

# REPORT OF THE DIRECTORS

(Amounts expressed in United States dollars unless otherwise stated)

The Directors have the pleasure of presenting the annual report together with the audited financial statements of Pacific Plywood Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the year ended 31st December, 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture, distribution and sale of plywood, veneer, jamb, structural, flooring, moulding and related products.

The Group’s turnover for the year ended 31st December, 2000 is analysed as follows:

	\$'000
<b>a. Sales and distribution of merchandise by product categories</b>	
Moisture resistant plywood	43,147
Structural	20,610
Flooring	19,378
Weather and boil proof plywood	16,851
Jamb and mouldings	16,021
Veneer	5,226
Others	8,779
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	<b>130,012</b>
<b>b. Sales and distribution of merchandise by geographical areas*</b>	
Japan	59,395
The People’s Republic of China	25,425
Europe	20,328
United States of America	16,856
Others	8,008
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	<b>130,012</b>

\* Sales and distribution of merchandise by geographical areas is determined on the basis of the location where the merchandise is delivered.

The Group’s contributions to trading results by product categories and by geographical areas have not been separately presented as they were generally in proportion to the distribution of turnover as set out above.

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## **CUSTOMERS AND SUPPLIERS**

For the year ended 31st December, 2000, the five largest customers of the Group accounted for approximately 30.2% of the Group's turnover and the five largest suppliers accounted for approximately 10.7% of the Group's total purchases. In addition, the largest supplier to the Group accounted for approximately 3.7% of the Group's purchases while the largest customer accounted for approximately 8.6% of the Group's turnover. As at 31st December, 2000, none of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or five largest suppliers.

## **RESULTS AND APPROPRIATIONS**

Details of the Group's results for the year ended 31st December, 2000 are set out in the consolidated income statement on page 24 of this annual report.

The Directors do not recommend the payment of a final dividend.

## **SHARE CAPITAL AND SHARE OPTIONS**

Details of movements in the share capital and share option scheme of the Company are set out in Notes 22 and 23 to the accompanying financial statements respectively.

## **RESERVES AND RETAINED PROFIT**

Movements in reserves of the Group and the Company during the year are set out in Note 24 to the accompanying financial statements.

As at 31st December, 2000, approximately \$21,122,000 (1999 - \$21,122,000) of the Company's reserves and approximately \$3,524,000 (1999 - \$4,683,000) of the Company's retained profit were available for distribution to its shareholders.

## **PURCHASE, SALE OR REDEMPTION OF SHARES AND WARRANTS**

During the year ended 31st December, 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares and unlisted warrants.

## **SUBSIDIARIES**

Particulars of the Company's subsidiaries are set out in Note 12 to the accompanying financial statements.

## **PROPERTY, PLANT AND EQUIPMENT**

Movements in property, plant and equipment during the year are set out in Note 11 to the accompanying financial statements.

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## **BANK LOANS AND OVERDRAFTS**

Particulars of bank loans and overdrafts are set out in Notes 16, 19 and 28 to the accompanying financial statements.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

Details of commitments and contingent liabilities are set out in Note 26 to the accompanying financial statements.

## **PENSION SCHEMES**

Details of the pension schemes are set out in Note 27 to the accompanying financial statements.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

## **DIRECTORS AND DIRECTORS' SERVICE CONTRACTS**

The Directors who held office during the year and up to the date of this report are:

### **Executive directors**

Mr. Budiono Widodo, Chairman

Mr. Peng Chiu Ching, Managing Director (Appointed on 1st March, 2000)

Mr. Liao Yun Kuang, President (Appointed on 1st March, 2000)

Mr. Yeh Chin Chuan (Resigned on 1st March, 2000  
as President and Managing Director; and retired  
on 28th June, 2000 as executive director)

Mr. Lau Kam Hung

### **Non-executive directors**

Mr. Au Son Yiu

Mr. Chen Chung I

Mr. Mohamad Haslah Bin Mohamad Amin (Appointed on 1st March, 2000)

Mr. Sardjono Widodo (Appointed on 1st March, 2000)

Mr. Pipin Kusnadi (Appointed on 1st March, 2000)

Mr. Marzuki Usman (Appointed on 1st March, 2000)

Mr. Lim Ong Kim (Resigned on 1st March, 2000)

In accordance with the Bye-laws of the Company, Mr. Chen Chung I, Mr. Mohamad Haslah Bin Mohamad Amin and Mr. Pipin Kusnadi retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Mr. Marzuki Usman retires but not offer himself for re-election.

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## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

None of the Directors has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2000, the Directors of the Company had the following beneficial interests in the capital of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

### Ordinary shares with par value of HK\$0.025 each.

	Personal Interest	Corporate Interest*	Total	% of Total Shares Outstanding
Budiono Widodo	248,276,000	1,974,720,000	2,222,996,000	39.83%

\* As at 31st December, 2000, SMI International Limited ("SIL") held 1,974,720,000 shares (1999 - 1,974,720,000 shares) of the Company. Mr. Budiono Widodo, a Director of the Company, held 39.82% of the outstanding shares of SIL. The interest of Mr. Budiono Widodo in the issued shares of the Company was, accordingly, corporate interest in the Company as described in Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Save as disclosed above and the section "Directors' rights to acquire shares or debentures" below, the Company had no notice of any interest required to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2000.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Details of the scheme are set out in Note 23 to the accompanying financial statements. The share options granted and held by the Company's Directors as at 31st December, 2000 were as follows:

Name	Subscription price per share	Beginning of year	Number of shares to be issued under options granted under share option scheme		End of year
			Granted during the year	Exercised during the year	
Mr. Budiono Widodo	HK\$0.260	88,000,000	–	–	88,000,000
Mr. Liao Yun Kuang	HK\$0.129	40,800,000	–	–	40,800,000
Mr. Peng Chiu Ching	HK\$0.129	31,000,000	–	–	31,000,000
Mr. Lau Kam Hung	HK\$0.129	5,000,000	–	–	5,000,000
		<u>164,800,000</u>	<u>–</u>	<u>–</u>	<u>164,800,000</u>

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(Amounts expressed in United States dollars unless otherwise stated)

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES** *(Continued)*

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or its holding company a party to any arrangements to enable any of the Company's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in Note 25 to the accompanying financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company's Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **COMPETING BUSINESS**

Mr. Budiono Widodo, (a Commissioner of P.T. Sumatra Timber Utama Damai ("P.T. STUD")) Chairman of the Company, and Mr. Sardjono Widodo, (a Director of P.T. STUD) a non-executive Director of the Company, have personal and corporate interests of 4.258% and 5.1968% in P.T. STUD respectively.

P.T. STUD is a prominent manufacturer in the container flooring segment and its management team comprises associates and family members of Mr. Budiono Widodo, including Mr. Sardjono Widodo.

During the year ended 31st December, 2000, P.T. STUD recorded a turnover of \$72 million, which was analysed by product range as follows:-

	<b>\$'million</b>
Container flooring	43.0
Film face plywood	4.7
Multi layer engineered wood	1.0
Industrial plywood	23.3
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Total	72.0
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The core business of P.T. STUD is the manufacture and sales of industrial plywood and other secondary plywood products. The principal business of the Group is the manufacture and distribution of plywood, veneer and consumer-related wood products. Therefore, the business of P.T. STUD does not and will not compete with that of the Group.

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## COMPETING BUSINESS *(Continued)*

In addition, Mr. Budiono Widodo is not involved in the day-to-day operations of the business of P.T. STUD and Mr. Sardjono Widodo is one of the directors of the board of P.T. STUD and is only a non-executive director of the Company. Furthermore, P.T. STUD has given an undertaking in favour of the Group that it will not compete with the Group by manufacturing those plywood products which are currently produced, or are likely to be produced in the future, by the Group, but excluding products which are currently produced by P.T. STUD. Mr. Budiono Widodo has also undertaken the Group to use his best efforts to procure P.T. STUD to comply with its undertaking, as long as he is the controlling shareholder (as defined under the Listing Rules) of both the Company and P.T. STUD.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the following entity (not being a Director or chief executive of the Company) had registered an interest in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage shareholding
SMI International Limited	1,974,720,000	35.38%

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2000.

## AUDIT COMMITTEE

The Board of Directors has established an Audit Committee in year 1998 and has formulated its written terms of reference in accordance with the requirements of The Stock Exchange of Hong Kong Limited. The Audit Committee, which includes two independent non-executive Directors and one non-executive Director, is to review with management the accounting policies adopted by the Group and to discuss auditing and financial reporting matters.

## CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year covered by this annual report except that all the non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with Article 105 of the Company's Bye-laws.

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## AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for the re-appointment of Messrs. Arthur Andersen & Co as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

**BUDIONO WIDODO**

*Chairman*

Hong Kong,  
18th April, 2001.