



From Left to Right : Mr. PENG Chiu Ching (*Managing Director*), Mr. LIAO Yun Kuang (*President*), Mr. WIDODO Budiono (*Chairman*), Mr. WIDODO Sardjono



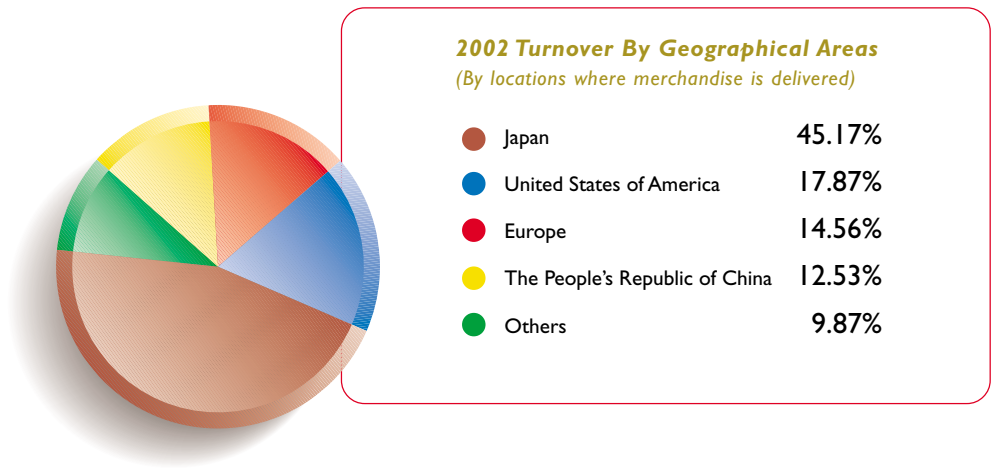
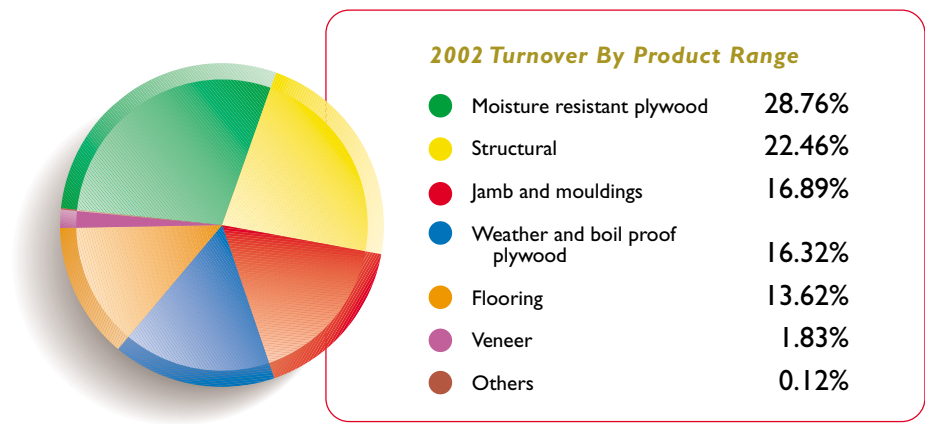
Business Review

Manufacturing business

The Group is committed to raising production volumes at our individual plants, strategically located in Malaysia and the PRC. The PRC plants though had improved but are still making losses. The Manuply plant in Malaysia still maintains the highest production volumes. Our most well received plywood flooring is produced here for export to large consumer markets in Japan, China and Europe. Our plant in Malaysia is operating at about 75% capacity, allowing the Group to benefit from economies of scale and thus strengthening its competitiveness.

During the year under review, the log price fluctuated extensively with significant increases in the first three quarters, returning to more stable conditions in the fourth quarter. These pricing fluctuations took their toll on the Group. However, thanks to the experience of our management, our log recovery rate reached 51%, a slight increase compared to the previous year. Consolidating the Group’s revenue source, we managed with better utilization of log wastage through reconstitution into low end products with acceptable quality for general applications.

Our diversified product mix also provides us with a strong competitive edge in the poor economy. Our newly developed color flooring has received an excellent response from the market, with sales volumes increasing 5.2 times during the year under review. This flooring is also gaining increasing acceptance in the PRC market where demand is expected to grow even further in the years to come. With the success of these color flooring products, our research and development team is working on a new multilayer plywood-based flooring product. Initial market acceptance





feedback appears to be encouraging. These two products provide quality flooring products that can be used in residential homes and offices in place of carpets, marble tiles, ceramic tiles, parquet, etc. These products also come in different colors and wood species to meet customer needs.

Market overview

During the year under review, Indonesian mills have slowed down their dumping of plywood stocks in the PRC due to the enhanced enforcement of illegal logging activities and depleted inventory due to previous dumping activities, helping to stabilize plywood prices in the market. Although log supplies are still suffering some fluctuation, the Malaysia government has implemented a quota system to control log exports to ensure that there are sufficient log supplies to meet local demand. The Group was also able to purchase veneers within Malaysia to overcome the ban on logs imports imposed by the Sarawak authorities.

Japan remains the Group's major plywood market, generating 45% of the Group's total turnover. As Japan lies on an earthquake zone, wooden houses are traditionally in strong demand. Their domestic supply of plywood is much more expensive compared to imported plywood. As our products are of top quality yet reasonably priced, we have successfully seized a significant piece of the pie in the Japanese market. For the year ended 31st December, 2002, the PRC market became our market with the highest growth potential. The PRC market has grown significantly, representing approximately 13% of the Group's turnover, in view of the tremendous leaps forward its economy has made in recent years. With improved living standards, people are rushing to upgrade their homes, explaining the strong response to our color flooring products in this market. On the other side of the world, market demand in the US and Europe remained stable during the year.

Prospects

In the coming year, log supplies are expected to remain tight as the Malaysian government continues to ban the import of Indonesian logs together with the enforcement of forestations policies. However, we are seeing a gradual upward trend in plywood prices barring any significant global economic slow-down or turbulence going forward. We expect prices in 2003 to consolidate subject to the recovery of the economies in Japan, Europe and the USA. The Group will therefore, continue to increase the utilization of log wastage, also increasing production volumes to achieve higher production efficiency and economies of scale. We will also expand our existing marketing teams and focus on selling high profit margin products such as flooring and laminated veneer lumber. Further stringent cost control as well as improving the mix of our product portfolio to meet customers needs will be ongoing commitments for the Group.

We will be exploring new markets such as Thailand, the Philippines and Australia to enlarge our market share. Japanese market, due to its continuing weak economic conditions, may slow down its growth potential. However, with its new glue specification standard, Japan still requires high quality plywood compliances and heavily relies on quality plywood. As we provide top quality plywood, we continue to expect demand from Japan.

The soaring economy in the PRC is expected to compensate for the slowdown in plywood consumption in Japan. The PRC market will therefore be another major market for the Group in the coming year. Its accession to WTO and role as host of the 2008 Olympics is speeding up the construction of residential units and buildings, which require major supplies of plywood. Especially with the tremendous new housing built, plywood flooring demand has increased to at least 400 million square meters per year for the last few years in the PRC. This figure excludes commercial buildings, sports centers and the renovation of old houses. Currently, plywood flooring accounts for only about 5% of the wooden flooring market, therefore, there is a huge potential for the growth of plywood flooring in the PRC.

We will continue to work with major plywood distributors through strategic alliances and learn from them with regard to local markets, their competitive and consumer trends as well as their product needs. Last but not least, we will further improve our on-time delivery and maintain close relationships with our customers, enhancing our operational and customer activities to bring in reasonable and additional returns for our shareholders.

Employee Relations

As at 31st December 2002, the Group had about 5,410 staff, about 2,920 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and about 2,440 at facilities in the PRC. In-house training programmes were also provided to enhance staff skills and job knowledge and management will continue to foster close co-operation with staff in the future.

Financial Review

The turnover of the Group increased 3.1% to US\$121.4 million compared to US\$117.7 million in 2001, the loss attributable to shareholders was also narrow down to US\$4.6 million compared to US\$61.0 million last year.

The net assets of the Group as at 31st December, 2002 was approximately US\$41.2 million, compared to US\$45.8 million as at 31st December, 2001. Total bank borrowings of the Group was approximately US\$80.1 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 194%, comparing to 172% as at 31st December, 2001.

As at 31st December, 2002, working capital deficiency was approximately US\$9.6 million, compared to US\$16.5 million as at 31st December, 2001, representing a decrease in deficiency of US\$6.9 million. The decrease was attributable to the success of measures adopted by the management.

The bank loans and other banking facilities were secured by pledges of certain of the Group's property, plant and equipment, floating charges on certain of the Group's inventory and bank balances, corporate guarantees given by the Company and a joint venture partner and a personal guarantee given by a director of the Company.

The Group will continue to streamline its business and minimise capital expenditures.

Contingent Liabilities

As at 31st December, 2002, the Group's contingent liabilities were approximately US\$0.4 million representing discounted bills with recourse.

Foreign Exchange Exposures

Major functional currencies of the Group are United States Dollars, Malaysia Ringgits and Renminbi. All of them are closely linked in term of exchange rate to United States Dollars, the reporting currency of the Group. Foreign currency exposure to the Group is expected to be minimal.

Peng Chiu Ching

Managing Director

Hong Kong, 11th April, 2003