



To Our Shareholders

Compared with 2003, 2004 was a better year for the plywood industry. Those detrimental factors are seemingly fading out with the Iraqi war drawing to a close and the global economy on the mend.

During 2004, our turnover reached US\$149.5 million, representing a 9% growth over last year. The increase in turnover is mainly attributable to the mending of the global economic environment albeit with weaker US dollars and strong economies of Japan and China which allowed a catching up on selling price during the year. Improved employment, GDP and consumer spending level in Europe and America also lent support to our growing orders. However, in 2004, hit by the continuous demand-led hike in price of log and lumber, and significant hike in freighting costs due to increased trade and fuel prices our gross margin was under high pressure. By monitoring our cost and expenses closely and applying effective cost control measures, our operating cost was reduced, resulting in the narrowing of our loss to US\$4.5 million, compared to last year's US\$8.2 million.

The PRC market remained strong in 2004 boosted by the prosperous property market. It followed Japan, traditionally our strongest market, in terms of contributions to the Group. The recovery of the US economy has been hampered by its continuing domestic budget and external trade deficits, rising mortgage interest rates and the unresolved political issues bred by the Iraqi War and the continuing Middle-Eastern conflicts. Those factors plus the moderate housing demand in the US during the year resulted in moderate demand from the US.



In the operation front, we focused on consolidating our resources, strengthening our product lines and mix, as well as enhancing our customer service and rationalizing our cost. Strength and robust in applications made flooring our top sales items among all of our products. As for our traditional products, which include veneer, MR plywood, WBP plywood, flooring and moulding, they continued to provide a strong revenue base for the Group.

Last year, we maintained a very healthy production capacity with the average plant utilization rate standing at over 85%. New clients in Thailand and Europe were secured but have yet to contribute significantly to the Group's turnover. We see significant growth potential in these markets especially with the addition of new customers.

At the end of last year, the world was shocked by the terrifying Asian tsunamis. Countries that had been badly hit included Indonesia, Sri Lanka, India and some islands in the India Pacific Ocean, which are not our major export markets. Our log and lumber sources from the state of Sarawak in Malaysia, Russia and northern China are not directly affected by the tsunamis either. However, heeding the reconstruction requirements of the affected areas, there may be favorable indirect demand for our products, but on the other hand log and lumber costs may be adversely affected. As for the extent of the impact, it has yet to be ascertained as the collective response by the various world communities and aid agencies for reconstruction relief for the affected areas has yet to be sorted out.

Looking to the future, we will continue to consolidate our available resources to continuously improve on product quality to meet the ever-changing market entries stringent standards, cost, log recovery rates and customer satisfaction. The Group will also focus on cultivating team spirit, improving the technical and management skills of staff by providing them with proper training programs, encouraging innovation and a continuous learning culture among all employees, and quickening alignment of the Group resources to changes in the market and economy. All these measures will enable the Group to maintain its leading position in the industry.

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

Budiono Widodo

Chairman

Hong Kong, 19th April, 2005