



Chairman's Statement



Mr. Budiono Widodo
Chairman

To Our Shareholders

Although the global economy continued to rebound in 2005, it was a testing year for the plywood industry facing severe cost and pricing pressure. Market sentiment was further hampered by the trade negotiations impasse between China and her major trading partners in Europe, the US and Japan. Other factors that made the business environment even more challenging included the uncertain exchange rates of currencies of the Group's major trading countries (resulting from the un-pegging of the RMB and the Malaysian Ringgit viz-a-viz the US Dollar), prospective weakening of the US Dollar and US Fed interest rate hikes.

The sales of the Group dropped almost 9% compared with last year's US\$149.5 million. This was caused primarily by the unfavorable pricing of flooring products in the second half of 2005 in the PRC market, a result of shrunken demand from buyers who had accumulated high inventory in anticipation of price escalation. Competitive pricing from low cost producers in South America also contributed to the lower sales. Despite its efforts in closely monitoring costs and expenses and

applying stringent cost control measures, the Group incurred a loss of US\$7.9 million, as compared to last year's loss of US\$4.5 million. Our gross margin was under high pressure as a result of continuous hike in the prices of log, lumber and crude oil related products and services.

The PRC market experienced lower sales of plywood-based flooring in 2005. Nevertheless, we will continue to focus on this market as it has been enjoying robust economic growth and is laden with potential. For the North American market, despite strong housing demand in the US, our sales were affected by the competitive pricing from producers in South America. The demand from Japan was moderate attributable to the weak Japanese yen and soft consumption; and demand from Europe, where economic growth had been slow, was also moderate and stable compared with last year. The Group secured new clients in the Middle East and South-East Asia but these markets have yet to contribute significantly to the Group's sales. We will continue to develop and enhance our positioning and customer relationship in these new markets.

On the operation front, we focused on consolidating our resources, strengthening our product mix, achieving a flexible capacity mix, as well as enhancing our customer service and rationalizing our cost. Our flooring products remained as our top selling items, while our traditional products, which include veneer, MR plywood, WBP plywood, flooring and moulding, continued to provide a strong revenue base for the Group. Despite the testing environment, we maintained a very healthy production capacity with average plant utilization rate at over 80%.

Looking to the future, the Group's performance will be subjected to a host of factors. They include the pace of recovery of housing markets and consumer sentiment in Japan, whether the growth rates of the US housing markets can be sustained, how resilient will global trade be and whether economic growth in the PRC will continue, the strength of the US dollar versus other major currencies, political stability in the Middle East, global crude oil supply and pricing, the rationalization of forestry management in log producing countries, and the U.S. Fed interest rates trend which will affect the cost of business transactions.



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Going forward, we will continue to maintain good relationship with existing and new log and lumber suppliers to ensure we have uninterrupted supply of good quality raw materials for smooth production and timely delivery of products to our clients. The Group will also focus on improving product quality and provide excellent services that exceed customers' expectations. In addition, the Group will optimize its product and material mix to improve and enhance cost efficiency. 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 in us.

Budiono Widodo

Chairman

Hong Kong, 7th April, 2006