

*2000 Annual Report of the
Board of Directors to the Shareholders*



PRECIOUS WOODS

*Front page: Garden furniture made from Brazilian hardwood
Available at: Giarnaldo Sonderegger & Blöchlinger
Postfach 343, CH-4513 Langendorf
032 – 622 16 45 and 079 – 250 26 58*

Adresses

Switzerland:

Precious Woods (Switzerland) Ltd.
Militärstrasse 90
Postfach 2274
8021 Zürich

Tel: + 41 1 245 80 10
Fax: + 41 1 245 80 12
E-Mail: office@preciouswoods.ch
Internet: www.preciouswoods.ch

Costa Rica:

Maderas Preciosas (Costa Rica) S.A.
c/o Dr. Arnoldo André T.
André Tinoco & Asociados
P.O. Box 11745-1000
San José

Tel: + 506 283 30 70
Fax: + 506 283 32 34

Brazil:

Precious Woods Amazon
(MIL Madeireira Itacoatiara Ltda.)
Estr. Torquato Tapajós, Km 227
Caixa Postal 39
CEP 69100-000 Itacoatiara, AM

Tel: + 55 92 521 3331 / 3323 / 3528
Fax: + 55 92 521 3329 / 3526

General information about the group as a whole can be obtained from Precious Woods (Switzerland) Ltd. Specific information about the companies in Costa Rica and Brazil can be obtained from the relevant countries.

	Page
<u>Chairman's statement</u>	5
<u>Structure of the Precious Woods group</u>	6
<u>Precious Woods Amazon</u>	7
<u>Precious Woods Costa Rica</u>	13
<u>Precious Woods group</u>	19
<u>A summary of key financial data</u>	21
<u>Consolidated financial statements for 2000</u>	24
<u>Independent auditor's report</u>	40

To all shareholders, Ladies and gentlemen,

It is with great satisfaction and the pride that goes with a job well done that I present to you our shareholders the annual report for the year 2000, the fourth of my term of office as chairman. For the first time indeed Precious Woods is able to report a profit. Three developments in 2000 were particularly significant.

- Precious Woods Amazon has continued to make progress. The local management, which in 1999 was partially renewed, put a great deal of effort into the performance of its duties. The sawmill is operating at a greater level of efficiency and its output has improved remarkably. New markets have been developed for the smaller items, and their finishing is now being done in a thoroughly professional manner. A solution has been found in collaboration with another company for the recycling of wastewood. This will be converted into electricity by small power station now being built, and the power will be supplied to the public grid.
- Precious Woods Costa Rica is able to report its first earnings and must now be considered as a profitable concern. International Accounting Standards (IAS) now include a new accounting guideline for agricultural type products which have a multiannual life cycle. According to this method income from a plantation with a life cycle stretching over many years no longer has to wait for the final harvest before it can be entered in the accounts. It can now be reported throughout the entire product life cycle. It has been a real challenge developing a valuation model that satisfies the new requirements in all particulars, and that can be applied to all our plantations. In each case we have relied on conservative assumptions. The new valuations are well below those made by external appraisers in previous years.
- It is thanks to your support, esteemed shareholders, that Precious Woods Limited has been able to increase its share capital by some 30 per cent. This has provided the company with much needed liquidity, providing the basis for new investments and growth opportunities.

Our entrepreneurial efforts have brought about the following developments full of promise for future successes:

- In May 2001 Precious Woods Amazon purchased an additional 42,000 hectares of forest. This increased the company's forest lands in the Itacoatiara region by 55 per cent.
- At the beginning of the year a basic agreement was signed for the founding of Precious Woods Pará, a new subsidiary in which the Precious Woods stake amounts to 60 per cent. The details of the final contract are still being negotiated, prior to the official founding. In addition to a sawmill the new company will have 45,500 hectares of forest. A further 93,000 hectares will be added to the company's holdings later in the year.
- In Costa Rica preparations are being made for the planting of 400 new hectares. The purchase of additional estates is under study.
- The Precious Woods Limited parent company is also preparing for a change of address for the head office. Once the move to Switzerland is completed the company will seek a stock market quotation for its shares, on the Swiss Exchange.

On behalf of the Board of Directors I wish to take this opportunity to thank all Precious Woods staff for their efforts in the past year. Only commitment, creativity and discipline throughout the company can ensure success in such a pioneering enterprise.

With my best wishes,



Dr. Andres Gut

Structure of the Precious Woods group

The Board of Directors

			Term ends:
Dr. Andres Gut *	Rebstein, Switzerland	Chairman	2001
PD Dr. Daniel Girsberger	Herrliberg, Switzerland	Vice-Chairman	2002
Dr. Max D. Amstutz	Begnins, Switzerland		2002
Dr. Arnaldo André T.	Escazú, Costa Rica		2001
Dr. Anton E. Schrafl	Zollikon, Switzerland		2001
Hans Stout *	Schiedam, The Netherlands		2002
Dr. Robert Straub	Zurich, Switzerland		2001
Eduard Stürm *	Engelburg, Switzerland		2003

* Member of the Executive Committee of the Board of Directors

Company Secretary

Daniel Heuer, Berne, Switzerland

Executive Management

Brazil: Hans Stout,
Chief Operating Officer
Paul W. Westbrook,
General Manager

Auditors

Deloitte & Touche, San José, Costa Rica

Costa Rica: Dr. Arnaldo André,
Delegate

Switzerland: Daniel Heuer,
Manager

The structure of the Precious Woods group

Precious Woods Ltd. (Tortola, British Virgin Islands)
Holding company, founded in 1990.

From 2001:

Precious Woods Costa Rica Liberia (Guanacaste, CR) Reforestation Founded in 1990 100% approx. 250 employees	Precious Woods Amazon Itacoatiara (Amazonas, BR) Sustainable forestry Sawmill, planing mill Founded in 1995 100% approx. 350 employees	Precious Woods Switzerland Zurich Trading, group secretary Founded in 1994 100% 4 employees	Precious Woods Pará Icoaraci, Belém (Pará, BR) Sustainable forestry Sawmill, planing mill Founded in 2001 60% approx. 160 employees
--	--	--	---

Activities: Precious Woods Amazon has since 1996 managed company-owned tree plantations covering some 80,000 hectares in accordance with the principles of sustainable development. The forest is cultivated according to methods which imitate nature and which have kept the forest's biodiversity intact. The amount of timber that can be harvested is kept within strict limits. All in all over 40 different species are cultivated. The Precious Woods Amazon operations were certified in May 1997 in accordance with the criteria of the Forest Stewardship Council (FSC). All timber harvested is processed in the company's own sawmill and finishing shop, producing sawn wood and other products mainly for the export market.

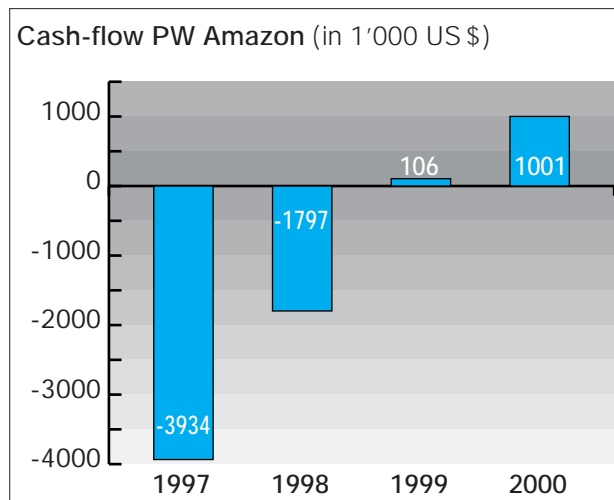
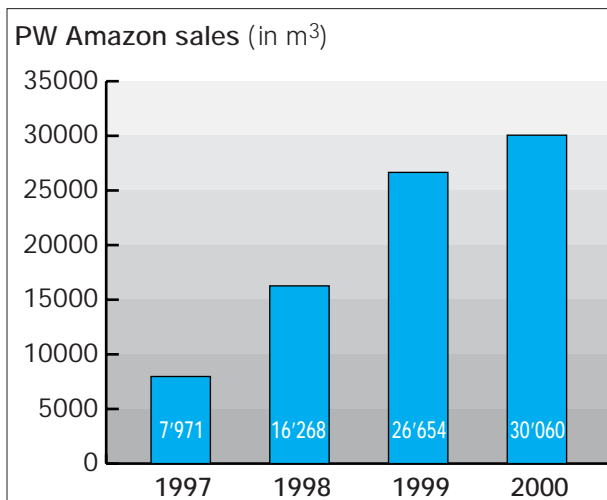
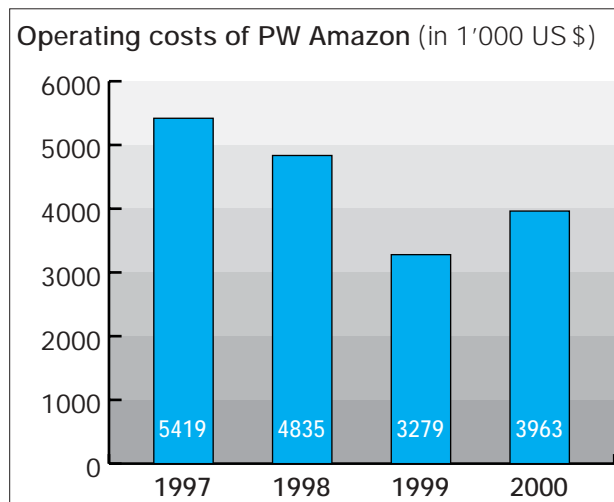
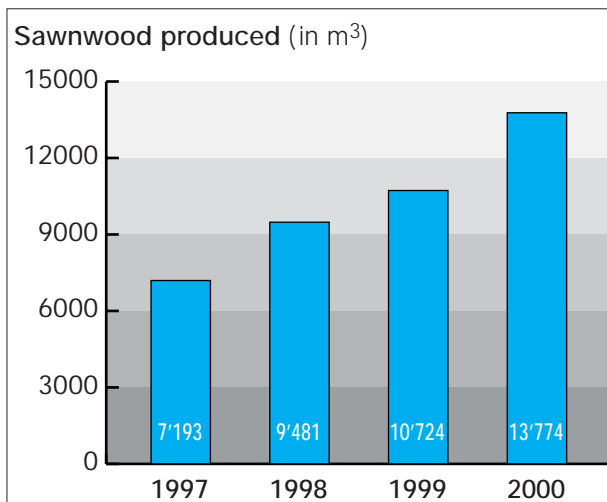
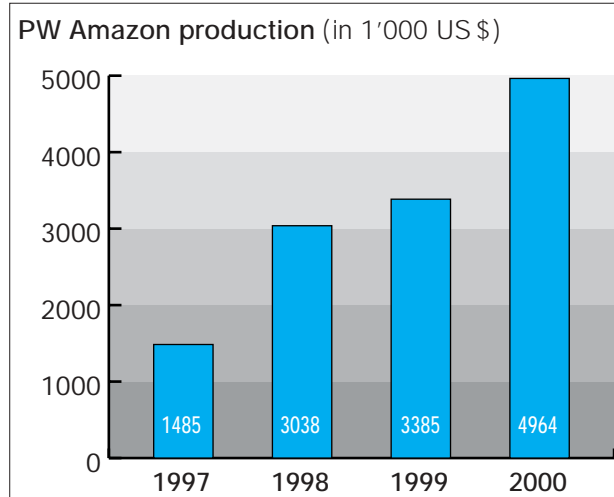
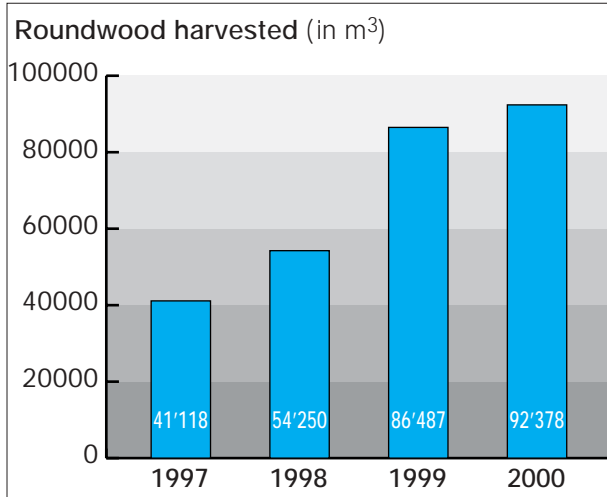
A summary of the 2000 financial year: The annual result once again showed considerably improvement. The partly renewed management team has succeeded in its efforts to further increase the efficiency of operations in the field. The sales and marketing division, in collaboration with the industrialisation unit, has prepared the way for increased processing of small remainders.

Wood harvested & roundwood products: The traditional "dry season" (June–December) was in fact relatively wet, making operations in the forest more difficult. Despite this situation harvesting and transport related costs remained low at just US \$ 14 per cubic metre (1998: US \$ 33/cm; 1999: US \$ 13/cm). The total harvested of 92,378 cubic metres once again shows an improvement on the previous year, equal to 7 per cent. Since 1998 Precious Woods Amazon has supplied various types of softwood suitable for the production of plywood to the Gethal company of Itacoatiara. Gethal was awarded FSC certification for its own forest in October 2000. Since that time Precious Woods has supplied Gethal with softwood in exchange for hardwood, in the context of a roundwood exchange programme. In future this exchange programme will help to rationalise the utilisation of Precious Wood's own forests.

Before Precious Woods Amazon began operations it was estimated by the experts that the timber harvesting capacity would be about 35 cubic metres per hectare (cm/ha). On the basis of 2,000 hectares of forest ready for harvesting each year it was estimated that the total annual harvest would amount to 70,000 cubic metres. The experience of the past few years in this region has made it clear however that such a yield per hectare is not possible. It would in any case require the company to market more wood than any of its competitors in the Amazonas Region. To meet the original objective would require bringing more land under cultivation, or harvesting the existing forested area more frequently.

In November the company decided on an appropriate three-pronged strategy for solving this problem:

1. As of 2001 a large area is to be treated with silvicultural measures. Once the final harvesting has been completed, specially selected trees will be "set free", liberating the space necessary by destroying competitive species. The growth stimulus will thus be increased. This method was perfected by the company's forestry consultant Dr. R. de Graaf on the basis of many years experience in Surinam. Precious Woods Amazon has also conducted a number of scientifically evaluated experiments on small parcels in recent years. Indeed it is a well known fact that growth in virgin forests is limited. Only when individual trees die and spaces appear in the forest canopy do young trees have any hope of growing. It goes without saying that all measures taken will be precisely documented, and due attention will be paid to the composition of the forest in terms of species, to ensure that it remains essentially the same.
2. The company plans to purchase additional forests, having already acquired 42,000 hectares in May 2001.



In 1999 strong increase in roundwood sales for plywood production.

Without changes in inventory and receivables.

3. The management is studying ways of shortening the harvest cycle. At present however there is insufficient data on the growth of trees after harvesting.

Sawmill: The year's production increased 28 per cent to 13,774 cubic metres of sawn wood, compared to 1999 (see the chart for the 1997 – 2000 period).

The operating costs per cubic metre were reduced by 7 per cent compared to the previous year. The reduction achieved between 1998 and 1999 was 24 per cent.

The increase in value terms was no less than 46 per cent, thanks to the higher volume of sawn wood exports. Another determining factor in this success was the fact that in addition to the best quality wood the company also managed to sell a larger number of short lengths. An important part of the product range is rough wood as raw material for the production of parquet floors in China. The company's Dutch partner introduced two new types of wood on the world market that previously had been sold exclusively on the local market (see the production chart for 1997 – 2000).

Industrialisation & wastewood: From the beginning of operations Precious Woods Amazon realised immediately the tremendous untapped potential that existed for cuttings and small bits that are a by-product of sawmill operations. In previous years however it was not possible to arrange suitable contracts or to ensure the necessary quality and quantity of production. The year 2000 has marked the first success, with the dispatch of an entire shipping container full of "shorts". The first major customer is a supplier of wood components for barbecue grills made mostly of metal. Since then the list of clients has grown considerably however. And since several of the major do-it-yourself chains in the USA beginning with Home Depot have given clear

recognition to FSC-certified wood products, the demand for FSC approved hardwoods has increased overnight.

A contract for the supply of wastewood and sawdust has been signed with another company that has much experience building and operating wood combustion systems that make use of wood energy. The electricity generated in this way will be supplied to the public grid.

Staff & cost control: The development of sawn wood production and of industrialisation activities has resulted in an increase of staff from 246 at the end of 1999 to 345 at the end of 2000. Bearing in mind that the company's prime objectives include providing work and income for the local population on the basis of conservationist forest management, this growth can only be interpreted as a token of success. Precious Woods Amazon has now progressed to being the second largest employer in the Amazon town of Itacoatiara with its 60,000 inhabitants. At the same time however, for economic reasons, cost control continues to have the highest priority in all areas. For more information on costs see the 1997 – 2000 chart.

Final result: Measured in terms of operational cash flow, and without taking into account warehouse movements or client credit balances, Precious Woods Amazon managed to improve the total result by nearly US \$ 900,000.

FSC certification & Greenpeace & visitors: Precious Woods Amazon managed to meet all criteria necessary for FSC certification in the time allotted. Among the criteria was the need to find a solution for the waste problem, and a workable strategy to ensure roundwood supplies in the years ahead.

Well in advance of this happy event, a variety of delegations visited the company to acquire a better





Pictures from left to right

- *Forest data survey.*
- *Directional felling in order to avoid large-scale damage to the surroundings.*
- *The felled log is evacuated by a skidder moving on fixed paths.*
- *Collection point in the forest.*
- *Transport to the sawmill.*
- *Logyard at the sawmill.*
- *Producing sawnwood.*
- *Paul W. Westbrook showing an educational panel.*
- *Packing of sawnwood.*
- *Poles ready for shipping.*
- *Precious Woods Amazon office (model casa z).*



understanding of exactly how sustainable forestry works. Greenpeace's official support for Precious Woods Amazon was formally granted and celebrated with a press conference on 30.05.00 on board of the Greenpeace ship. After the ceremony a large delegation headed by Greenpeace International Director Thilo Bode visited the Precious Woods Amazon sawmill and was given a guided tour of operations in the forest with a demonstration of harvesting methods.

In addition to persons visiting for professional purposes, including clients and Precious Woods Amazon business partners the company also regularly welcomes a number of other visitors, although efforts have never been made specifically to encourage such visits. These visitors include the representatives of universities and scientific institutions, as well as official government representatives from Brazil and abroad, representatives of the World Bank, journalists and others. In the year under review the highest ranking visitors included the German Minister for Development Aid, Heidemarie Wieczorek-Zeul, and the Under Secretary of State for US Aid in the Clinton Administration, Robert Sandelow. Encouraging visits makes sense as a way of getting the idea of sustainable forest management across to as wide an audience as possible. From the operational point of view however such PR activities are merely an extra burden. The same can be said indeed of participation in seminars, congresses, etc., for which Precious Woods Amazon representatives are regularly in demand as speakers. In most cases however there is little or no benefit for the company itself in terms of new know-how. The ideal solution would be to professionalise these informative PR activities and to finance them from the plentiful funds available for saving the Amazon forests. The company has already made an application in this sense.

A look ahead: The first few months of the year 2001 have been equally positive for the development of Precious Woods Amazon. Sawn wood production is likely to increase further, continuing the trend clearly visible in 2000. The efficiency and turnover of the industrialisation unit continue to improve from month to month. The first income from the sale of wastewood was entered in the accounts in March. At the same time costs have also risen, reflecting the increase in staff. The cash flow balance was higher in the first four months by about US \$ 290,000.

Business objective: Precious Woods Costa Rica first began planting valuable trees in 1990, on land previously used for pasture. The first commercial thinning operations took place when the trees reached the age of 10 – 15 years. The final harvesting is due to take place when they reach the age range of 26 – 34. The land will subsequently be replanted. To date the plantations include 2,542 hectares of teak, 970 hectares of pochote and a variety of native tree species (270 ha), together totalling three million trees. These plantations require a great deal of attention, in particular during the first few years of life. It has been estimated that income from the future sale of wood from these plantations will provide a return of 10 – 12 per cent across the entire life cycle of the capital currently invested.

Difficult year following a shortage of ready cash: Early in 2000 the Precious Woods Group found itself facing a liquidity crisis. Despite the existence of an approved budget with provisions for the full care of all existing plantations as well as for 400 hectares of new plantations, Precious Woods Costa Rica was forced to prepare an emergency budget. This limited spending to the most pressing maintenance, with no new plantings. Thanks to a successful operation to increase the company's share capital it again became possible to meet the funding requirements as of late summer. Efforts were made to catch up on some of the care and maintenance work in the late autumn, and a number of other measures were carried out in the spring of 2001. The first new plantings were due to take place in the rainy season in 2001.

Preparations for FSC certification: With the first commercial thinning due to take place in the next few years, preparations for certification in accordance with the requirements of the Forest Stewardship Council (FSC) were launched in the autumn of 2000. The plantings carried out by Precious Woods are a model of the kind in ecological terms, having been adapted to the on-site vegetation in a sort of

mosaic pattern. In the few existing secondary forests and alongside isolated trees, fruit-bearing and blossoming trees were added here and there to meet the needs of local fauna wandering through the commercial plantations. In addition to teak Precious Woods planted some 20 native tree species which, in part due to overexploitation, have now become quite rare in the region. These efforts do nothing to simplify the certification process, which remains very complex and requires considerable administrative expenditure.

Death of José-Miguel Brenes: José-Miguel Brenes, who for many years was the General Manager of Precious Woods Costa Rica, suffered a fatal accident in February 2001. He had been helping to fell a large and very old tree, on the site of a tourism project that had no connection with Precious Woods. In José-Miguel Brenes the company has lost an energetic, visionary comrade-in-arms whose far-flung network of relations contributed much to the development of Precious Woods Costa Rica. His leadership style reflected a natural authority, tempered with respect for fellow workers at all levels of the company. The Group joins his colleagues in Costa Rica in regretting the loss of José-Miguel Brenes, whose memory is certain to remain with us for a long time to come.

Valuation in accordance with IAS 41: The problem of how to make a fair valuation of tree plantations, which mature over many years, is one that has arisen on a number of occasions in the past. It has consistently been the company's view that it makes no sense to base such valuations on the historical cost method, which has always made it difficult to ensure that the company's main objective, the stewardship of forests maturing over many years, is accurately reflected in the accounting process. According to the classical approach a parcel of trees with poor growth has the same value as one with satisfactory growth, and high production costs produce a high valuation regardless of efficiency.

Now the body responsible for International Accounting Standards (IAS) has issued a new guideline (IAS 41) specifically for the valuation of agricultural assets and forests, that have in common a multiannual life cycle.

The main difference is that the income of agricultural or forest assets across the full life cycle can now be appropriately recorded in the balance sheet and reflected in the income statement. The income from a tree plantation maturing over a 30-year period is no longer omitted until the time of the final harvest, but is instead spread over the 30 years of growth. Furthermore the costs for tree planting over many years are now to be treated as normal accounting period costs.

In 2000 Precious Woods developed a valuation method for forest plantations on the basis of the IAS guideline, taking into account differences in relation to the age range, species and state of growth for the various plantations. The essential principles are as follows:

1. In the initial years costs are the dominating factor for the valuation. As the end of the life cycle approaches the valuation is based exclusively on the discounted putative net value of the final harvest. The rate of discount applied in this case

is determined by the cash flow anticipated over the full life cycle and varies from one tree species and "growth class" to another.

2. The growth of plantations is measured and documented on the basis of hundreds of parcels. These parcels are assessed and divided into five growth classes: marginal, low, medium, high, excellent. A parcel can move up or down from one class to another in the course of its life, reflecting the measurements made in the field. The valuation thus mirrors the actual state of biological growth.
3. The growth classes have been defined in accordance with recognised forest management criteria.
4. Current prices are taken as the basis for prices of the timber to be harvested, and in cases of doubt conservative price assumptions are given preference.
5. If at some future point the market price of the wood, the production costs, the expectations in terms of forest volume or some other aspect of the valuation changes, this effect is separated from the normal annual growth and openly declared.
6. The value of the land, which is not covered by the IAS 41 accounting rules, is previously entered in the balance sheet under acquisition costs.

Result of the valuation: The valuation in accordance with IAS 41 gives the following results for the end of

	IAS end of 1999	Book value 1999	Difference
Teak plantations	8,203,200		
Pochote plantations	4,498,965		
Various native species	837,211		
Total plantations, without land	13,539,376	10,607,304	2,932,072
Land at acquisition value	<u>5,275,723</u>	<u>5,275,723</u>	<u>0</u>
Total	<u>18,815,099</u>	<u>15,883,027</u>	<u>2,932,072</u>

The difference between the book value and the value according to IAS 41 reflects the activities of earlier years and is entered in the balance sheet as shareholders' equity.

The valuation carried out on the basis of IAS 41 at the end of 2000 produced the following figures:

	IAS end of 1999	IAS end of 2000	Difference
Teak plantation	8,203,200	10,269,453	2,066,253
Pochote plantation	4,498,965	5,098,883	599,919
Various native species	837,211	989,415	152,203
Total plantations, without land	13,539,376	16,357,751	2,818,375
Land	<u>5,275,723</u>	<u>5,275,723</u>	<u>0</u>
Total	<u>18,815,099</u>	<u>21,633,474</u>	<u>2,818,375</u>

The difference reflects the increased value as a result of growth in the company's plantations in the year 2000. Insofar as no commercial harvesting of the wood has taken place it corresponds to the gross income of Precious Woods Costa Rica for book-keeping purposes.

A detailed inspection of the results leads to the following observations. Thanks to good growth and a high market price the teak plantations generate the highest revenues. With shorter trunks and prices at a

generally lower level the internal revenues from the pochote plantations are not as good. As for the various native species, the situation is less clear. In many cases the company expects the prices to be high (mahogany, cedro) and in some cases even very high (cocobolo, ron ron), although these species involve slower growth. It was decided not to proceed with classification into growth classes or differentiation into species for the time being in these cases, so their valuation relates exclusively to maturity.

Growth class	marginal	low	medium	high	excellent
Teak	7.41%	9.84%	11.15%	13.20%	15.05%
Pochote	3.22%	4.50%	6.12%	7.51%	10.66%
Misc. native			8.98%		

Looking at growth for each "finca" or estate, one may safely draw the following general conclusions: in the Finca Garza growth is on the whole good, with a high number of parcels in the "high" and "excellent" classes, although a few of the more steeply inclined parcels fall into the "low" growth class. The relatively small Finca Ostional has two distinct parts: an excellent section on the plain, and a rather poor one spreading across steep hills. The Finca Rio Tabaco shows the poorest overall growth with a large number of trees in the "marginal" and "low" classes. The Finca Peñas Blancas falls mainly into the "high" growth class. As for the extensive Finca Santa

Cecilia the plantations of 1995 and 1996 are for the most part in the "low" to "medium" classes, while the plantations of 1997 and 1998 fall into the "medium" to "excellent" classes. The plantations of 1999 have not yet been measured, and have simply been listed as "medium" class. The management will do everything possible to improve the care and maintenance efforts so as to be able to upgrade as many parcels as possible while downgrading as few as possible.

As stated above, the IAS 41 accounting rules do not take into consideration changes in land values. The land holdings of Precious Woods Costa Rica,





Pictures from left to right

- *Roland Guerrero with a cloned teak seedling.*
- *Teak parent plants for the cloned process.*
- *4 year old teak plantation during the dry season. Old trees are left standing.*
- *10 year old teak plantation during the rainy season.*
- *Andres Gut with a 10 year old teak.*
- *Teak blocks (10 years) from thinnings with a high portion of heartwood.*
- *Jürg Biedermann and Machiel Blok evaluating freshly sawn teak boards.*
- *View of a 8 year old pochote plantation during the dry season. Typical patchwork of plantations and formerly existing vegetation (partially green).*
- *View of the same creek during the rainy season.*
- *Edi Stürm and Ted Scheidegger are measuring a 10 year old pochote.*
- *Detail of a young pochote with typical spines.*



amounting to 7,784 hectares, will be entered in the books as previously at the acquisition value of US \$ 5,275,723. A detailed valuation by a recognised appraiser produced the value US \$ 12,966,400 of at the end of 2000.

Annual result: Once the costs for care and maintenance of the plantations, amounting to US \$ 1,007,131, are deducted from the gross income of US \$ 2,818,375, this gives Precious Woods Costa Rica a net income for 2000 of around US \$ 1,811,244.

A look ahead: Thanks to the experience of the past and improved genetic materials the company can look forward to a higher level of average growth for the new plantations, comparable indeed to the growth levels recorded in 1997, 1998 and 1999. The remaining 700 hectares available for planting on land owned by the company are due to be cultivated in 2001 and 2002. Whether or not new land will be purchased will depend mainly on the amount of new capital at the company's disposal.

Annual General Meeting: The AGM appointed Eduard Stürm to serve a further three-year term on the Board of Directors. Due to an over-full agenda, Gerold Bühner decided not to seek a further term of office. Karl-Hermann Schmincke of Germany resigned from the Board, effective as of the beginning of October 2000. We would like to take this opportunity to thank these two gentlemen for their efforts on behalf of the company. The Board currently numbers eight members.

Capital increase & liquidity: The first tranche of shares for the capital increase decided in November 1999 was placed with existing shareholders at the beginning of 2000 (about US \$ 1.5 million). Since the over-the-counter (OTC) price of the shares was at that time less than US \$ 100, it was decided to offer two free options for every five US \$ 100 shares subscribed. The total subscription amounted to US \$ 8 million worth of shares, each with a face value of US \$ 100. The subscribers were for the most part existing shareholders, and in particular the major institutional shareholders. Towards the end of the year two new shareholders joined the pool - the ProgressNow! investment company, and the "Eco Performance" investment fund of one of the leading Swiss banks, UBS. Thanks to the clear progress which Precious Woods made at the operational level in 2000, it was possible to add a small premium to the face value of the shares. A total of 105,674 new shares were issued in 2000, raising US \$ 10.7 million in new capital. Furthermore several Precious Woods shareholders actively purchased the shares which other company shareholders had offered on the OTC market.

The company's liquidity was under strain at the beginning of 2000, all existing credits having been used up. The investment programme in Costa Rica had to be curtailed as a result, and the planned expansion in Brazil was temporarily put on hold. However thanks to the successful capital increase the cash position improved noticeably from the

summer of 2000, when it again became possible to plan new investments. Activities in Brazil in fact produced an operational cash flow of about US \$ 1 million. However, a number of events helped to absorb this additional funding: replacement investments in Brazil, investments for forest development, for increased production and the additional working capital from the growth in company turnover. At the turn of the year 2000/2001 the Group had liquidity of about US \$ 5.9 million, including available credit limits of 2 million US \$.

New project in Pará: The liquidity crisis temporarily put the brakes on the planning for a major new project. Even after the successful capital increase in the summer it was clear that the joint venture project originally planned with a Brazilian plywood manufacturing group, which would have required an input of Precious Woods capital amounting to about US \$ 18 million, was overambitious in its aims. There was also growing scepticism about the wisdom of becoming involved with plywood production, the price of this particular commodity having remained at a very low level for a number of years. It was therefore decided to focus efforts on the possibility of acquiring 120,000 hectares of forest located some 300 km southwest of Belém, at a very favourable price. However on closer investigation it was discovered that a number of companies had the habit of felling trees in this forest and were convinced they had every right to continue doing so. Precious Woods therefore decided the purchase would be unwise.

The idea of founding a new company in the federal state of Pará was by no means forgotten however. Indeed at the beginning of 2001 Precious Woods and the Netherlands firm A. van den Berg came together in a joint venture, which by the time this report is published will have taken possession of 45,500 hectares of forest with the possibility of acquiring much additional acreage at some time in the future. Precious Woods has a 60 per cent stake

in this company, which operates its own sawmill in Belém. Efforts will be made to obtain certification in accordance with FSC criteria at the earliest possible date.

Precious Woods (Switzerland) Ltd.: The trading section sold most of the Precious Woods Amazon sawn wood to the company's biggest customer, the A van den Berg company of the Netherlands. In 1999 the total volume sold for 14 different species amounted to a little more than 100 cubic metres per species. In 2000 the number of species has risen to 20. It would have been possible to sell significantly greater amounts of many of many species if the wood had been available. The sale of piles for groynes to Mecklenburg-Vorpommern has made considerable progress in terms of both quality and quantity. The development of a Swiss market for sawn wood has been further delayed due to the difficulty of finding an importer and warehouse facilities for a large number of species. Garden furniture manufactured by Precious Woods Amazon was featured at a special exhibition. A first series of 200 benches, tables and chairs has been prepared for the 2001 season. Furthermore a large test sample of FSC certified plywood for the Swiss do-it-yourself market is now in preparation. Precious Woods Switzerland is also busy developing a market for teak resulting from thinning operations in Costa Rica and has signed a first contract as a test.

A summary of key financial data

1. Profit and loss account records – the first ever profits

The most memorable event of 2000 was without doubt the first recorded profit for Precious Woods since the company first began operations in Brazil. This was attributable above all to the biological

growth of the plantations in Costa Rica, which for the first time reached a profitable level, as measured according to the new International Accounting Standard, IAS 41. The income statement for the reference year of 1999 was adjusted for the purposes of the 2000 annual report as if this rule had already come into effect in 1999.

Key financial data to allow a comparison of results over four years, giving the results for 1999 according to the old and new accounting systems:

US \$ million	1997	1998	1999 old	1999 new	2000
Gross turnover	1.65	4.27	4.71	4.71	5.05
Net turnover	1.27	3.16	3.47	3.47	4.47
Production cost	2.16	4.77	3.71	3.71	4.09
Gross margin	- 1.62	- 0.88	- 0.25	- 0.25	0.38
Net increase in value Costa Rica	0	0	0	1.59	1.81
General and administrative expenses	- 4.49	- 3.04	- 1.59	- 1.59	- 1.40
Operating result	- 5.38	- 4.65	- 1.83	- 0.29	0.79
Extraordinary items	- 6.36	- 0.19	0.18	0.18	- 0.20
Overall result	- 11.74	- 4.84	- 1.65	- 0.11	0.55

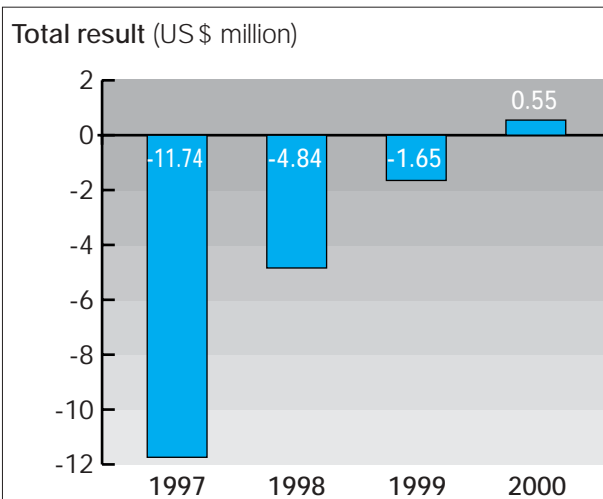
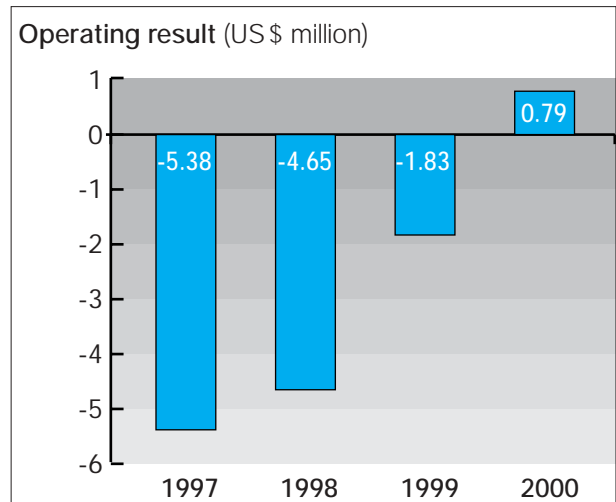
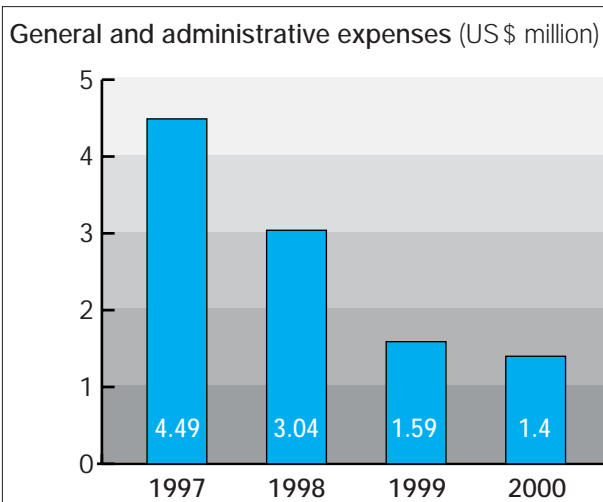
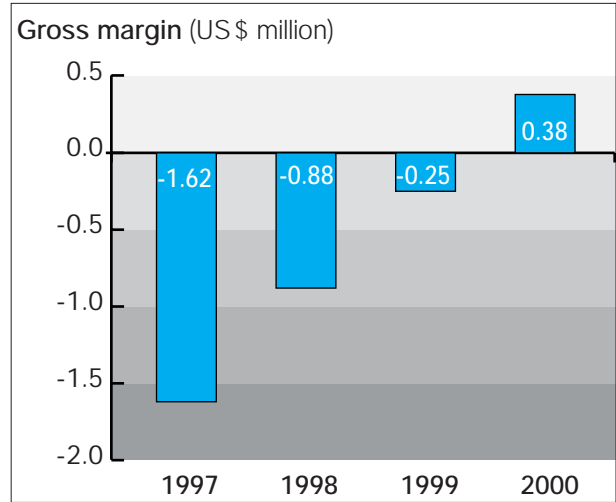
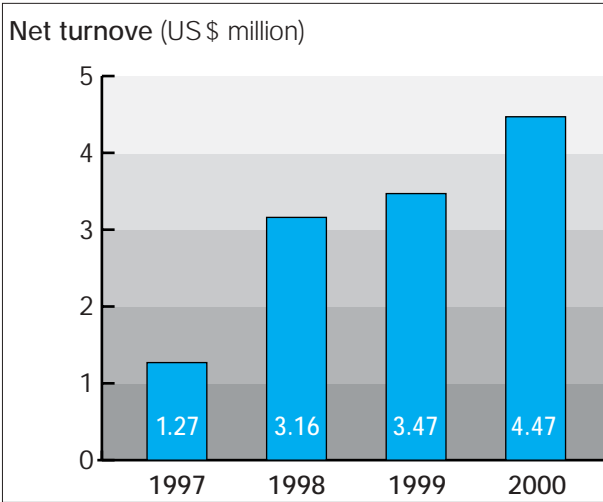
See 1997 – 2000 chart, where the old version was used for 1999 (as published in the 1999 annual report).

The following observations, in each case with an assessment of expectations for the future, are worth bearing in mind:

- In 2000 the company's most important customer paid for shipment by sea himself, which explains why the gross turnover increased less than the net turnover. Thanks to the expansion of the Precious Woods Amazon "industrialisation" unit and the inclusion of results from the new firm Precious Woods Pará the gross and net turnover can be expected to increase by even greater amounts in 2001.
- From being strongly negative at the start of operations, the company's gross margin has constantly improved in subsequent years and became positive for the first time in 2000. While

this is an excellent development in relative terms, in absolute terms there is still much room for improvement, which the management will endeavour to accomplish.

- The heading "net increase in value Costa Rica" shows the annual increase in the value of the plantations minus the costs for care and maintenance and investments for new plantations (see also pages 31 – 33). This value is expected to increase from year to year.
- Although it has been possible to slightly reduce the general overheads such costs are likely to increase again as the Group's activities continue to grow.



- The operating result also continues to improve on a regular basis, and it can only be assumed it will improve even faster in future.

2. Balance sheet

At the end of 2000 the company had no debts and all assets were in the possession of the shareholders. It is the management's view that in the medium term it would be wise to at least finance the working capital with borrowed funds.

Application of the new International Accounting Standard IAS 41 mainly affected the assets listed under the heading "biological assets – Costa Rica". The difference between the 1999 value and the value for 2000 corresponds to the value increase for the year 2000 according to IAS 41. Details will be found in the footnote 6. The value at end of 1999 (US \$ 18,815,009) is US \$ 2,932,072 higher than the balance sheet figure given in the 1999 annual report (where it appears as US \$ 15,883,027). This difference corresponds to the value increase according to IAS 41 for the end of 1999, compared to the earlier historical book value. This increase in the assets was compensated by the loss carried forward for 1999, which will be exactly US \$ 2,932,072 less than in the 1999 annual report. In other words the balance sheet assets of shareholders increased under the new assessment method by nearly US \$ 3 million at the end of 1999 and by nearly US \$ 4.8 million at the end of 2000. Furthermore on the decision of the Annual General Meeting of 1998 the headings "additional paid-in capital – net" and "accumulated losses" have been merged.

3. Share capital

The company managed to place 105,774 new US \$ 100 shares in the year 2000. At the end of 2000 the company had issued 464,047 shares and 48,021 options for the same number of shares.

4. Data per share

In the year 2000 the number of shares increased by nearly 30 per cent and no new land was purchased, causing the amount of land per share to fall by an equivalent 30 per cent compared to the previous year, both in Costa Rica and in Brazil. In 2001 however several large purchases of land took place, sharply increasing the amount of land each share represents. In the future too it will be difficult if not impossible to co-ordinate these two activities, i.e. increases in share capital and land purchases, in the same time frame. The recorded book value per share increased from just US \$ 85 at the end of 1999 to US \$ 96 at the end of 2000.

Consolidated financial statements for 2000

Precious Woods Limited and Subsidiaries

(See Note 1 – Basis of Presentation)

Consolidated balance sheets - December 31, 2000 and 1999 (in U.S. Dollars)			
ASSETS	Notes	2000	1999 (as restated)
CURRENT ASSETS			
Cash and cash equivalents	1b and 2	5,924,288	170,914
Accounts receivable – net	3	1,335,686	510,200
Inventories – net	1c and 4	1,319,531	1,329,722
Prepaid expenses		<u>317,846</u>	<u>118,788</u>
Total current assets		8,897,351	2,129,624
PROPERTY, PLANT AND EQUIPMENT – Net			
Costa Rica	1d, 1e and 5	312,686	360,740
Brazil		6,407,367	7,948,372
Others		<u>6,079</u>	<u>5,466</u>
BIOLOGICAL ASSETS – COSTA RICA	1f, 1h and 6	21,633,474	18,815,099
BIOLOGICAL ASSETS – BRAZIL	1g, 1h and 7	7,511,543	6,429,760
OTHER ASSETS	8	<u>506,614</u>	<u>551,023</u>
TOTAL		<u>45,275,114</u>	<u>36,240,084</u>
LIABILITIES AND STOCKHOLDERS EQUITY			
CURRENT LIABILITIES			
Notes payable	9		2,411,863
Accounts payable	10	291,867	126,034
Accrued expenses	1i and 1l	<u>400,283</u>	<u>398,315</u>
Total current liabilities		692,150	2,936,212
CONTINGENCIES	19		
STOCKHOLDERS' EQUITY			
Series B common stock	12 and 13	46,404,700	35,837,300
Additional paid-in capital – net	14 and 15		1,086,112
Translation effect	1m	(61,725)	(58,697)
General reserve		1,991	1,087
Accumulated losses	15	<u>(1,762,002)</u>	<u>(3,561,930)</u>
Total stockholders' equity		44,582,964	33,303,872
TOTAL		<u>45,275,114</u>	<u>36,240,084</u>

See notes to consolidated financial statements.

Consolidated statements of results, years ended December 31, 2000 and 1999 (in U.S. Dollars)

	Notes	2000	1999 (as restated)
GROSS REVENUE			
Trading sales to third parties		4,087,685	3,957,048
Brazilian sales to third parties		966,126	748,032
Gain arising from change in fair value of biological assets – Costa Rica	1f and 6	<u>1,811,244</u>	<u>1,539,520</u>
TOTAL GROSS REVENUE		6,865,055	6,244,600
Less: Revenue deductions	1j	<u>(585,859)</u>	<u>(1,238,606)</u>
NET SALES		6,279,196	5,005,994
COST OF SALES		<u>(4,085,423)</u>	<u>(3,713,081)</u>
Gross margin		2,193,773	1,292,913
OPERATING EXPENSES			
General and administrative expenses		(1,346,772)	(1,410,129)
Selling expenses		(54,611)	(46,884)
Provision for losses on wood and inventory write-offs			(20,799)
Provision for doubtful accounts			<u>(107,682)</u>
Total operating expenses		(1,401,383)	(1,585,494)
OPERATING INCOME (LOSS)		792,390	(292,581)
OTHER INCOME (EXPENSES)			
Financial expenses – net		(31,457)	(79,968)
Loss on disposal of fixed assets		(1,281)	(19,125)
Remeasurement effect	1i	47,120	371,025
Expenses in new projects		(166,127)	(23,444)
Exchange differences		(26,593)	(41,113)
Other income (expenses) – net		<u>(61,611)</u>	<u>(5,861)</u>
NET INCOME (LOSS) BEFORE TAXES		552,441	(91,067)
INCOME TAX		<u>(1,398)</u>	<u>(21,361)</u>
NET INCOME (LOSS)		<u>551,043</u>	<u>(112,428)</u>
INCOME (LOSS) PER SHARE	18	<u>1.34</u>	<u>(0.31)</u>

See notes to consolidated financial statements.

Consolidated statements of stockholders' equity, years ended December 31, 2000 and 1999 (in U.S. Dollars)

	Common Stocks B (Notes 12 and 13)	Additional Paid-in- Capital – Net (Notes 14 and 15)	Translation Effect	General Reserve	Accumulated Losses (Note 15)	Total
BALANCE, DEC. 31, 1998 AS PREVIOUSLY REPORTED	35,609,900	1,086,112	(43,660)		(4,840,967)	31,811,385
Biological increase plantation (Notes 1f and 6)					1,392,552	1,392,552
BALANCE, DEC. 31, 1998 AS RESTATED	35,609,900	1,086,112	(43,660)		(3,448,415)	33,203,937
Capital increase	227,400					227,400
Transfer to general reserve				1,087	(1,087)	
Net loss					(112,428)	(112,428)
Translation effect			(15,037)			(15,037)
BALANCE, DEC. 31, 1999 AS RESTATED	35,837,300	1,086,112	(58,697)	1,087	(3,561,930)	33,303,872
Capital increase	10,567,400	163,677				10,731,077
Payment of accumulated losses (Note 15)		(1,249,789)			1,249,789	
Transfer to general reserve				904	(904)	
Net income					551,043	551,043
Translation effect			(3,028)			(3,028)
BALANCE, DEC. 31, 2000	<u>46,404,700</u>	<u></u>	<u>(61,725)</u>	<u>1,991</u>	<u>(1,762,002)</u>	<u>44,582,964</u>

See notes to consolidated financial statements.

Consolidated statements of cash flows, years ended December 31, 2000 and 1999 (in U.S. Dollars)

	2000	1999 (as restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	551,043	(112,428)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,341,856	1,411,513
Provision for losses on wood and inventory write-offs	(20,799)	(165,878)
Loss (gain) on disposal of fixed assets	1,281	19,125
Allowance for doubtful accounts	(25,534)	(41,364)
Gain from change in fair value of biological assets – Costa Rica	(1,811,244)	(1,539,520)
Change in assets and liabilities provided (used) cash:		
Accounts receivable	(822,753)	(161,626)
Inventories	48,777	226,094
Prepaid expenses	(200,050)	55,863
Accounts payable	168,024	(352,223)
Accrued expenses	(3,979)	(113,757)
Net cash used in operating activities	<u>(773,378)</u>	<u>(774,201)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment:		
Costa Rica	(9,224)	(32,812)
Brazil	(879,981)	(475,008)
Others	(4,547)	
Increase in biological assets - Costa Rica (excluding depreciation)	(919,594)	(1,360,122)
Proceeds on sales of fixed assets and disposals		98,951
Change in other assets	119	(98)
Change in other current assets	23,793	(6,585)
Net cash used in investing activities	<u>(1,789,434)</u>	<u>(1,775,674)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in notes payable	(2,411,863)	2,261,863
Capital increase	10,731,077	227,400
Net cash provided by financing activities	<u>8,319,214</u>	<u>2,489,263</u>
TRANSLATION EFFECT ON CASH	<u>(3,028)</u>	<u>(15,037)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	5,753,374	(75,649)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>170,914</u>	<u>246,563</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>5,924,288</u></u>	<u><u>170,914</u></u>

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation – Precious Woods Limited (the "Company"), was incorporated on December 17, 1990 under the Laws of British Virgin Islands as an international business company. Its subsidiaries are organized and operate under the Laws of the Republic of Costa Rica, British Virgin Islands, Switzerland, Brazil and the United States of America. The activities of the Company are divided into two main areas: the Costa Rican operations, which are related to reforestation projects which are currently in a development stage; and the Brazilian operations, which commenced on October 1996 and are related to the sustainable management and sawmilling of tropical hardwoods.

Significant Accounting Policies – The Company follows generally accepted accounting principles, which comply with the International Accounting Standards (IAS), in the preparation of its financial statements. The significant accounting policies are the following:

a. Consolidation Policy – The consolidated financial statements include the account balances of Precious Woods Limited and of the following direct and indirect wholly-owned subsidiaries, at December 31, 2000:

Subsidiary	Country
Precious Woods (Costa Rica), S.A.	Costa Rica
Macori Las Playas, S. A.	Costa Rica
Multiservicios Forestales de Guanacaste, S. A.	Costa Rica
Precious Woods Management, Ltd.	British Virgin Islands
Precious Woods (Switzerland) Ltd.	Switzerland
Madeiras Preciosas da Amazônia Manejo, Ltda.	Brazil
MIL Madeireira Itacoatiara, Ltda.	Brazil
Precious Woods Corporation (a dormant company)	U.S.A.

All material intercompany balances and transactions have been eliminated in consolidation.

Positive and negative differences between the purchase price and the net book value of companies acquired, are assigned to the assets to which they are related. Any non-allocated difference, is recorded as a deferred charge or deferred credit to be amortized against income during a five-year period, using the straight-line method.

b. Cash Equivalents – All investments with original maturity of three months or are considered as cash equivalents.

c. Inventories – Inventories are valued at the lower of cost or market. Roundwood and finished sawnwood are recorded at the average cost of production, less provision for losses, when applicable.

d. Property, Plant and Equipment – Property, plant and equipment are recorded at cost.

e. Depreciation – Depreciation is provided on the straight-line method over the estimated useful life of the assets.

f. Biological Assets Costa Rica – The acquisition of land for the forest projects is recorded at cost. In 2000, the Company decided to early adopt IAS No. 41 "Agriculture". Consequently, the valuation policy for biological assets was changed from historical cost basis to fair value less estimated point-of-sale costs. The fair value is determined using the present value of expected net cash flows from the asset discounted at a market rate. The 1999 consolidated financial statements have been restated in order to comply with IAS No. 8.

g. Biological Assets Brazil – The acquisition of land for the forest projects is recorded at cost. Biological assets in Brazil are valued at cost or market, whichever is lower. The amortization of the forest investments made in sustainable management of tropical forest and the sawmill process in Brazil, are being amortized effective October 1, 1996 using the straight-line method over a twenty-five-year and ten-year period, respectively. Although the Company adopted IAS No. 41 in 2000, the biological assets are not accounted for using the fair value less estimated point-of-sale costs basis because this basis cannot be measured reliably due to the nature of the business (sustainable management of tropical forest) of which there is not enough information available to determine the fair value.

h. Project Development Costs – Project development costs (classified as biological assets) are deferred to future periods when all of the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention and ability to complete the intangible asset and use or sell it;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure the expenditure attributable to the intangible asset during its development reliably.

Project development costs are reviewed at each year-end to determine whether or not the above stated criteria are still valid for each project. If the justification no longer applies, the unamortized balance is written-off.

Project development costs are to be amortized following the same criteria established for biological assets.

- i. Severance Indemnities** – The Company records a provision against income or biological assets to cover the severance indemnity obligations.
- j. Net Sales** – Net sales are determined by deducting from gross sales value-added taxes, discounts, returns and allowances, inland and ocean freights, port expenses, and insurance.
- k. Currency** – The accounting records of the Company are maintained in United States dollars and the subsidiaries' accounting records are maintained in the legal currency of the country in which they operate (Costa Rican Colones, Swiss Francs, Brazilian Reais and U.S. Dollars).

l. Currency Remeasurement – The financial statements of the Costa Rican and the Brazilian subsidiaries have been remeasured into the functional currency (U.S. Dollars) in accordance with Statement of International Accounting Standards No. 21. Therefore, monetary assets and liabilities are remeasured by using the current rate of exchange prevailing at the balance sheet date and nonmonetary assets and liabilities and stockholders' equity accounts are

remeasured at historical exchange rates. Income and expenses are remeasured at the average rate of exchange for the year, except for depreciation and amortization costs which are remeasured at historical rates. Remeasurement adjustments which result from the process of remeasuring Costa Rican Colones and Brazilian Reais financial statements into U.S. Dollars are recorded as a component of the biological assets and in the income statement, respectively.

m. Currency Translation – The financial statements of the Swiss subsidiary have been translated from its functional currency (Swiss Francs) to the reporting currency (U.S. Dollars) in accordance with Statement of International Accounting Standards No. 21. Therefore, all assets and liabilities are translated by using the current rate of exchange prevailing at the balance sheet date and stockholders' equity accounts are translated at historical exchange rates. Income and expenses are translated at the average rate for the year. Translation adjustments which result from the process of translating Swiss Francs financial statements into U.S. Dollars are recorded as translation effect in stockholders' equity account.

n. Accounting Estimates – The consolidated financial statements have been prepared according to International Accounting Standards, consequently, they include amounts that are based on best management estimates and judgements. Actual results may differ from such estimates. Management estimates include, among others, allowances for doubtful accounts and inventories, useful life of fixed assets, amortization period of biological assets, intangibles, change in fair value of biological assets and contingent liabilities.

2. CASH AND CASH EQUIVALENTS (in U.S. Dollars)

	2000	1999
Cash	911,788	170,458
Cash equivalents:		
Time deposit in U.S. dollars.	4,500	
Demand deposits in U.S. dollars (6.5% in 2000 and 4.5% in 1999)	4,700,000	456
Demand deposits in Euros (4.85%)	308,000	
Total	<u>5,924,288</u>	<u>170,914</u>

3. ACCOUNTS RECEIVABLE (in U.S. Dollars)

	2000	1999
Clients:		
Trading company sales	900,488	330,155
Brazilian sales	632,389	379,747
Costa Rican sales	7,012	7,234
Allowance for doubtful accounts	(218,037)	(243,571)
Fundación Escuela de Reforestación de Costa Rica		1,131
Employees	13,834	19,378
Others		16,126
Total	<u>1,335,686</u>	<u>510,200</u>

4. INVENTORIES (in U.S. Dollars)

	2000	1999
Roundwood	338,535	551,606
In-process sawnwood	47,155	317,875
Finished sawnwood	198,519	65,444
Export products in transit	539,234	269,852
Consignment inventory	13,552	
Allowance for inventory valuation at the lower of cost or market		(20,799)
Advances to suppliers	69,183	65,842
Spare parts and others	113,353	79,902
Total	<u>1,319,531</u>	<u>1,329,722</u>

5. PROPERTY, PLANT AND EQUIPMENT (EXCLUDING LAND FOR FOREST PROJECTS) (in U.S. Dollars)

Property, plant and equipment is detailed as follows (indicating the estimated useful lives):

	2000	1999
Costa Rica:		
Buildings and improvements (10 to 50 years)	225,088	225,088
Furniture and equipment (5 to 10 years)	117,478	129,298
Machinery and equipment (10 years)	267,434	251,051
Vehicles (4 to 10 years)	147,419	144,742
Working animals (10 years)	15,978	17,142
Construction in process	3,148	
	<u>776,545</u>	<u>767,321</u>
Accumulated depreciation	(463,859)	(406,581)
Net	<u>312,686</u>	<u>360,740</u>

	2000	1999
Brazil:		
Buildings and improvements (25 years)	3,281,003	4,139,994
Furniture and equipment (5 to 10 years)	413,982	398,345
Machinery and equipment (10 years)	5,849,186	5,587,871
Vehicles (4 to 5 years)	<u>1,943,669</u>	<u>1,942,628</u>
	11,487,840	12,068,838
Accumulated depreciation	<u>(5,080,473)</u>	<u>(4,120,466)</u>
Net	<u>6,407,367</u>	<u>7,948,372</u>
Others:		
Furniture and equipment (5 to 10 years)	58,538	55,090
Accumulated depreciation	<u>(52,459)</u>	<u>(49,624)</u>
Net	<u>6,079</u>	<u>5,466</u>
Total	<u><u>6,726,132</u></u>	<u><u>8,314,578</u></u>

As of December 31, 2000 and 1999, property, plant and equipment with an original cost of approximately US \$ 130,000, were being used by Fundación Escuela de Reforestación de Costa Rica (a related entity). Also, machinery with a book value of US \$ 1,128,830, had been pledged in guarantee to the A. Van den Berg B.V. loan which was repaid during 2000 (see Note 9).

Total depreciation expense during 2000 was US \$ 1,020,483, from which US \$ 90,210 was capitalized as biological assets.

6. BIOLOGICAL ASSETS - COSTA RICA (in U.S. Dollars)

	Notes	2000	1999
Cost:			
Land		5,275,723	5,275,723
Direct reforestation expenses		5,745,871	5,410,673
Administrative expenses		4,759,014	4,161,775
Project development costs		683,465	683,465
Interest expenses		254,117	227,882
Exchange differences	1k	342,033	342,033
Excess of net assets acquired over cost	1a	(47,430)	(47,430)
Research and development costs		532,977	454,197
Other income		<u>(655,612)</u>	<u>(625,291)</u>
Accumulated costs		16,890,158	15,883,027
Accumulated biological increase		<u>4,743,316</u>	<u>2,932,072</u>
Total		<u><u>21,633,474</u></u>	<u><u>18,815,099</u></u>

At December 31, 1999 land with a cost of US \$ 611,065 had been pledged in guarantee of bank loans which were repaid during 2000 (see Note 9).

At December 31, 2000 and 1999, land with an approximate cost of US \$ 15,000, was being used by the Fundación Escuela de Reforestación de Costa Rica (a related entity).

Interest costs of approximately US \$ 26,235 and US \$ 24,000 were capitalized to the biological assets during 2000 and 1999, respectively.

The detail of the actual hectares planted in the projects by year (there were no plantings in 1994 and 2000) is as follows:

PROJECT	1990	1991	1992	1993	1995	1996	1997	1998	1999	Total
GARZA:										
Teak	38		90	40	46		6			220
Pochote	30	233	312	46						621
Native and others		2	12	8	4	1	1			28
Total	68	235	414	94	50	1	7			869
RIO TABACO:										
Teak		36					14			50
Pochote	71	103	35	29						238
Native and others	30	8								38
Total	101	147	35	29			14			326
OSTIONAL:										
Teak					141	1				142
Pochote					17					17
Native and others					20	1	1		1	23
Total					178	2	1		1	182
SANTA CECILIA:										
Teak					379	392	300	257	294	1,622
Pochote								17	43	60
Native and others					56	5	30	23	22	136
Total					435	397	330	297	359	1,818
PEÑAS BLANCAS:										
Teak						178	133	167	30	508
Pochote								14	20	34
Native and others							17	28	1	46
Total						178	150	209	51	588
TOTAL:										
Teak	38	36	90	40	566	571	453	424	324	2,542
Pochote	101	336	347	75	17			31	63	970
Native and others	30	10	12	8	80	7	49	51	24	271
Total	169	382	449	123	663	578	502	506	411	3,783

The Garza Project is being developed in the Province of Guanacaste, on 1,280 hectares of Company-owned land. The project is registered in the Forest Regime in the Costa Rican Ministry of Natural Resources, Energy and Mines. On December 23, 1991 Precious Woods (Costa Rica) S.A. signed Forest Contract No. 2128 with the Ministry of Finance and the Ministry of Natural Resources, Energy and Mines, for a total of 668 hectares planted. This contract provides the project with the following benefits:

- a. Tax exemption on imports of equipment, machinery, and supplies necessary to develop the reforestation plan.
- b. Income tax exemption on net profits obtained from future timber sales.

During 1997 and in early 1998, the Company signed new forest contracts with the Ministry of Natural Resources, Energy and Mines, through which 180 and 49 hectares planted in the Ostional and Garza projects, respectively, were registered. The benefits obtained are similar to those described above for contract No. 2128. At December 31, 2000 the Company was in the process of registering the pending areas of the Garza project.

During 1998 the Company registered the entire area for the Santa Cecilia and Peñas Blancas projects (3,997 and 1,597 hectares, respectively) in the Forest Regime. Through this registration, the principal benefit acquired by the Company is the income tax exemption on net proceeds from these plantations.

The Rio Tabaco Project is developed in the Province of Guanacaste. The project is being developed through the Forest Regime, under Forest Contract No. 174 dated June 25, 1990. Through this contract, Multiservicios Forestales de Guanacaste, S.A. (a consolidated company) received certain subsidies from the Costa Rican Government. This project is not entitled to any income tax exemption.

All the above mentioned benefits will be granted to each company if they comply with the technical requirements established by the Costa Rican authorities regarding the projects.

To comply with the requirements of IAS No. 41, the Company divided the plantations of Teak and Pochote in 5 different growth classes. Natives species are considered as one class. The biological growth of each plantation is measured (through over 600 sample plots) and classified in one of these classes depending on its growth which influences directly the volume of wood to be harvested in the future. For each growth class there are scientific estimations of volumes of wood and age of harvesting.

With the expected volumes of harvested wood for each category at a specific moment in the future, the Company prepares discounted cash flows analysis of the future income and the investments needed to obtain these resources. Different prices for Teak, Pochote and natives logs are used deducting the point-of-sales costs (transport of the logs to the sawmill gate). The rate of discount for these cash flows varies depending on the category of the plantation.

A reconciliation of carrying amounts of the biological assets – Costa Rica is as follows:

	2000
Carrying amount, beginning of year	18,815,099
Actual costs incurred during the year	1,007,131
Gain arising from changes in fair value attributable to physical and price changes	<u>1,811,244</u>
Carrying amount, end of year	<u>21,633,474</u>

During early 2001 and 2000, the Company performed independent appraisals of its land. The following table shows the value of these appraisals and the fair value of plantations using the present value method:

	2000	1999
Land – independent appraisal	12,966,400	12,592,000
Plantations – fair value	<u>16,357,751</u>	<u>13,539,376</u>
Total	<u>29,324,151</u>	<u>26,131,376</u>

7. BIOLOGICAL ASSETS - BRAZIL (in U.S. Dollars)

In May, 1994 the Company acquired two companies that owned approximately 80,000 hectares of tropical forests located near Itacoatiara, State of Amazonas in Brazil, for the main purpose of establishing and operating a project to extract and industrialize wood. Studies and fore-

casts were performed on the basis that 50,000 hectares of forests will be managed in a sustainable manner, which means that only incremental growth will be harvested and the substance of the forest will be preserved. The amount paid in this transaction was US \$ 3,841,065.

The detail of the cumulative costs incurred in the biological assets is as follows:

	2000	1999
Forest planning, research and development costs	1,726,993	1,726,993
Sawmill project development costs	1,811,928	1,811,928
Roads in forest	1,332,055	
Subtotal	4,870,976	3,538,921
Accumulated amortization	<u>(1,200,498)</u>	<u>(950,226)</u>
Net	3,670,478	2,588,695
Land and forests	<u>3,841,065</u>	<u>3,841,065</u>
Total	<u>7,511,543</u>	<u>6,429,760</u>

8. OTHER ASSETS (in U.S. Dollars)

Other assets are mainly non-operational fixed assets that are not being used in the Company's current operations.

	2000	1999
Land for future industrialization site - Costa Rica	405,644	405,644
Information center and restaurant building – net Costa Rica	99,159	143,449
Others	1,811	1,930
Total	<u>506,614</u>	<u>551,023</u>

9. NOTES PAYABLE (in U.S. Dollars)

	2000	1999
Banco Internacional de Costa Rica, S.A., Prime rate plus 1% (mortgage on land – see Note 6)		460,000
Migros Bank (Sfr. 2,340,000) – due on March 13, 2000 renewable, 7.875% (fiduciary guarantee)		1,453,416
Stiftung E.+A. Gut (Sfr. 400,000) – 6% (unsecured)		248,447
A. Van den Berg B.V., 8% (pledge on machinery)		250,000
Total	<u> </u>	<u>2,411,863</u>

10. ACCOUNTS PAYABLE (in U.S. Dollars)

	2000	1999
Suppliers	255,906	88,413
Advances from customers	8,692	3,090
Employees and directors	7,169	
Others	<u>20,100</u>	<u>34,531</u>
Total	<u>291,867</u>	<u>126,034</u>

11. ACCRUED EXPENSES (in U.S. Dollars)

	Note	2000	1999
Provision for employee indemnities	1h	56,174	97,533
Others		<u>344,109</u>	<u>300,782</u>
Total		<u>400,283</u>	<u>398,315</u>

12. COMMON STOCK

The authorized capital is composed of 600,000 Series B common shares of US \$ 100 par value each (US \$ 60,000,000). At December 31, 2000 and 1999, total Series B shares subscribed and paid were 464,047 and 358,373, respectively.

13. STOCK OPTIONS

Year of Issuance	Strike Price (US\$)	Expiration Date	Number of Share Options at 12/31/99	Issued (Exercised) in 2000	Number of Share Options at 12/31/00
1997	140	12/31/2003	8,879		8,879
1998	140	12/31/2003	9,149		9,149
1998	100	12/31/2003	3,513		3,513
1999	100	12/31/2005	11,082		11,082
2000	100	12/31/2005		<u>15,398</u>	<u>15,398</u>
Total			<u>32,623</u>	<u>15,398</u>	<u>48,021</u>

These options are freely transferable and divisible. These options have been granted to the Executive Committee of the Board of Directors and to consultants as compensation for their services. The options issued during 2000 correspond to directors and consultants (9,984) and to 95 shareholders (5,414) which are related the capital increase made in February 2000.

14. ADDITIONAL PAID-IN CAPITAL - NET (in U.S. Dollars)

	Note	2000	1999
Additional paid-in capital		19,029,296	18,865,618
Payment of accumulated losses	15	(15,376,376)	(14,126,586)
Promotional and capital acquisition costs		<u>(3,652,920)</u>	<u>(3,652,920)</u>
Total		<u>0</u>	<u>1,086,112</u>

15. PAYMENT OF ACCUMULATED LOSSES

In the annual shareholders' meeting held on June 8, 1998, the shareholders approved the simplification of the presentation of the equity section of the balance sheet by using the additional paid-in-capital to compensate accumulated losses.

16. OTHER RELATED PARTY TRANSACTIONS (in U.S. Dollars)

During the ordinary course of business in 2000 and 1999, the Company has had transactions with related parties (directors of the Company and its subsidiaries) as follows:

	2000	1999
Executive committee and board of directors:		
Remuneration and fees	66,219	63,378
Operating management:		
Remuneration and fees	305,944	309,952
Incentive compensation	64,505	20,000
Allowances and others	<u>35,093</u>	<u>1,760</u>
Total	<u>471,761</u>	<u>395,090</u>

17. SALES TO MAJOR CUSTOMERS

During 2000 and 1999, total sales made to its customers A. Van den Berg, B.V. and Staatliches Amt für Umwelt und Natur, Rostock, represented 51% and 16%, and 55% and 20%, respectively, of total gross sales.

18. NET INCOME (LOSS) PER SHARE (in U.S. Dollars)

	2000	1999
Net income (loss) for the year	<u>551,043</u>	<u>(112,428)</u>
Number of shares, beginning of year	358,373	356,099
Number of shares, end of year	<u>464,047</u>	<u>358,373</u>
Average number of shares	<u>411,210</u>	<u>357,236</u>
Income (loss) per share	<u>1.34</u>	<u>(0.31)</u>

19. CONTINGENCIES

Taxes – The Company and its subsidiaries' financial statements are open for the examination of tax authorities. Therefore, a possible liability may exist for interpretations of applicable laws by the tax authorities which may differ from those of the Company.

Importation Tax – A subsidiary was assessed by the tax authorities relating to II (Importation Tax) and IPI (Excise Tax) on certain imports, in the amount of approximately US \$ 140,000 as of December 31, 2000. The Company's management and its attorneys believe that no material loss will occur as a result of the final outcome of this process, and therefore, no provision has been recorded in the accompanying consolidated financial statements.

20. SEGMENTINFORMATIONEN (in U.S. Dollars)

2000	Costa Rica	Brazil	Trading/group	Total
Net revenue	<u>1,811,244</u>	<u>966,126</u>	<u>3,501,826</u>	<u>6,279,196</u>
Net income (loss)	<u>1,811,244</u>	<u>(882,878)</u>	<u>(377,223)</u>	<u>551,043</u>
Total assets	<u>22,540,793</u>	<u>15,428,193</u>	<u>7,306,128</u>	<u>45,275,114</u>
1999	Costa Rica	Brazil	Trading/group	Total
Net revenue	<u>1,539,520</u>	<u>748,032</u>	<u>2,718,442</u>	<u>5,055,994</u>
Net income (loss)	<u>1,539,520</u>	<u>(1,310,093)</u>	<u>(341,855)</u>	<u>(112,428)</u>
Total assets	<u>19,793,947</u>	<u>15,750,613</u>	<u>695,524</u>	<u>36,240,084</u>

Brazilian intercompany sales in the amounts of US \$ 3,719,139 and US \$ 2,866,290 for 2000 and 1999, respectively, have been eliminated in consolidation.

21. MAJOR SHAREHOLDERS

At December 31, 2000 the shareholders holding more than 5% of Precious Woods Ltd. Series B common shares are as follows:

Beamtenversicherungskasse des Kantons Zuerich	19.4%
Basler Versicherungs-Gesellschaft and Basler Lebens- Versicherungs-Gesellschaft	13.1%
Swiss Reinsurance Company	8.8%
Pensionskasse II der F. Hoffmann-La Roche AG	6.5%

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's current financial instruments generally approximates fair market value because of the short-term maturity or frequent turnover of these instruments. Current fair values of foreign currency liabilities are substantially similar to recorded amounts.

Fair market value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

23. RESTATEMENT OF 1999 CONSOLIDATED FINANCIAL STATEMENTS

As discussed in Note 1f to consolidated financial statements, the Company adopted IAS No. 41 in 2000. As a result, the 1999 consolidated financial statements have been restated from the amounts previously reported to conform to this change. The effect on 1999 consolidated financial statements is as follows:

	as previously reported	as restated
Biological assets – Costa Rica	15,883,027	18,815,099
Total assets	33,308,012	36,240,084
Total stockholders' equity	30,371,800	33,303,872
Accumulated losses	(6,494,002)	(3,561,930)
Net revenue	3,466,474	5,005,994
Net loss	(1,651,948)	(112,428)
Loss per share	(4.62)	(0.31)

Precious Woods Limited and subsidiaries

SCHEDULE OF CONSOLIDATED WORKSHEET - BALANCE SHEET - DECEMBER 31, 2000 (in U.S. Dollars)

	Costa Rica	Brazil	Corporate	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and marketable securities	30,544	71,552	5,822,191		5,924,287
Accounts receivable - net	14,572	420,627	900,488		1,335,687
Inventories - net	40,355	726,391	581,879	(29,094)	1,319,531
Prepaid expenses	2,548	290,713	24,585		317,846
Total current assets	88,018	1,509,283	7,329,143	(29,094)	8,897,351
Property, plant and equipment	776,545	11,487,840	58,538		12,322,923
Accumulated depreciation	(463,859)	(5,080,473)	(52,459)		(5,596,791)
Property, plant and equipment - net	312,686	6,407,367	6,079		6,726,132
INTERCOMPANY ACCOUNTS			56,377,372	(56,377,372)	
INTERCOMPANY INVESTMENTS			10,748,525	(10,748,525)	
FOREST INVESTMENTS - COSTA RICA	21,633,474				21,633,474
FOREST INVESTMENTS - BRAZIL		7,511,543			7,511,543
OTHER ASSETS	506,614				506,614
TOTAL	<u>22,540,793</u>	<u>15,428,193</u>	<u>74,461,119</u>	<u>(67,154,991)</u>	<u>45,275,114</u>
LIABILITIES AND STOCKHOLDERS, EQUITY					
CURRENT LIABILITIES					
Notes payable					
Accounts payable	5,097	228,620	58,150		291,867
Accrued expenses	62,588	232,586	105,109		400,283
Total current liabilities	67,685	461,206	163,259		692,150
INTERCOMPANY ACCOUNTS	9,249,250	25,357,681	21,770,439	(56,377,370)	
Total liabilities	<u>9,316,935</u>	<u>25,818,887</u>	<u>21,933,698</u>	<u>(56,377,370)</u>	<u>692,150</u>
STOCKHOLDERS, EQUITY					
Common stocks A	342,754	2,013,585	98,139	(2,454,478)	
Common stocks B			46,404,700		46,404,700
Additional paid-in capital - net	8,134,188		1,606,325	(9,740,513)	
Translation effect			(62,432)	708	(61,725)
General reserve			1,991		1,991
Accumulated losses, beginning of year	2,935,672	(11,521,401)	4,842,083	1,430,600	(2,313,046)
Current year net income (loss)	1,811,244	(882,878)	(363,386)	(13,936)	551,044
Total stockholders, equity	<u>13,223,858</u>	<u>(10,390,694)</u>	<u>52,527,420</u>	<u>(10,777,19)</u>	<u>44,582,964</u>
TOTAL	<u>22,540,793</u>	<u>15,428,193</u>	<u>74,461,119</u>	<u>67,154,991</u>	<u>45,275,114</u>

**Deloitte &
Touche**



Apartado Postal 3667-1000
Barrio Dent, San Pedro
San José, Costa Rica

Teléfono: (506) 253-2466
Facsímil: (506) 253-1841

To the Board of Directors and
Stockholders of Precious Woods Limited:

We have audited the accompanying consolidated balance sheets of Precious Woods Limited and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of results, stockholders' equity, and cash flows for the years then ended (all expressed in U.S. dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Precious Woods Limited and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with International Accounting Standards.

As discussed in Notes 1f and 23 to the consolidated financial statements, in 2000 the Company adopted International Accounting Standard No. 41 for the valuation of the biological assets in Costa Rica and, retroactively, restated the 1999 consolidated financial statements for the change.

The consolidated financial statements at December 31, 2000 and 1999 include biological assets and other project costs (excluding land) amounting to US \$ 20,028,229 and

US \$ 16,128,071, respectively. The ultimate recovery of these costs is dependent upon the Company's ability to complete the forest projects and to generate future earnings.

At December 31, 2000 the Company has project development costs included as part of the biological assets for US\$ 1,433,404, which are being amortized during a 25 year period. Based on the current exploitation of the forest, there are some indications that the Company could not be able to complete the 25-year exploitation period as initially estimated. The Company is in the process of studying but final conclusions have not been reached at the date of the auditors' report.

Our audits were conducted with the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule of the balance sheet consolidation worksheet (page 39) is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position of the individual companies, and is not a required part of the basic consolidated financial statements. This schedule is the responsibility of the Company's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte & Touche

May 11, 2001

*2000 Annual Report of the
Board of Directors to the Shareholders*



PRECIOUS WOODS

*Front page: Garden furniture made from Brazilian hardwood
Available at: Giarnaldo Sonderegger & Blöchlinger
Postfach 343, CH-4513 Langendorf
032 – 622 16 45 and 079 – 250 26 58*