

## **BUSINESS REVIEW**

In the first half of 2001, plywood prices remained depressed. Coupled with the intensified global economic slowdown, the business environment was tough for the Group. This is reflected in the first six months' performance ended 30th June 2001, where despite the Group recorded a turnover of US\$62.5 million, an increase of US\$0.5 million compared with the corresponding period in 2000. Net loss attributable to shareholders was US\$3.6 million, compared to the loss of US\$2.4 million for the same period last year.

The Group experienced extremely difficult market conditions during the period. Log prices were high due to many concession owners in Malaysia continuing to export logs directly to the more lucrative markets, reducing profit margins for the Group's products. Although the Malaysian government has been working to maintain reasonable domestic log supplies, the stabilization of log prices still take time. Importing of logs from offshore into Sarawak where the Malaysian plant is located is still prohibited, and there are corresponding bans being imposed as well by authorities in neighbouring countries. In addition, the global market for plywood is very unstable as a result of the economic slowdown around the world and the plentiful supplies of plywood both from the PRC and Indonesian exporters. On the other hand, plywood prices had dropped regionally, thus affecting the performance of the Group.

Facing these difficult market conditions, the Group has taken a series of remedies to reduce sales and administration expenses. Apart from stringent cost controls, the Group is also working to expand its current revenue base. It has developed a new range of higher value-added products and is adjusting the product mix to enhance market penetration in existing and into other potential markets. Structural, Flooring and Moulding plywood products have proven to command higher profit margins. In view of the potential of these products, the Group is using its PRC manufacturing plants as its production base to mass-produce Structural and Flooring products. Dalian will be the major plant producing these value-added products, which also include Engineered Wood products. The plant in Jilin, is currently conducting a trial run at the plywood mill and was running smoothly barring some teething problems. The plant expects to start commercial production next year, contributing to the Group's growth in the near future. The aim is to develop the plants in the PRC as one of the major manufacturing bases for the Group's operations, paving the way for future development. Together with the well-established Manuply plant in Malaysia, which is operating almost at full capacity, the Group will be able to further expand market share when market conditions improve.

During the period, Japan remained as the Group's major export market and the main profit contributor to the Group, generating 51% of turnover. With Japan continuing to be its primary market, the Group has been working hard to develop high profit margin products, specifically for this market. The manufacturing plant in Malaysia is also one of the first two plywood companies in Malaysia to receive the Japan Agricultural Standard for its products. This accreditation enhances the Group's position as one of the leading plywood and veneer manufacturers in this region particularly in terms of product quality. The Group also maintains a strong presence in Europe and the USA, with sales representing 26% and 9% of the Group's turnover respectively. At the same time, the Group has also actively tapped new markets in Australia, South Korea, the Middle East and the Philippines to further expand its markets, while the Group is now looking into new markets like India and others.