

## Chairman's Statement



**Mr. Budiono Widodo**  
Chairman

### To Our Shareholders

2003 was a difficult year for the plywood industry with the market being adversely affected by unfavorable global factors. The US-led Iraqi war created international tension, with the situation being further aggravated by the possibility of biological warfare, on top of the economic uncertainties already being experienced around the world. Matters were worsened by the unexpected threat of SARS, which further dampened Asian economic sentiment. These detrimental factors meant that buyers slowed down their orders and even delayed taking deliveries, creating pressures for exporters. As such, the wood-based industry was inevitably and adversely affected.

However, with the Group's diversified product mix and established leadership in the industry, we were able to maintain growth in our turnover, which rose

around 12% to US\$136.6 million for the year ended 31st December, 2003 as compared to US\$121.4 million last year. Although the gross margin deteriorated as compared to last year, due to escalating log prices, we have stringently continued our cost controls to trim operating costs and increase production efficiency. After prolonged deliberation, the Directors also decided to dispose of the joint-venture plant in Jilin, to improve the overall performance of the Group. During the year under review, the loss attributable to shareholders was US\$8.2 million, which included the provision of the impairment loss of US\$5.3 million made on certain of the Group's assets.

We identified and maintained the PRC as one of our major markets for exploration. Our foresight has proven correct in view of the significant growth in this market. The PRC market has become one of the major contributors to the Group's total turnover. At the same time, leveraging the high quality of our products, we continue to maintain a strong presence in the Japanese market.

Our traditional products, which include veneer, MR plywood, WBP plywood, flooring and moulding, continue to provide a strong revenue base for the Group. With continuing improvements in mind, we recently developed color flooring products which received an encouraging response from our customers. Leveraging this newly launched product, we are poised to capture a significant market share. We will continue to focus on consolidating our resources to continuously improve our product quality, cost effectiveness, recovery and customer services.

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During the year under review, we experienced positive progress in our collaborative market and product developments with our major alliances. Achievements include the development of color flooring products for the Japanese market, as well as new structural products with leading Japanese house builders. We expect more productive collaborations to emerge with the support of our partners, strengthening our market position in the industry.

Last year, we maintained a very healthy production capacity with utilization of over 85% of our overall plants. We also secured many new clients in the South East Asian region as well as the Middle East. Although these markets do not contribute significantly to the Group's turnover at the moment, we believe that the growth potential for these markets is just around the corner.

Looking forward, we see a bumpy road for the plywood market as log prices remain high. However, we will capitalize and build on our strong trade relationships with our existing major customers and enhance the development of new products to further strengthen our product and market positioning.

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff for their ongoing dedication and invaluable effort. We would also like to thank our shareholders, investors and customers for their continuing support and confidence.

**Budiono Widodo**

*Chairman*

Hong Kong, 15th April, 2004