Manufacturing Business

During the year under review, the escalating costs of log, lumber and crude oil related services and materials are out of skew with market pricing. This is further compounded by the inventory built-up in the later part of 2004 by buyers in anticipation of price escalation. Log and lumber pricing were especially volatile. Their prices surged over 10% fueled largely by the tightening of harvesting restrictions by supplier countries, which affected global supply, and stronger demands from the PRC and India to support infrastructure development. The importing countries adopting and stepping up “green labeling” practices also continued to affect and compound the global demand-supply condition.

Furthermore, though log prices stabilized at the end of 2005, it is expected to rise again as the seasonal monsoon period set in posing restriction on log harvests and thus its supply. In the face of all these pressures, our efforts to apply better technical know-how and enhance our production processes paid off. These efforts included cutting log waste and hence improving log recovery rates which helped to lower direct material costs and optimize our product and capacity mix. Our optimized recovery rate was over 50% exceeding the industry norm.

By maintaining a diverse product mix and flexible capacity mix, the Group can effectively counter increasing material costs and pricing pressures. Among all products, flooring products that saw a drop in revenue last year but had been contributing to the bulk of the Group’s revenue in past years, still delivered the highest margin. Other traditional products, like Veneer, Mouldings, Structural and Laminated Veneer Lumber also together provided a strong and stable revenue base. During the year, apart from continuing to modify our production processes and enhance product quality to meet customers’ demand, we also continued to undertake research and development initiatives to exploit new products and markets.

Our production plants are in Dalian and Changchun in China and Manuply in Malaysia. The Manuply plant maintained the highest production volumes, running at over 85% of its production capacity. It produced and sold the most profitable and well-received products to its major markets in Japan, the PRC, Europe and South-East Asia.

Market Overview

During the year under review, Japan remained our largest market, contributing almost 42% of the Group’s total sales. Though the continued improvement of the Japanese economy benefited the plywood market, demand softened moderately in 2005 with Japanese yen persistently weak and the lingering soft consumption sentiment viz-a-viz higher pricing. The Group’s ability to supply high quality plywood products in demand by Japanese customers and meet the stringent specifications of the building authority of the country is its clear edge in the market. During the year under review, the Group also expanded and enhanced the quality of its plywood-based flooring for the Japanese market, which enabled it to secure higher margins.

The PRC market has been our focus in the past few years, and contributed albeit almost 19% of the Group’s total sales in 2005. Sales of plywood-based flooring in the PRC slowed down as compared with last year since buyers were drawing from inventory beginning from late 2004. Sales to the European market remained stable during the year, while sales to the US market dropped slightly due to the impact of competitive pricing from producers in South America. The Group also expanded its business into the Middle East and South-East Asia.

During the year under review, the Group had developed a few new products, including specialty plywood, for customers in Europe and the Philippines. The Group will step up product and market development to facilitate seizing of opportunities in existing and emerging markets.

Prospects

Going forward, we expect market conditions to further consolidate in the first half of 2006, and inventories to deplete and cost versus pricing to rationalize in major markets such as the PRC and Japan in the second half of the year. These will lift demand and pricing for timber products.

With GDP growing at 8% to 10% over the past few years and projected to grow at similar rates in the future, the PRC is expected to remain as the market with the highest growth potential for the Group. We will continue to expand our product mix to ensure we have a diverse range of products to meet the needs of our customers. Japan has been our traditional market where we have excellent relationship with customers who are willing to pay premium prices for our quality products that meet their existing and new stringent standards. In the US, re-building needs as a result of destruction caused by natural disasters such as hurricanes Katrina, Rita and Wilma have bred opportunities in this market. In new markets, such as the Middle East and the South-East Asia that have yet to bring in significant sales and profit, we will continue to develop and enhance our position and relationship with customers.

We will also focus on consolidating our existing capacities and resources, and at the same time, we will keep exploiting and capitalizing on any opportunities to expand our business in new and emerging markets.

To maximize our productivity and offer an optimized product mix, we will continuously improve product quality, cost effectiveness and customer service. We are determined to further enhance our performance and returns to our shareholders.

Financial Review

Liquidity and financial resources

As at 31st December, 2005, net current liabilities was approximately US$8.0 million, compared to US$3.5 million as at 31st December, 2004, representing an increase in net current liabilities of US$4.5 million.

Capital structure

During the year ended 31st December, 2005, there was no material change in the Group's capital structure.

Significant investments, acquisitions and disposals

The Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the year ended 31st December, 2005.

Employees

As at 31st December, 2005, the Group had 5,246 staff, 3,658 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 1,545 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 and leasehold land with a net book value of approximately US$73.8 million, floating charges on certain inventories of approximately US$9.3 million, trade receivables of approximately US$4.7 million, bank balances of approximately US$0.5 million, other assets of approximately US$0.9 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, 2005 was approximately US$23.3 million, compared to US$31.2 million as at 31st December, 2004. Total bank borrowings of the Group was approximately US$77.6 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 333% comparing to 241% as at 31st December, 2004.

Foreign exchange exposures

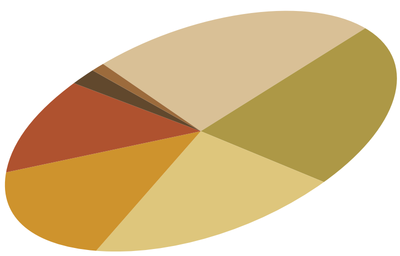
Major currencies of the Group include United States Dollars, Singapore Dollars, Malaysian Ringgits and Renminbi. Due to the delink of Malaysian Ringgits and Renminbi with United States Dollars, the Group is expected to face with greater foreign currency exposure. Management will arrange the necessary hedging where costs and benefits are justified.

Contingent liabilities

As at 31st December, 2005, the Group had no material contingent liabilities.

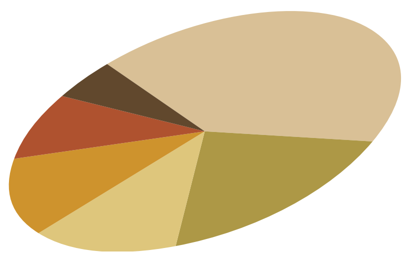
Sardjono Widodo
Managing Director
Hong Kong, 7th April, 2006

2005 Sales By Product Categories



24.2% Weather and boil proof plywood
23.3% Structural
19.8% Moisture resistant pylwood
17.7% Flooring
12.1% Jamb and mouldings
1.9% Veneer
1.0% Others

2005 Sales By Geographical Areas*



41.9% Japan
18.8% The People's Republic of China
13.8% Europe
12.4% North America
8.4% South East Asia
4.7% Others

* Sales and distribution of merchandise by geographical areas is determined on the basis of the location to where the merchandise is delivered.