joint venture partners agreed that Sino-Wood would reduce its equity interests in each of the Jiangxi Investments from 55% to 30% and to amend the memoranda of implementation to change the composition of the board representation in line with the proposed change in equity interests. In addition, it was also agreed that with effect from the same date, the Jiangxi Investments joint venture partners would have effective control over the operations of the Jiangxi Investments. Consequently, with the signing of the memoranda of understanding above, the Corporation did not make the required December 1995 [\$12,175,000] and January 1996 [\$1,870,000] capital contributions. The Jiangxi Investments joint venture partners have agreed that the remaining required capital contributions of \$2,187,000 by Sino-Wood to maintain the reduced 30% equity interests will be due in December 1996, subject to approval from the Department of Foreign Economic Relations and Trade of the PRC [the "FERT"].

According to the laws of the PRC on Joint Ventures using Chinese and Foreign Investment, the reduction of equity interests in the Jiangxi Investments and any amendments to the memoranda of implementation, including amendments to the board representation and timing of capital contributions, requires approval from the FERT. A formal application to change the equity interests, composition of the board and timing of remaining capital contributions was submitted to the FERT for approval on March 29, 1996. Based on discussions with the FERT, management and the Jiangxi Investments joint venture partners do not anticipate any problems obtaining the approval required to implement the changes stated above. Accordingly, the Jiangxi Investments have been accounted for by the equity method as of the MOU Date where effective control of these Jiangxi Investments has been passed to the joint venture partners.

The carrying value of the Jiangxi Investments of \$2,547,000 as at the MOU Date was transferred to long-term investments and consists of the following:

	\$
Cash	675
Inventories	1,648
Accounts receivable	70
Other receivables and prepaid expenses	2,330
Capital assets, net	6,821
	11,544
Accounts payable and accrued liabilities	(376)
Other payables	(257)
	10,911
Non-controlling interests	(8,364)
Carrying value of Jiangxi Investments transferred to long-term investments	2,547

Subsequent to the MOU Date, the Corporation's equity share in losses of the Jiangxi Investments amounted to \$362,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

[b] Zhangjiang Leizhou

Pursuant to the contractual obligations set out in the joint venture agreement and memorandum of implementation, the total capital contributions, in the form of cash, to be made by Sino-Wood to Zhangjiang Leizhou in order to maintain its 53% equity interest therein amounted to \$5,300,000 of which a cash capital contribution of \$1,000,000 was made in 1994 with the remaining final installment of \$4,300,000 due in January 1996. As of May 8, 1996, neither Sino-Wood nor the PRC joint venture partner has made the final installment in accordance with the terms of the original joint venture agreement.

Sino-Wood and the PRC joint venture partner are undergoing negotiations to extend the deadline for the final installment of the capital contributions to December 1996. An application for the extension will be made to the FERT for approval. Management and the PRC joint venture partner do not anticipate any problems obtaining the required approval as a result of their discussions with the FERT.

5. INVESTMENTS IN THE PRC CJVs

During 1995, as part of its expansion into the plantation and wood chips businesses, the Corporation through its subsidiaries entered into several joint venture agreements to form five PRC CJVs. Under the terms of the joint venture agreements, the contributions of the PRC joint venture partners are in the form of land use rights and timber holdings and the contributions of the Corporation's subsidiaries are in the form of cash to pay for the annual forestry service fees and plantation costs incurred by the PRC CJVs. The operations of the PRC CJVs are jointly controlled and each venturer uses its own property, plant and equipment and carries its own inventories for the purposes of the joint venture activities. Each venturer incurs its own expenses and liabilities and raises its own financing. Under the terms of the joint venture agreements, the Corporation's subsidiaries and the respective PRC CJVs partners share in the volume of timber cut in the proportions of 70% and 30%, respectively.

As these PRC CJVs have just commenced commercial operations, the Corporation's proportionate share of the financial position, operating results and cash flows were not significant for the year ended December 31, 1995.

Pursuant to the contractual obligations set out in the various joint venture agreements and memoranda of implementation, the total capital contributions, in the form of cash, to be made by the Corporation's subsidiaries to the PRC CJVs amounted to \$14,200,000 of which \$2,130,000 is required to be made, representing 15% of the Corporation's subsidiaries' total capital contributions, within 3 months from the respective dates of the business licenses of the PRC CJVs. At December 31, 1995, initial cash capital contributions of \$200,000 have been contributed by the Corporation's subsidiaries to the PRC CJVs. Further cash capital contributions of \$1,745,000 were made in January 1996. The remaining balance of \$12,255,000, in aggregate, is due as to \$185,000 in January 1996 and \$12,070,000 in July 1997. The \$185,000 that is due in January 1996 has been withheld pending the performance of its joint venture partner.

6. INVENTORIES

Inventories consist of the following:

	1995	1994
	\$	\$
Raw materials	144	1,388
Work-in-progress	52	494
Finished goods	4	315
	<u>200</u>	<u>2,197</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular figures expressed in thousands of United States dollars, unless otherwise indicated)

December 31, 1995

7. DUE FROM RELATED PARTIES

The amount due from related parties consists of the following:

	1995	1994
	\$	\$
Due from Leizhou Forestry Bureau ["LFB"]	14,009	3,946
Due from Guangxi Forestry Development Centre	663	—
Due from Jiangxi Forestry Economic & Technology Development Company ["JFE&TDC"]	65	644
Due from Jiangxi Anyuan County Chemical Factory	—	249
Due from Jiangxi Camphor Factory	—	794
	14,737	5,633

The above related parties are the joint venture partners of the Corporation's subsidiaries and joint ventures in the PRC. Except for the amount due from JFE&TDC which bears interest at 10.5% per annum, the amounts due are unsecured, non-interest bearing and have no fixed terms of repayment. The amount of \$14,009,000 due from LFB represents primarily the cash collected from the sale of woodchips on behalf of Zhangjiang Leizhou. As agreed by Sino-Wood, the cash collected from the sale of woodchips is currently retained by LFB to fund the ongoing plantation costs of Zhangjiang Leizhou.

8. CAPITAL ASSETS

Capital assets consist of the following:

	1995		
	Cost	Accumulated depreciation, amortization and depletion	Net book value
	\$	\$	\$
Land use rights and buildings	7,658	545	7,113
Timber holdings	3,506	1,270	2,236
Machinery and equipment	674	196	478
Office furniture and equipment	192	31	161
	12,030	2,042	9,988

	1994		
	Cost	Accumulated depreciation, amortization and depletion	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
Landhold improvements	22	—	22
	18,589	1,514	17,075

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

9. SHARE CAPITAL

Share capital consists of the following:

	1995 \$	1994 \$
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		
35,500,000 Class A Subordinate-Voting Shares [1994 - 33,500,000]	6,151	5,321
6,000,000 Class B Multiple-Voting Shares [1994 - Nil]	—	—
Nil Series A Preference Shares [1994 - 6,000,000]	—	—
	6,151	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 Share, the registered holder will be required to execute a Coattail Agreement under which the holder will agree not to effect a transfer of any Class B Multiple-Voting Share unless such transfer is made in accordance with the terms thereof and is a Permitted Transfer, as defined in the provisions attaching to the Class B Multiple-Voting Shares.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

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 3, 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. Each Series A share purchase warrant entitled the holder to acquire one Class A Subordinate-Voting Share of Sino-Forest on or before August 31, 1995 for Cdn. \$1.50 per share.

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 entitled 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.

None of the Series A and Series B share purchase warrants referred to above were exercised and, accordingly, expired on August 31, 1995 and June 30, 1995, respectively.

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.

On September 11, 1995, the holders of 6,000,000 Series A Preference Shares exercised their rights to convert all the issued and outstanding Series A Preference Shares into fully paid and non-assessable Class B Multiple-Voting Shares on a share-for-share basis.

On September 22, 1995, Sino-Forest issued 2,000,000 Class A Subordinate-Voting Shares in a private placement for total net proceeds of \$830,000.

Sino-Forest Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

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	
<hr/>		
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
<hr/>		
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, before share issue costs	33,500,000	5,810
Less 1994 share issue costs	—	(489)
Sino-Forest, shares outstanding, December 31, 1994	33,500,000	5,321
Private placement for cash, September 22, 1995	2,000,000	885
Sino-Forest, shares outstanding, before share issue costs	35,500,000	6,206
Less 1995 share issue costs	—	(55)
Sino-Forest, shares outstanding, December 31, 1995	35,500,000	6,151

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 3. The legal stated capital is Cdn.\$20,954,838.

Stock options

Pursuant to a stock option plan approved by the shareholders, 3,200,000 Class A Subordinate-Voting Shares of the Corporation were reserved for future issuance. As at December 31, 1995, the Corporation granted options to purchase 700,000 [1994 - 950,000] Class A Subordinate-Voting Shares at amounts varying from Cdn. \$0.55 per share to Cdn. \$0.60 per share to certain directors of the Corporation and certain officers of Sino-Wood. 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.

On January 15, 1996, a further 1,650,000 Class A Subordinate-Voting Shares at Cdn. \$0.60 per share were granted to certain directors of the Corporation and certain officers of Sino-Wood.

10. INCOME TAXES

No assessable profits were earned in or derived from Hong Kong by Sino-Wood and its subsidiaries during 1995 and 1994.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

Zhangjiang Leizhou, Jiangxi Investments and the PRC CJVs are governed by the Income Tax Laws of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws [the "Income Tax Laws"]. Pursuant to the Income Tax Laws, Sino-foreign equity and co-operative 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 financial statements. The Income Tax Laws fully exempt Sino-foreign equity and co-operative 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 Zhangjiang Leizhou, the Jiangxi Investments and the PRC CJVs since these entities are either in their second profitable year of operations or in a tax loss position.

In addition, the Corporation has income tax losses of approximately Cdn. \$750,000 [1994 - Cdn. \$260,000] which can be applied against future years' taxable income in Canada, the benefit of which has not been recorded. Tax losses of Cdn. \$260,000 and Cdn. \$490,000 may be carried forward until 2001 and 2002, respectively.

11. EARNINGS PER SHARE

Earnings per share are calculated using the weighted average number of 35,894,521 [1994 - 28,879,178] Class A Subordinate-Voting and Class B Multiple-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. The number of shares used in the calculation of the fully diluted earnings was 36,594,521 [1994 - 46,709,863]

12. RELATED PARTY TRANSACTIONS

[a] During 1995, 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 \$487,000 [1994 - \$291,000];
- purchase of capital assets from the company at a total acquisition cost of approximately \$5,000 [1994 - \$65,000]; and
- payment of nil [1994 - \$75,000] to the company with respect to services rendered including reimbursement of expenses in connection with the acquisition of Zhangjiang Leizhou and the Jiangxi Investments.

[b] During 1995, Zhangjiang Leizhou had the following related party transactions with LFB, the PRC joint venture partner thereof:

- purchase of wood logs and related services from LFB in the aggregate amount of approximately \$5,508,000 [1994 - \$5,373,000];
- provision for subcontracting and related services to Zhangjiang Leizhou in the aggregate amount of approximately \$450,000 [1994 - \$454,000];
- provision for plantation services to Zhangjiang Leizhou in the aggregate amount of approximately \$171,000 [1994 - \$129,000]; and
- purchase of inventories from LFB in the amount of nil [1994 - \$241,000].

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

- [c] During 1995, Jiangxi Ganjia Wood Industrial Co. Ltd. received interest income of approximately \$64,000 [1994 - \$58,000] from JFE&TDC, the PRC joint venture partner thereof.
- [d] During 1995, commission income earned from Guangxi Forestry Development Centre amounted to approximately \$662,000 [1994 - nil].
- [e] included in share issue costs in 1995 are amounts aggregating \$26,000 [1994 - \$279,000] paid to two companies of which a director of the Corporation is one of the principals, with respect to related services rendered.
- [f] 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 \$44,000 for the year ended December 31, 1995 [1994 - \$35,000].

13. SEGMENTED INFORMATION

	Wood chips and boards \$	Forestry chemicals \$	Corporate and other \$	Elimination \$	1995 Consolidated \$
By Industry Segment					
Revenue					
Sales	23,949	1,525	—	—	25,474
Commission income	—	—	1,949	—	1,949
	23,949	1,525	1,949	—	27,423
Income (loss) from operations	8,905	(109)	(54)	—	8,742
Identifiable assets	25,706	1,558	8,307	(4,022)	31,549
Depreciation, amortization and depletion	619	159	15	—	793
Capital asset additions	542	—	5	—	547
By Industry Segment					
Revenue					
Sales	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, amortization and depletion	1,131	294	1	—	1,426
Capital asset additions	12,387*	6,135*	67	—	18,589

* Includes acquisition [note 3]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 1995

By GEOGRAPHIC SEGMENT

The Corporation conducts substantially all of its operations in one geographic area, East Asia. During 1995, export sales from the PRC amounted to approximately \$22,878,000 [1994 - \$13,590,000].

14. COMMITMENTS

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.

See also notes 4 and 5 for capital contribution commitments in Zhangjiang Leizhou, the Jiangxi Investments and the PRC CIVs.

15. SUBSEQUENT EVENTS

Subsequent to the year end, Sino-Wood entered into a \$3,000,000 convertible loan agreement with Deutsche Bank A.G. of Hong Kong. The convertible loan agreement provides that from January 15, 1998 until repayment of the loan, the loan is convertible in minimum amounts of \$500,000 into Class A Subordinate-Voting Shares of Sino-Forest at the lower of:

- five times the fully diluted (including the shares issued on conversion) earnings of the Corporation for the previous fiscal year; or
- 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 Cdn. \$0.60 per share.

The loan is for a period of 5 years and may be called by the bank after four years. Interest is payable, at the option of Sino-Wood, either quarterly or semi-annually based on the three-month or six-month LIBOR U.S. dollar deposit rate plus 2%. The loan is guaranteed by Sino-Forest and is secured with first fixed and floating charges on the assets of the Corporation and its subsidiaries.

16. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1995 consolidated financial statements.



BOARD OF DIRECTORS

Allen T.Y. Chan
Kai Kit Poon
John Thompson
Edmund Mak
James F. O'Donnell

OFFICERS

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

Kai Kit Poon
President

Lawrence Hon
*Vice-President
Operations and Finance*

John Thompson
Secretary

AUDITORS

Ernst & Young
Ernst & Young Tower
P.O. Box 251
Toronto Dominion Centre
Toronto, Ontario
M5K 1H7

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.
Deutsche Bank AG
Standard Chartered Bank

COMMON SHARES

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

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:

Sir John A. MacDonald Room
The Albany Club
91 King Street East
Toronto, Ontario
4:00 pm on Wednesday
June 26, 1996

ABOUT THIS REPORT

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

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