Management Discussion and Analysis

From left to right: Liao Yun Kuang, Budiono Widodo, Sardjono Widodo

Business Review

Manufacturing Business

During the year under review, log and lumber prices went up by an average of over 15%, with types in strong demand in fast growing economies like the PRC and India surging more than 30%. The higher prices pushed up the Group's direct costs, and the hike in crude oil prices increased its freight, distribution, utility and glue costs. Despite having to face cost pressures, the Group managed to reduce operating costs by applying a series of stringent cost control measures.

Logging restrictions and green-labelling practices continue to affect the global demand-supply situation and hence the Group's production costs. In combat, the Group has been relentless in increasing recovery rates through process re-engineering and ensuring the cost effectiveness of operations. Furthermore, with certified sources of raw material and supply covered by controlled concessions subject to periodical inspections by relevant authorities, and enjoying strong relationships with logs/lumber suppliers, the Group is assured of consistent material supply.

To effectively counter increasing material costs, the Group strives to maintain a diverse product mix and monitor closely the revenue contribution of different products. During the year under review, among all products, WBP plywood continued to contribute to the bulk of the Group's revenue. Other traditional products, like Veneer, Mouldings, Structural and Laminated Veneer Lumber together also brought in strong and stable revenue. Apart from modifying its production processes and enhancing product quality to meet customers' demand, the Group also continued research and development of new products and ways to expand into new markets.

During the year under review, the Group maintained its production output. The Group's overall production capacity is only about 8% less after it disposed of the production plant in Changchun, the PRC. Its production plants in Dalian, the PRC and Manuply, Malaysia ran smoothly with the latter boasting the highest production volumes at over 85% of its production capacity. It produced and sold the most profitable and well-received products to the Group's major markets in Japan, the PRC, Europe and South-East Asia.

To control costs and improve productivity, the Group undertook a number of important initiatives including outsourcing certain upstream processes and semi-finished products. The Manuply plant used harder wood types and greater volume of smaller and lower grade logs to reduce material costs. And for the plant in China, the Group restructured the remuneration system for workers, shortened the production cycle by combining different processes, and streamlined production lines and plant layout.

During the year under review, the Group focused on strengthening strategic alliances with its partners. Its factory in Dalian, the PRC, commenced cooperation with a well-known purchasing house in US and another in Japan. The Group expects to maintain a stable market share riding on its strategic alliances and marketing initiatives such as increasing the sales of higher value-added products to avoid direct competition, and stepping up direct marketing to end-users to secure stable demand.

Market Overview

During the year under review, the Japanese market though softened, remained the Group's top market. It accounted for nearly 34% of the Group's total turnover. The market values the ability of the Group in supplying high quality plywood products that meet the stringent

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specifications of the country's building authority. By the end of the financial year, prices of the plywood-based flooring products for Japan was back on the up trend. The Group expects sales to the market to be stable in the coming year. While demand softened in Japan, sales picked up in Europe during the year. All taken into account, both the Japanese and the European markets had been relatively stable bolstered by sustained consumption sentiment and improving economies. The two markets together made up over 50% of the Group's turnover.

Sales to the US market increased last year despite the continued competition from South American producers. The Group managed to mitigate the pressure from competition by focusing on serving major regular customers in mainly the northern part of the US and Vancouver, Canada to avoid direct clash with South American producers targeting the Southern part of the US. The fact that the Group mainly markets softwood mouldings as opposed to hardwood mouldings supplied by the South American producers also helped. The Group sells moulding products in the US that are used mainly in homes. However, the sector was affected by a significant slowdown in housing demand and increasing mortgage rates in the last quarter of the financial year.

During the year under review, the PRC market contributed approximately 11% of the Group's total turnover. Prices for plywood-based flooring in the PRC market began to climb in 2006 from the record low in 2005. The Group expects demand to steadily increase as stocks built up in the past year are used up by customers. Demand from new markets, including the Middle East and South-East Asia was strong in 2006. Demand from these markets is expected to remain stable and start contributing profit to the Group in the near future. The Group has made inroads in the Philippines and India.

The Group is committed to understanding customer needs and market trends to help it develop new and enhanced products, including jumbo-size plywood, SASH window parts and thin layer floor-base. During the period under review, major efforts were made by the Group to introduce jumbo-size plywood into markets in Europe, Japan and Southeast Asia and to expand its shares in those markets. By developing new products and markets, the Group hopes seize opportunities in existing and emerging markets.

Prospects

In 2007, global demand for logs will continue to exceed supply as a result of stringent export regulations, increasing export duties and green labeling requirements of European, American and Japanese consumers and authorities. Generally, we expect prices and demand to remain stable and plan to closely monitor and improve production processes to cap cost escalation.

Furthermore, the Group will continue to focus on its traditional markets including Japan, the PRC, Europe and North America, which together consume the most wood products in the world. At the same time, we will continue to explore and grow recently secured markets such as Korea, the Philippines and the Middle East.

Going forward, we will continue to consolidate our capacities and resources and explore opportunities for growing our business. These opportunities include sourcing for timber concessions to enhance vertical integration, outsourcing of processes and/or upstream semi-finished products, re-engineering of processes to minimize redundant effort and cut processing time, crafting customer and market-focused strategies.

To maximize productivity and offer an optimized product mix, we will constantly review and modify different production processes to assure cost effectiveness and improve the quality of our products and customer service. We are dedicated to providing customers with quality services and maximizing returns to our shareholders.

Financial Review

Liquidity and financial resources

The Group turned a new page in its financial performance during the year 2006. The profit attributable to shareholders was US$0.5 million, while there was a loss of US$7.9 million in 2005. The earnings before interest, tax and depreciation for 2006 was US$15.0 million, which was substantially higher than that of US$5.3 million for 2005. The operating activities generated a positive cash inflow of US$5.8 million, as compared to an outflow of US$0.5 million for 2005. As at 31st December, 2006, net current liabilities was approximately US$2.9 million, compared to US$8.0 million as at 31st December, 2005, representing a decrease in net current liabilities of US$5.1 million. All in all, the Group's efforts to streamline its operation as well as adopt prudent financial management over the years finally bear fruits. The Group is confident that, bearing unforeseen unfavourable market conditions, this trend would continue in 2007.

Capital structure

During the year ended 31st December, 2006, the Company approved a capital reorganization, which included share consolidation, capital reduction, share premium cancellation and the elimination of the accumulated deficit. In August, 2006, the Company completed an open offer of 558,089,724 new shares to its existing shareholders and received a gross proceeds of approximately US$1.8 million. The effects of the capital reorganization and the open offer are summarized in note 14 and 15 to the consolidated financial statements.

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Significant investments, acquisitions and disposals
During the year ended 31st December, 2006, the Group disposed of two subsidiaries to an independent third party at a consideration of US$0.4 million, resulting in a consolidated loss of approximately US$1.8 million. Other than that, the Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the year ended 31st December, 2006.

Employees
As at 31st December, 2006, the Group had 4,174 staff, 3,271 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 863 at facilities in Dalian, 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$71.5 million, floating charges on certain inventories of approximately US$11.6 million, trade receivables of approximately US$3.9 million, bank balances of approximately US$0.7 million, other assets of approximately US$1.3 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.

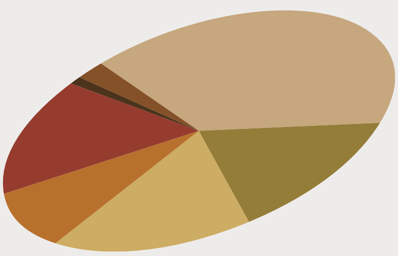
Gearing ratio
The net assets of the Group as at 31st December, 2006 was approximately US$26.0 million, compared to US$23.3 million as at 31st December, 2005. Total bank borrowings of the Group was approximately US$72.7 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 280% comparing to 333% as at 31st December, 2005.

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. The Group has not used any forward contracts or currency borrowings to hedge its currency exposure.

Contingent liabilities
As at 31st December, 2006, the Group had no material contingent liabilities.

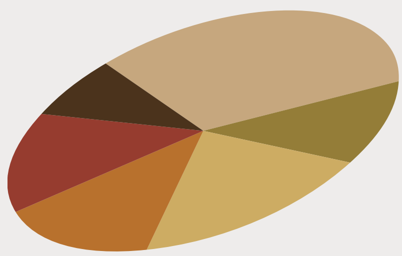
Sardjono Widodo
Managing Director
Hong Kong, 18th April, 2007

2006 Sales By Product Categories



39.5% Weather and boil proof plywood
17.2% Moisture resistant pylwood
15.2% Jamb and mouldings
14.7% Structural
10.4% Flooring
0.9% Veneer
2.1% Others

2006 Sales By Geographical Areas*



33.8% Japan
18.2% Europe
15.8% North America
14.0% South East Asia
11.0% The People's Republic of China
7.2% Others

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