Management Review and Analysis

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

Business Review

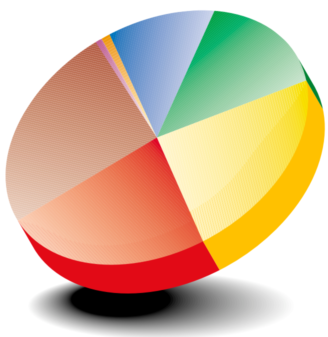
Manufacturing business

During the year under review, log prices continued to rise by between 10% to 20%. This was mainly due to the unsettling problems brought about by the increasing enforcement of governmental agencies in Indonesia and Malaysia on illegal logging and unauthorized felling, compounded by the continuous import ban on logs and the prolonged rainy season which has hindered the harvesting of logs in Sarawak. Due to improvements in production efficiency and the better utilization of log waste, which is being reconstituted into low end products with acceptable quality for general applications, our recovery rate increased to about 53% which is above the industry norm. This has, to a certain extent, helped to mitigate against the escalating log prices.

Management Review and Analysis

To tackle this sustained material cost, the Group operated with a diversified product portfolio mix, which contributed to the successful operations of the Group, despite the difficult environment. Extending last year's success, our color flooring products continued to receive encouraging response when it was officially launched in the PRC market. The product comes in different colors and wood species and, together with its multi purpose applications, we expect to see a significant increase in sales volumes in the coming years. At the same time, our traditional products – veneer, MR plywood, WBP plywood, flooring and moulding, also provide a secure revenue base for the Group. Among our products, Laminated Veneer Lumber products provide the highest profit margins.

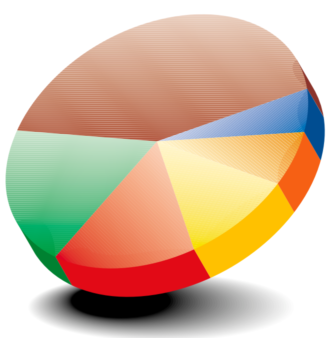
2003 Turnover By Product Range



Moisture resistant plywood	25.34%
Flooring	23.48%
Structural	22.61%
Jamb and mouldings	16.24%
Weather and boil proof plywood	11.28%
Veneer	0.89%
Others	0.16%

2003 Turnover By Geographical Areas

(By locations where merchandise is delivered)



Japan	41.81%
The People's Republic of China	19.53%
North America	15.66%
Europe	10.77%
South East Asia	6.59%
Others	5.64%

After our prolonged commitment to raise production volumes at our plants, the Group's overall capacity successfully rose to over 85%. This increased production capacity also provides advantages in improved economies of scale and strengthened competitiveness. The Manuply plant in Malaysia maintains the highest production volumes, running at over 95% of production capacity. It produces the most profitable and well-received products, including flooring products and Laminated Veneer Lumber products. These products are sold in Asia, Middle-East, US and Europe. During the year under review, the Directors decided to dispose of the joint-venture plant located in Jilin as part of the Group's measures to improve cash flow. We believe this restructuring will enhance the Group's overall performance.

Market overview

During the year under review, the global economy experienced a challenging year. Although Japan has only recently shown signs of positive economic recovery, due to its consumer-driven economy and location within an earthquake zone, Japan continues to remain our major plywood market. For the year ended 31st December, 2003, Japan accounted for over 40% of the Group's total turnover. In addition, leveraging our ability to comply with Japan's stringent standards in the wood market, Japan pays premium prices for our top product lines. Together with our reputation for on-time delivery and our established brand, we have been able to secure orders in this competitive market and expect continued sales performances in Japan. With the well-established foothold in the PRC market, we have been encouraged to move into the Japanese market with our color flooring products. In the fourth quarter of 2003, we launched initial trial shipments to Japan. We believe these products in Japan will replicate the successes of the PRC market.

For the year ended 31st December, 2003, the PRC market was our focus for expansion, contributing almost 20% to the Group's total turnover. The rise in consumerism and per capita GDP in the PRC has provided a huge potential market for quality plywood-based flooring and color flooring products, which are rapidly gaining in popularity. The growth in the PRC market has made a significant impact on the Group in terms of sales in flooring products, where products have been produced to meet the PRC's domestic consumption at competitive cost. The PRC market also provides a lower cost base in the expansion of our manufacturing activities, further enhancing the Group's stringent cost control policies. On the far side of the world, sales to the US and Europe remained stable during the year despite their past unfavorable economic climates.

Prospects

In the coming year, unsettling political and economic factors will continue to obscure market sentiment in 2004. The sustainability of the present positive economic indicators coming out of the US, Japan and Europe, and the possible unpegging of the Chinese Reminbi create ongoing uncertainties. We also expect the high log prices to prevail as the enforcement of quotas on log exports and the unsettling logging problems persist.

In view of the economic and political uncertainties ahead in the coming year, we are preparing ourselves to meet these challenges. We will continue to pursue improvements in quality, cost, recovery and customer services, to maximize productivity and optimize the product mix, further enhancing our performance and returns to shareholders. We will remain focused on our proven strategies: to increase the utilization of log waste, enhance production volumes and achieve higher production efficiencies and economies of scale.

Apart from continuously expanding our traditional product markets, we are also committed to exploring new opportunities in our existing markets. Currently, we are developing new color flooring products, to meet the different needs of the customers. Both the PRC and Japanese markets will be a major focus for our attention in 2004. In view of the booming PRC market, we will continue to diversify our product mix, providing a different range of prices and products to satisfy different levels of customers. In the Japanese market, we will enlarge our niche by maintaining our high standards of quality to establish a firm foothold in the market. Resources will also be diverted to exploring new markets, such as Thailand, the Philippines and Australia to enlarge our market share. We expect positive business opportunities to be generated from these new markets, further enhancing our performance and returns to shareholders.

Financial Review

Liquidity and financial resources

As at 31st December, 2003, the Group had net current liabilities of approximately US$14.2 million, compared to US$9.6 million as at 31st December, 2002, representing an increase in net current liabilities of US$4.6 million. The increase could be attributable to the commencement of repayment of certain bank loans within the next twelve months and the relevant portion was accordingly reclassified from long term bank borrowings to long term bank borrowings – current portion. The successful rescheduling of the repayment terms of certain long term bank loans, the ongoing support from the Group's bankers and the ability to generate sufficient cash flows from future operations will be crucial to the Group.

Capital structure

Bank borrowings of the Group are mainly denominated in United States Dollars, Malaysian Ringgits and Renminbi. Except for the foreign exchange exposure in relation to the loans in Singapore Dollars, equivalent to approximately US$7.3 million, the Group has no significant exposure to foreign exchange fluctuations in relation to its borrowings.

Significant investments, acquisitions and disposals

During the year ended 31st December, 2003, the Group disposed a wholly-owned subsidiary, which in turn held 75% interest in a PRC joint venture in Jilin. The business of this joint venture was the manufacturing of 3-ply parquet flooring and plywood, but its performance was less than satisfactory. It is expected that the disposal of this joint venture would alleviate the cashflow requirements and hence, improve the overall performance of the Group.

Save as disclosed above, the Group has no significant investments and material acquisitions or disposal of subsidiaries and associates during the year ended 31st December, 2003.

Employees

As at 31st December, 2003, the Group had 5,324 staff, 3,500 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and 1,777 at facilities in Dalian and Changchun, the PRC. In-house training programmes were provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

Details of charges on assets

Bank loans and other banking facilities of the Group were secured by pledges of certain property, plant and equipment with a net book value of approximately US$93.4 million, floating charges on certain inventories of approximately US$11.4 million and trade receivables of approximately US$4.0 million, corporate guarantees given by the Company and a personal guarantee given by a director of the Company.

Future plans for material investment or capital assets

The Group will continue to streamline its business and minimize capital expenditures and has no plan for material investment in the near future.

Gearing ratio

The net assets of the Group as at 31st December, 2003 was approximately US$34.6 million, compared to US$42.7 million as at 31st December, 2002. Total bank borrowings of the Group was approximately US$78.7 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 227% comparing to 187% as at 31st December, 2002.

Contingent liabilities

As at 31st December, 2003, the Group's contingent liabilities were approximately US$2.7 million representing discounted bills with recourse.

Foreign exchange exposures

Major functional currencies of the Group are United States Dollars, Malaysian Ringgits and Renminbi. All of them are closely linked in term of exchange rate to United States Dollars, the reporting currency of the Group. Save as disclosed in 'Capital Structure' above, foreign currency exposure to the Group is expected to be minimal.

Peng Chiu Ching
Managing Director
Hong Kong, 15th April, 2004