Manufacturing Business

Despite the unfavorable market conditions, the Group was able to maintain its position as one of the leading plywood and veneer manufacturers in the Asian plywood industry, recording an increase of approximately 11% in the Group's production and sale volumes. However, the decline in plywood prices coupled with the increase in log costs caused a decrease of 7% in the Group's gross profit margin. The increase in log prices was due to many concession owners in Malaysia, where the Group sources logs, exporting logs to other countries for higher profit margins. However, the Malaysian Government has grown weary of the situation and is mediating to maintain reasonable domestic log supplies and stabilize prices.

To enhance profitability, the Group's research and development team has been working on several new Structural, Flooring and Moulding plywood products. Structural and Flooring products command higher profit margins for the Group, representing between 15% and 25%. Therefore, the focus of the Group has been shifting into these high value-added products especially for the plant in Dalian. Additionally, the Group is also constantly looking for the development of high value-added products, especially Engineered Wood Products which should make higher profit contributions.

The plants in the PRC, are coming out of their investment stages except the one in Jilin, where the Group will be conducting a trial run at the plywood mill during the spring and summer period. The Group believes that the plants in the PRC will gradually contribute profit to the Group. They are also playing a vital role in ensuring the Group's product and market diversification.

Distribution and Sales Business

During the year under review, turnover from trading and distribution services amounted to approximately HK$255.4 million (US$32.8 million), representing 25% of the Group's turnover. The sales and distribution business remains a key component in the Group's exploration of new markets. The Group will continue to focus on product quality and is fully committed to customer satisfaction, further strengthening the customer base and broadening distribution channels.

Market Overview

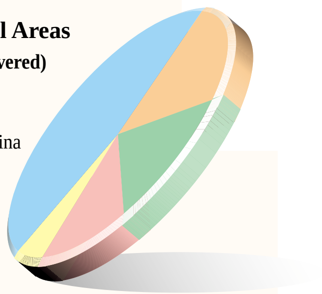
The Japanese market contributed the highest profit, representing 46% of the Group's turnover in comparison to 43% in 1999. Since the products exported to Japan are of higher quality and price, the Group's focus is on maintaining a strong presence in Japan. Currently, Japan has the highest growth potential as imported products are gradually replacing domestic products. As a result, the Group's PRC plants are being progressively upgraded and committed to meet international standards to shift their market focus to Japan. At the same time, the Group is continuing to enlarge market share in the US and Europe, making every effort to expand these markets in terms of customers and products.

2000 Turnover By Product Range

- 33.2% Moisture resistant plywood
- 15.9% Structural
- 14.9% Flooring
- 13.0% Weather and boil proof plywood
- 12.3% Jamb and mouldings
- 4.0% Veneer
- 6.7% Others

2000 Turnover By Geographical Areas
(By locations where merchandise is delivered)

- 45.7% Japan
- 19.6% The People's Republic of China
- 15.6% Europe
- 13.0% United States of America
- 6.1% Others



In view of the fact that the PRC has become a self-sufficient and low-priced market for commercial plywood, the Group has strategically turned it into a major manufacturing base. The Group will continue to keep an opportunistic watch in the different markets and capture every opportunity to explore new markets.

PROSPECTS

Looking ahead in 2001, the price of plywood will remain stagnant. Coupled with the economic slowdown in the US, the business environment is unlikely to change in the short term. Growth of the Group's business will therefore remain slow. However, consolidation of the Group's existing business and the maximization of capacities at the manufacturing plants located in Malaysia and the PRC will continue to maintain market competitiveness.

The Group believes that with its flexible product and market mix, it will be among the first batch of companies to turnaround when the market conditions improve. The Group will continue to monitor the business environment and react promptly to market changes. Every effort will also be made to explore new business opportunities and develop new products and the distribution network so as to achieve better returns for shareholders.

EMPLOYEE RELATIONS

As at 31st December, 2000, the Group had 4,605 staff, 2,724 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and 1,816 at facilities in Dalian, Changchun and Jilin, the PRC. In-house training programmes were provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2000, working capital deficiency was approximately US$5.8 million as compared to US$17.5 million in 1999, representing a decrease in deficiency of US$11.7 million. The improvement could be attributable to the successful refinancing of an overdue bank loan of approximately US$11.8 million to a long-term bank loan.

The net assets of the Group as at 31st December, 2000 was approximately US$106.6 million representing an increase of approximately 2% as compared to US$104.9 million as at 31st December, 1999. Total bank borrowings of the Group was approximately US$78.6 million and the gearing ratio (total bank borrowings to total net assets) was accordingly 74%, comparing to 80% in 1999.

The Group had obtained agreement-in-principle with its major banker for a bank loan restructuring arrangement. According to the agreement-in-principle reached between the Group and the bank, loan repayment shall commence on 30th June, 2002. For details of the bank loan repayment schedule and charges on the Group's assets (securities provided), please refer to notes 16, 19 and 28 to the accompanying financial statements.

The reporting currency adopted by the Group was US$. Majority of the Group's sales, receivables and bank borrowings were denominated in US$ with only a minority amount of sales, bank borrowings, certain amounts of the Group's cost of sales and expenditures were denominated in Malaysia Ringgits and Reminbi. Both Malaysia Ringgits and Reminbi are closely linked with US$, therefore, foreign currency exposure to the Group shall be minimal.

While efforts are devoted to consolidate the existing business, the Company has neither planned to incur substantial capital expenditures nor expected other funding requirements.

As at 31st December, 2000, the Group's contingent liabilities were approximately US$452,000 representing discounted bills with recourse.

Peng Chiu Ching
Managing Director
Hong Kong, 18th April, 2001