

# Chairman's Statement



**Budiono Widodo**

*Chairman*

## To Our Shareholders

Market conditions improved in 2006 with prices back on the up trend. This was partly the result of increasing costs of logs and lumber which forced marginal producers out of business and affected supply. Increasing demand from fast growing economies like the PRC and India have also pushed up production costs of importing countries.

The Group achieved a turnover of US\$153.1 million, an increase of 12.5% over that of last year, driven mainly by rising prices. The increase in selling prices of the Group's products and a reversal of the impairment provision made last year had more than offset the increased log and lumber costs, the exchange losses resulted from the stronger Malaysian Ringgits and Renminbi, and the loss incurred from the disposal of loss making subsidiaries. Hence, the Group managed a mild turnaround of US\$0.5 million, against last year's loss of US\$7.9 million. Despite that the rising costs of logs and lumber, increased selling prices boosted our gross margin when compared with that of last year.

The US market fared well the past year in spite of rising interest rates. The Japanese and European markets delivered stable performances as corresponding economies improved and consumption sentiment remained strong. In the PRC, prices of plywood-based floorings began to improve in 2006 and steady increase in demand for flooring products is expected. Demand from the Group's newly developed markets, including the Middle East and South-East Asia, has been quite strong. The Group will continue to develop these markets and explore new ones.

On the operation front, we consolidated our resources and strengthened our product mix. The Group's major products include flooring products, MR plywood, WBP plywood, and moulding. They continued to provide the Group with a strong revenue base with profit margins evenly spread. During the year under review, we maintained a very healthy production capacity with average plant utilization rate of close to 80%.

During the year, the Group disposed of Changchun Winpro Wood Industries Co., Ltd in the PRC which had been in loss the past years. The loss on disposal was about US\$1.8 million.

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Looking to the future, the Group expects demand for and pricing of its products to remain stable in 2007 barring any unforeseen circumstances including outbreak of Avian flu, inflationary pressures and interest rate adjustments in the US and the PRC, stability of the US dollars versus other major currencies and fluctuation of crude oil prices. With the disposal of the loss making plant in Changchun, the PRC, the Group's performance will improve.

To maintain its industry leadership, the Group will continue to build on the strengths of its management team, in particular the technical and production knowledge and skills of the team members. Younger and talented employees are empowered to lead day-to-day management and operations of the Group's plants. They are dedicated in upholding the Group's key management beliefs: innovation in product development methodology, uncompromising quality assurance, effective cost controls, thorough understanding of customer and market needs, and reliable delivery.

On behalf of the Board, I would like to express my gratitude to the management and staff for their dedication and contribution during the year. We would also like to thank all shareholders, investors and customers for their continuing support and confidence in the Group.

**Budiono Widodo**

*Chairman*

Hong Kong, 18th April, 2007