

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, 2001.

Principal Activities

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

The Group’s turnover for the year ended 31st December, 2001 is analysed as follows:

	\$’000
a. Sales and distribution of merchandise by product categories	
Moisture resistant plywood	42,100
Structural	29,299
Jamb and mouldings	17,714
Weather and boil proof plywood	14,349
Flooring	10,116
Veneer	3,613
Others	549
	117,740
b. Sales and distribution of merchandise by geographical areas*	
Japan	64,172
United States of America	17,661
Europe	17,514
The People’s Republic of China	10,414
Others	7,979
	117,740

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

Details of segment information are set out in Note 32 to the accompanying financial statements.

Major Customers and Suppliers

For the year ended 31st December, 2001, the five largest customers of the Group accounted for approximately 30.97% of the Group's total turnover and the five largest suppliers accounted for approximately 19.19% of the Group's total purchases (not including purchases of capital nature). In addition, the largest customer of the Group accounted for approximately 8.86% of the Group's total turnover while the largest supplier accounted for approximately 5.91% of the Group's total purchases. At no time during the year have 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 any 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, 2001 are set out in the consolidated income statement on page 28 of this annual report.

The Directors do not recommend the payment of a dividend.

Five Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 15 to 16 of this annual report.

Share Capital, Share Options and Warrants

Details of movements in share capital, share options and warrants of the Company are set out in Notes 23, 24 and 25 to the accompanying financial statements respectively.

Reserves

The Group's loss attributable to shareholders of approximately \$61,014,000 is retained and carried forward. Other movements in the reserves of the Company and the Group during the year are set out in Note 26 to the financial statements.

Purchase, Sale or Redemption of Shares and Warrants

During the year ended 31st December, 2001, 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 as at 31st December, 2001 are set out in Note 13 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.

Bank Loans and Overdrafts

Particulars of bank loans and overdrafts are set out in Notes 17, 20 and 30 to the accompanying financial statements.

Commitments and Contingent Liabilities

Details of commitments and contingent liabilities are set out in Note 28 to the accompanying financial statements.

Pension Scheme

Details of the pension scheme are set out in Note 29 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. Liao Yun Kuang, *President*
Mr. Peng Chiu Ching, *Managing Director*
Mr. Lau Kam Hung

Non-executive directors

Mr. Au Son Yiu
Mr. Chen Chung I
Mr. Mohamad Haslah Bin
Mohamad Amin
Mr. Sardjono Widodo
Mr. Pipin Kusnadi
Mr. Sidhesh Kaul (Appointed on 19th June, 2001)
Mr. Marzuki Usman (Retired on 18th June, 2001)

In accordance with the Bye-laws of the Company, Mr. Sidhesh Kaul retires at the forthcoming annual general meeting and being eligible, offers himself for re-election. Mr. Lau Kam Hung and Mr. Au Son Yiu retire but do not offer themselves for re-election.

None of the directors has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than normal statutory obligation.

Directors' Interests in Shares

As at 31st December, 2001, the directors of the Company had the following beneficial interests in the equity 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 or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Section 28 of the SDI Ordinance and the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

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, 2001, SMI International Limited ("SIL") held 1,974,720,000 shares (2000 – 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 SIL 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, 2001.

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 24 to the accompanying financial statements. The share options granted and held by the Company's directors during the year were as follows:

Name	Date of grant	Exercise period	Number of shares to be issued under options granted under share option scheme				
			Subscription price per share	Beginning of year	Granted during the year	Exercised during the year	End of year
Mr. Budiono Widodo	31/5/1996	1/12/1996 to 30/11/2006	HK\$0.260	88,000,000	-	-	88,000,000
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	40,800,000	-	-	40,800,000
Mr. Peng Chiu Ching	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	31,000,000	-	-	31,000,000
Mr. Lau Kam Hung	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	5,000,000	-	-	5,000,000
				164,800,000	-	-	164,800,000

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 and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

Directors' Interests in Contracts

Save as disclosed in Note 27 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.

Directors' Interests in 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 approximately 4.26% and 5.20% 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, 2001, P.T. STUD recorded a turnover of \$55.8 million, which was analysed by product range as follows:

	<i>\$'million</i>
Industrial plywood	32.0
Container flooring	20.0
Film face plywood	2.8
Multi layer engineered wood	1.0
Total	55.8

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.

Directors' Interests in 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 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 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, 2001, the register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholder had a beneficial interest of 10% or more in the issued share capital of the Company:

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

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.

Compliance with the 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.

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, 15th May, 2002.