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

BUSINESS REVIEW

Manufacturing Business

During the year under review, the increase in the costs of log and lumber had offset the increase in selling prices resulting in only a slight increase in gross profit. Log prices rose by 10% to 15%. The price hikes were caused by the unsettling problems arising from Indonesian and Malaysian governmental agencies stepping up the enforcement of laws against illegal logging and unauthorized felling, the continuous import ban on logs and also the prolonged rainy season affecting the harvesting of logs in Sarawak. Increased crude oil prices affected glue costs, and increased trade pushed up freight costs significantly, attributing to a less than favourable bottom-line in 2004 for the Group.

Fortunately, the fluctuating prices had shown signs of stabilisation by end of 2004. Moreover, to beat the arrival of the rainy monsoon season which inevitably affect log supply and prices, we stock more logs before the year-end. We were also able to enhance our recovery rate and costs through continuously improving our production processes, and our product structure and mix. During the year, we continued to improve on the reduction and utilization of log waste to enhance recovery rate which, standing at 53.5%, was above the industry norm.

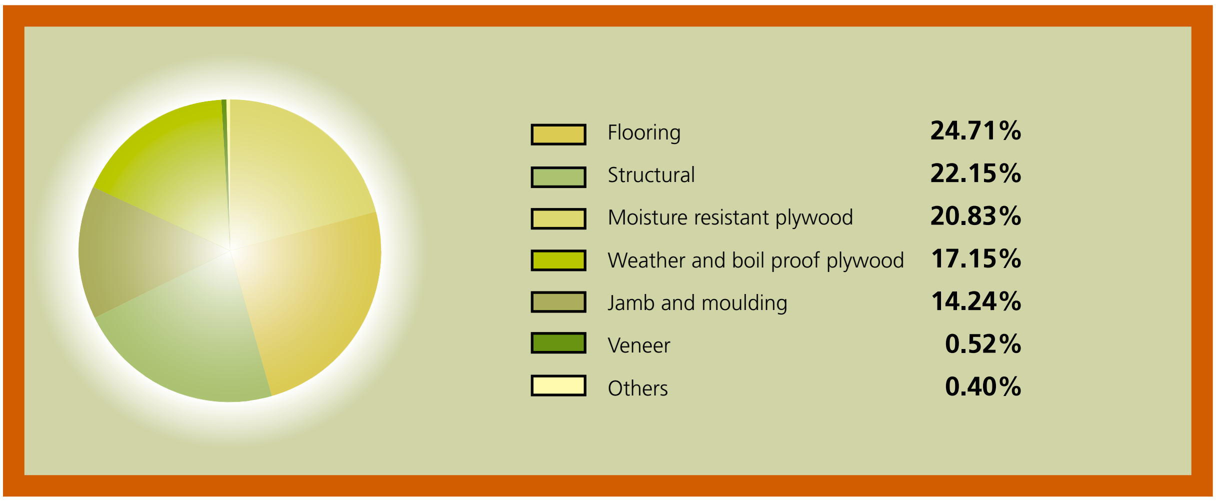
The Group's diversified product mix has always been the major force allowing us to counter increasing production cost. Flooring products, which have the highest margin among the Group's products, continued to contribute the most revenue to the Group. Other traditional products, like Veneer, Moulding, Structural and Laminated Veneer Lumber provided the Group with a strong and consistent revenue base. During the year, besides continuing to modify our production processes, our ongoing corporate endeavors also included enhancement of product quality to meet customers' growingly stringent demand and market entries growingly stringent standards.

With scalable production capacity and benefiting from improved economies of scale, our competitiveness was strengthened. The Manuply plant in Malaysia maintained the highest production volume, running at over 95% of its production capacity. Its products are traditionally profitable and well-received in Japan, the US, the PRC and Europe for its premium quality and on-time delivery.

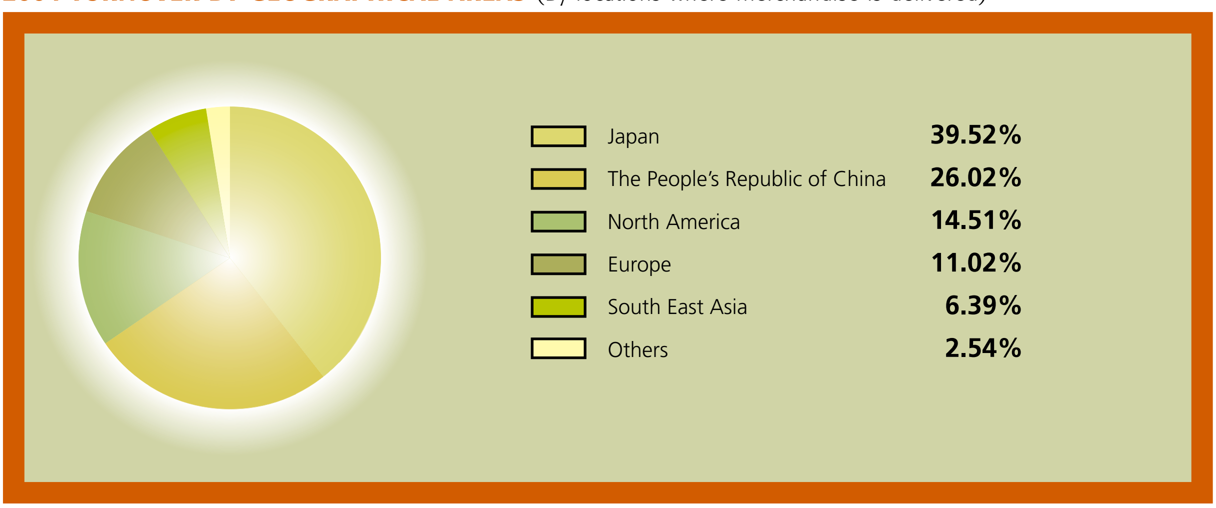
MARKET OVERVIEW

During the year, Japan was still the single largest market of the Group, contributing almost 40% of the Group's total turnover. The improving Japanese economy played a major role in the plywood market. The increasing customers' demand on the quality of plywood products that can meet the increasingly stringent standards of the various Japanese authorities had helped the Group's market share in Japan with premium returns. The recent improvement in employment rate and purchasing desire in Japan also helped to stabilize demand during the last two quarters.

2004 TURNOVER BY PRODUCT RANGE



2004 TURNOVER BY GEOGRAPHICAL AREAS (By locations where merchandise is delivered)



Riding on our reputation for quality, on-time delivery and our strengthening brand, we have been able to secure more orders in the fast growing property market in the PRC. We focused on exploring the PRC market in the past two years, and managed to secure a 26% revenue contribution from it during the year, quite a significant increase when compared with last year's 20%. The increase represented the biggest increase in revenue over 2003 among the different markets. The PRC presents the highest growth potential for flooring products prompted by its booming trade and property sectors, improved per Capita GDP in major cities and the construction of sporting and housing facilities for the staging of the 2008 Olympics. The PRC remains as a strong engine of growth for Asian economies and, in fact, the world. As for the performance of the US and Europe markets, sales remained stable during the year. We also secured new customers from Thailand and Europe.

With market information gained riding on the Group's extensive distribution and sales network, we have been able to monitor, draw up and implement appropriate marketing strategies to sharpen our competitive advantages and facilitate the capturing of market opportunities.

PROSPECTS

Looking to the future, we will continue to focus on the PRC market which is enjoying robust economic growth and laden with huge market potential. We will also continue to maintain excellent relationship with our customers and continue with our strategic cooperation with the major purchasing houses in Japan, our traditional leading market in the past few years, who are willing to pay premium prices for our quality products that will meet the increasingly stringent standards by the various authorities. In the new markets that have yet to bring in significant turnover and profit, we will continue to develop and enhance our products positioning and relationship with customers.

In the operational aspect, we will focus on consolidating our existing capacities and resources, and at the same time, grow our business through exploiting and capitalizing on any opportunities to expand our markets and products.

We expect the market to consolidate and remain stable during the first half of 2005. To maximize our productivity and offer an optimized product mix, we will continuously improve product quality, costs, recovery and customer service. We are determined to further enhance our performance and create additional value for our shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31st December, 2004, the Group had net current liabilities of approximately US$3.5 million, compared to US$14.2 million as at 31st December, 2003, representing a reduction in net current liabilities of US$10.7 million. The decrease was mainly attributed to the successful rescheduling of repayment of certain bank loans, which resulted in the reclassification of such portion of bank loans from current liabilities to non-current liabilities.

Capital structure

Bank borrowings of the Group are mainly denominated in United States Dollars, Malaysian Ringgits, Singapore Dollars and Renminbi. Except for the foreign exchange exposure in relation to the loans in Singapore Dollars, equivalent to approximately US$7.0 million, the Group has no significant exposure to foreign exchange fluctuations in relation to its borrowings.

Significant investments, acquisitions and disposals

The Group had no significant investments and material acquisitions or disposal of subsidiaries and associates during the year ended 31st December, 2004.

Employees

As at 31st December, 2004, the Group had 5,201 staff, 3,559 of whom worked at the Manuply manufacturing plant in Bintulu, Sarawak, Malaysia and 1,594 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$79.2 million, floating charges on certain inventories of approximately US$10.9 million and trade receivables of approximately US$1.7 million, corporate guarantees given by the Company and personal guarantees 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, 2004 was approximately US$30.2 million, compared to US$34.6 million as at 31st December, 2003. Total bank borrowings of the Group was approximately US$75.2 million and the gearing ratio (total bank borrowings to total net assets) was accordingly 249% comparing to 227% as at 31st December, 2003.

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.

Contingent liabilities

As at 31st December, 2004, the Group's contingent liabilities were approximately US$2.7 million, representing discounted bills with recourse.

Sardjono Widodo
Managing Director
Hong Kong, 19th April, 2005