

Chairman's Statement

I am pleased in representing the Board of Directors (the "Board") in presenting the annual report and financial results of the Teem Foundation Group Limited and its subsidiaries (the "Group") for the year ended 31 March 2005.

In preparing the 2004/05 annual report, I would like to briefly review our objectives set in the annual report of 2003/04 to see what has been achieved and what still needs to put more effort on. This would be followed by presenting some possible ideas or scope of businesses that the Group may consider to participate in the coming years. The main theme is to avoid the over-concentration in certain particular industry and to explore the right way that the Group has to follow in the coming years so as to drive the Group forward to realize our strategic vision.

Prior to the review of objectives, I would like to briefly laid down some pre-conditions that the Group would adopt, namely,

- maintain a prudent financial structure (in view of the failure of a number of companies due to the too aggressive move);
- continued operational excellence;
- strengthened broad-based relationship management to enhance reputation;
- a disciplines investment approach in selected markets while maintaining flexibility for opportunistic investments;
- adopting a stronger matrix management system to improve organizational effectiveness across the Group; and
- further developing internal competencies and controlling internal costs.

To start with, I would like to say that 2004/05 can still be characterized by a year of consolidation and active expansion of related business opportunities, in line with the prevailing market condition.

On the human resources side, the general offer ended in June 2004 resulted in the departure of certain senior management and the incoming of some new blood. This has resulted in a temporary setback in both internal control as well as external customer relationship. Yet, the subsequent integration between the staying behind management and the new management is quite smooth and the Group has been bring back to the proper track. I am proud to say that all the Board members have a single objective - to work for the Group resulting in the best benefit of shareholders.

At the employee level, apart from certain personnel involved in the door set business who had elected to quit the Group due to the absence of meaningful projects to conduct, the others had stayed behind and contributed to the betterment of the Group. Business in the remaining section of the Group was running smoothly.



Chairman's Statement *(Continued)*

The improving Hong Kong economy during the year, nonetheless, did not have any positive effect on the Group as such is a result of the substantial increase in retail business (a Closer Economic Partnership Agreement (the "CEPA") effect) and the upsurge of both the stock speculation (a Macau effect) and property market (a economic recovery effect). None of them has any positive effect on the Group.

Instead, such effects had pulled a number of skilled workers to move from Hong Kong to Macau to work; thereby, shifting up the labour cost in Hong Kong.

The provision and installation of fire-rated timber door sets etc. received a very big set-up due to:

- (a) continuous intense competition that result in slim profit margin; and
- (b) our unwillingness to enter into this line (unless with good profit margin) due to the difficulty in getting back the historical receivables.

The trading of timber has a mixed result due to:

- (a) the strong demand during the first half of the fiscal year, but which, been affected at the same time by the high shipping cost and the strong euro vis-a-vis the US dollars;
- (b) the good demand during the second half, coupled with the softening of the shipping charges, had been affected by both the austerity measures imposed by the PRC and the heavy raining during the "summer" timing in the Republic of Congo (located in the Southern Hemisphere), the place where the Group's logs are being produced. As such, the production capacity had been affected and the Group failed to deliver logs to customers as originally scheduled; and
- (c) the on and off disrupted production in the Republic of Congo due to one reason or the other.

Hence, instead of a very positive contribution from this sector as targeted in the 2003/04 annual report and the 2004/05 interim report, the operation result is only marginally satisfied and there are big rooms for improvement.

Looking ahead, the financial year 2005/06 would continue to be a difficult year for the Group and it would adopt the following strategies. On one hand, the Group would continue to reduce in bidding projects that can only bring in slim margin. Additional horizontal and vertical integration, but at a steady pace and after taking into consideration the available resources in both managerial and financial would be undertaken to take advantage of the reputation established and the professional team built. The adoption of a slower pace is to avoid the possibility of over-gearing which may lead to the complete failure as in the case of other companies, either listed or unlisted.

Some of the possible projects that are being considered including but not limited to the possibility of obtaining the operation and/or trading rights of logs at other countries. This is to reduce the reliance on a particular country, to increase the product range (not just a single species of logs) and to achieve additional economy of scale.

Yet, the Board would like to emphasize that these are all at the very preliminary stage and it is uncertain whether the Group would engage in or not, not to mention the possible contribution to the Group is still under studying.

Meanwhile, with the repayment of receivables and the absence of justified related projects to be engaged in, the Group would also look into other business opportunities that may bring positive contribution to the shareholders. Needless to say, the managerial and financial resources are still the primary decision criteria.

The Board is confident that with the continuous support of the shareholders, the peers and the dedicated staff, the future would unveil another era for the Group and the shareholders would be benefited/rewarded accordingly. In fact, the independent directors have, on and off, given recommendation to the Board which is mostly welcome and adopted by the Board, to say for instance, the collection of receivables, the disposal of redundant vehicles. I, on behalf of the executive board, would like to thank them for the recommendation given and would be most happy to receive additional constructive suggestions so that the Group can be steered at the right direction for the best benefit of shareholders. Last, but not the least, on behalf of the Board, I would like to take the opportunity to thank all the management team and staff for their contribution that path the way for the future of the Group.

Lum Chor Wah, Richard

Chairman

Hong Kong

27 July 2005