
3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE

3.1 Introduction

This Prospectus is dated 28 February 2004.

A copy of this Prospectus has been registered with the SC. A copy of this Prospectus, together with the form of application has also been lodged with the ROC who takes no responsibility for its contents.

The approval of the SC obtained vide its letter dated 10 September 2003 shall not be taken to indicate that the SC recommends the Public Issue, and that investors should rely on their own evaluation to assess the merits and risks of the Public Issue.

Application will be made to MSEB within three (3) market days of the issuance of this Prospectus for the admission to the Official List and for the listing of and quotation for the issued and fully paid-up share capital of Cymao on the Main Board of MSEB. These Cymao Shares will be admitted to the Official List on the Main Board of MSEB and official quotation will commence upon receipt of confirmation from MCD that all CDS Accounts of the successful applicants have been duly credited and notices of allotment have been despatched to all successful applicants. Acceptance of applications for the Public Issue Shares will be conditional upon permission being granted by MSEB to deal in and for the quotation of the entire enlarged issued and paid-up Cymao Shares on the Main Board of MSEB. Accordingly, monies paid in respect of any application accepted from the Public Issue will be returned in full without interest if the said permission for listing is not granted within six (6) weeks from the date of issue of this Prospectus (or such longer period as may be specified by the SC) provided that the Company is notified by or on behalf of MSEB within the aforementioned time frame.

Pursuant to Section 14(1) of the Securities Industry (Central Depositories) Act, 1991, MSEB has prescribed Cymao as a prescribed security. In consequence thereof, the Cymao Shares issued through this Prospectus will be deposited directly with the MCD and any dealings in these shares will be carried out in accordance with the aforesaid act and the Rules of the MCD.

An applicant should state his CDS Account number in the space provided in the Application Form. In the case of an application by way of Electronic Share Application ("ESA"), the applicant shall furnish his/her CDS account number to the participating financial institution in the ESA by keying in his/her CDS account number if the instructions on the ATM screen at which he/she enters his/her ESA requires him/her to do so. A corporation or institution cannot apply for the Public Issue of Shares by way of ESA.

Pursuant to the Listing Requirements of MSEB, an applicant must have at least 25% of the total number of shares for which listing is sought in the hands of a minimum of 1,000 public shareholders holding not less than 100 shares each at the point of listing. In the event that the above requirement is not met pursuant to the Public Issue, the Company may not be allowed to proceed with its Listing exercise. In the event thereof, monies paid in respect of all applications will be returned without interest.

No person is authorised to give any information or to make any representation not contained herein in connection with the Public Issue and if given or made, such information or representation must not be relied upon as having been authorised by Cymao. Neither the delivery of this Prospectus nor any Public Issue made in connection with Prospectus shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of Cymao since the date hereof.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

The distribution of this Prospectus and the making of the Public Issue in certain other jurisdictions outside Malaysia may be restricted by law. Persons who may come into possession of this Prospectus are required to inform themselves of and to observe such restrictions. This Prospectus does not constitute and may not be used for the purpose of an invitation to subscribe for the Public Issue Shares in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

Investors should rely on their own evaluation to assess the merits and risks of the investment. In considering the investment, investors who are in any doubt as to the action to be taken should, consult their stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

3.2 Opening and Closing of Application

Applications will be accepted from 28 February 2004 and will close at 5.00 p.m. on 5 March 2004 or for such further date or dates as the Directors of Cymao and the Managing Underwriter may in their absolute discretion mutually decide. Late applications will not be accepted.

3.3 Critical Dates of the Public Issue

Event	Date
Opening of Application for the Public Issue	28 February 2004
Closing of Application for the Public Issue	5 March 2004
Tentative date of balloting of Application	9 March 2004
Tentative date of despatch of Notices of Allotment for the Cymao Shares to successful applicants	17 March 2004
Tentative date for the listing of and quotation for Cymao's entire enlarged issued and paid-up share capital on the Main Board of MSEP	18 March 2004

The above timetable is tentative and is subject to changes which may be necessary to facilitate implementation procedures.

The Directors of Cymao and the Managing Underwriter may in their absolute discretion mutually decide to extend the closing date of the application to a further date or dates. Should the closing date of the application be extended, the dates for the balloting and allotment of the Public Issue Shares, and the listing of and quotation for the entire enlarged issued and paid-up share capital of Cymao on the Main Board of MSEP would be extended accordingly.

Where the closing date of application for the Public Issue Shares is extended from the original closing date, the notice of such extension(s) will be advertised in a widely circulated Bahasa Malaysia and English newspaper not less than one (1) market day from the original closing date.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

3.4 Number and Types of Securities to be Issued

	RM
Authorised:	
- 100,000,000 Cymao Shares	<u>100,000,000</u>
Issued and fully paid-up:	
- 51,000,000 Cymao Shares	51,000,000
To be issued and credited as fully paid-up pursuant to the Public Issue:	
- 9,000,000 Cymao Shares	<u>9,000,000</u>
	<u>60,000,000</u>

There is only one class of shares in the Company, namely, ordinary shares of RM1.00 each, all of which rank pari passu with one another. The Public Issue Shares will rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of this Prospectus.

Subject to any special rights attaching to any shares which may be issued by the Company in the future, the holders of ordinary shares in the Company shall, in proportion to the amount paid-up on the ordinary shares held by them, be entitled to share in the whole of any surplus in the event of liquidation of the Company in accordance with the Articles of Association.

Each ordinary shareholder shall be entitled to vote at any general meeting of the Company in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney of a shareholder shall have one vote, and, on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each share held.

3.5 Details of the Public Issue

The Public Issue of 9,000,000 Cymao Shares at an issue price of RM2.50 per share is payable in full on application upon such terms and conditions as set out in this Prospectus.

The 9,000,000 Cymao Shares arising from Public Issue will be allocated and allotted in the following manner:

(i) **Eligible Directors, Employees, Customers and Suppliers**

3,000,000 Public Issue Shares have been reserved under the "Pink Form" for the eligible directors, employees, customers and suppliers of the Cymao Group who have contributed to its success.

In the event that any of the Cymao Shares above is not subscribed by the directors, eligible employees, customers and suppliers of Cymao Group, as the case may be, such Cymao Shares will be made available for application by members of the Malaysian Public.

The detailed allocation of the Public Issue Shares to the eligible directors, employees, customers and suppliers of Cymao Group is set out in Section 3.6 below.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

(ii) Malaysian Public

3,000,000 Public Issue Shares will be made available for application by Malaysian Public of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

Acceptance of application in respect of the Public Issue Shares to be offered to the Malaysian public shall be subject to ballot in case of oversubscription.

(iii) Private Placement

3,000,000 Public Issue Shares will be placed out to public investors by the Placement Agent at an issue price of RM2.50 per Cymao Share of which at least 30% are to be set aside for subscription solely by Bumiputera individuals, companies, societies, co-operatives and institutions.

All the 6,000,000 Cymao Shares under paragraph (i) and (ii) above shall be underwritten at an underwriting commission of 2.5% of the issue price of RM2.50 per Share. The Placement Shares to be issued will not be underwritten as irrevocable undertakings to subscribe for the said Public Issue has been procured from the respective identified investors prior to the issuance of this Prospectus.

3.6 Allocation Of Public Issue Shares To Eligible Directors, Employees, Suppliers And Customers

As part of the Public Issue, 3,000,000 Public Issue Shares have been made available for the eligible directors, employees, suppliers and customers of the Cymao Group totalling 997 persons/corporations.

A total of 300,000 Public Issue Shares has been allocated to six (6) eligible directors of the Cymao Group, details of which are as follows:

Name of Director	No. of Cymao Shares reserved for each eligible Director
Datuk Mohd Zain Bin Omar	50,000
Lin Tsai-Rong	50,000
Lin Kai-Min	50,000
Lin Hsu, Li-Chu	50,000
Lin Kai-Hsuan	50,000
Hiew Seng	50,000
Total	<u>300,000</u>

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

A total of 1,560,000 Public Issue Shares has been allocated to 917 eligible employees of the Cymao Group based on the following criteria:

- Malaysian citizens unless they are management, executives, technical or supervisory employees;
- They must have attained 18 years of age on the date of allocation;
- Designation/level and length of service with the Cymao Group; and
- For eligible employees, he/she must be an employed staff as at 27 October 2003.

Category	Years of service	No. of Cymao Shares allocated	No. of eligible employees
Management	<5	10,000	2
	≥5	40,000	4
Executive	<5	52,000	13
	≥5	56,000	7
Technical and Supervisor	<5	60,000	20
	≥5	120,000	20
Clerical	<5	12,000	6
	≥5	8,000	2
General worker	<5	835,000	835
	≥5	16,000	8
Contingencies		351,000	
		1,560,000	917

A total of 1,140,000 Public Issue Shares has been allocated to seventy-one (71) suppliers and customers of the Cymao Group based on the length of relationship with the Group as at 12 February 2004 (being the latest practicable date prior to the printing of this Prospectus), details of which are as follows:

Category	Length of Relationship	No. of Cymao Shares allocated	No. of suppliers or customers
Suppliers	<5	250,000	25
	≥5	740,000	37
Customers	<5	30,000	3
	≥5	120,000	6
		1,140,000	71

Any of the Public Issue Shares which has been allocated but not subscribed for by the eligible directors, employees, suppliers and customers of the Cymao Group will be made available for application by the Malaysian Public, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institution.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

3.7 Basis of the Issue Price

The issue price of RM2.50 per share was determined and agreed upon by the Company and Alliance as the Adviser, Managing Underwriter, Underwriter and Placement Agent based on various factors after taking into account the following:

- (i) The Group's financial and operating history and conditions as outlined in Section 11.0 of this Prospectus;
- (ii) The prospects of the industry in which the Group operates as outlined in Section 5.6 of this Prospectus;
- (iii) PE Multiple and Forecast Earnings

The forecast consolidated profit after taxation of Cymao Group for the financial year ending 31 December 2004 is approximately RM20.667 million. Based on the enlarged share capital of 60,000,000 Cymao Shares, its net EPS would be 34.45 sen. Accordingly, an issue price of RM2.50 per share represents a forecast net PE multiple of 7.3 times.

- (iv) Proforma consolidated NTA

The proforma consolidated NTA after the Public Issue based on the audited consolidated financial statements as at 31 August 2003 is RM115.204 million, or RM1.92 per share, based on the enlarged share capital of 60,000,000 Cymao Shares.

The issue price of RM2.50 per share thus represents a premium of 58 sen or 30% over the NTA per share of RM1.92.

- (v) Dividend Forecast

The Company is forecast to declare a tax exempt dividend of 5% for the financial year ending 31 December 2004. Based on the enlarged share capital of 60,000,000, this translates into a dividend yield of 2.0% based on the issue price of RM2.50 per Cymao Share.

The corresponding dividend cover is 6.9 times based on the forecast consolidated profit attributable to shareholders of Cymao Group for the financial year ending 31 December 2004.

The Directors of Cymao and Alliance are of the opinion that the Issue Price is fair and reasonable after careful consideration of the abovementioned factors.

However, investors should also note that the market price of Cymao Shares upon listing on MSEB is subject to the vagaries of market forces and other uncertainties, which may affect the price of Cymao Shares being traded. Investors should form their own views on the valuation of the Public Issue Shares before deciding to invest in the Public Issue Shares.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

3.8 Purposes of the Public Issue

The purposes of the Public Issue are as follows:

- (i) To provide an opportunity for the Malaysian investing public as well as directors, eligible employees, customers and suppliers of Cymao to participate in the continuing growth of the Group;
- (ii) To further enhance the Group's corporate profile and assist the Group in expanding its customer base both in Malaysia and overseas with the listing of Cymao on the Main Board of MSEB;
- (iii) To enable Cymao to have better access to the capital market for funds so as to provide for future expansion and continued growth of the Company and its subsidiary; and
- (iv) To obtain the listing of and quotation for Cymao's entire issued and paid-up share capital of 60,000,000 Cymao Shares on the Main Board of MSEB.

3.9 Utilisation of Proceeds

All proceeds of the Public Issue after deducting the related expenses will accrue to Cymao. The estimated total gross proceeds of the Public Issue is RM22,500,000. Cymao will bear all other expenses incidental to the listing of and quotation for Cymao Shares on the Main Board of MSEB which include underwriting commission, placement fee, brokerage, registration fee, professional fees, SC fees, advertising and listing expenses and other fees the aggregate of which is estimated to be RM2,000,000.

The gross proceeds of approximately RM22,500,000 accruing to the Cymao Group from the Public Issue will be utilised as follows:

	<i>Notes</i>	RM'000
Capital expenditure	<i>1</i>	4,105
Acquisition of land	<i>2</i>	1,200
Construction of new factory and warehouse	<i>3</i>	2,500
Working capital	<i>4</i>	12,695
Estimated listing expenses	<i>5</i>	2,000
Total proceeds		<u>22,500</u>

There is no minimum subscription to be raised from the Public Issue.

The proceeds from the Public Issue are expected to be fully utilised within two (2) years from the listing of the Company on MSEB.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

Notes:

1. Capital Expenditure

Cymao will utilise a portion of the funds raised to purchase the machinery required for the increase in production of downstream wood products. Focus will be placed especially on the expansion of Cymao's existing decorative plywood production and production of new wood products such as lay-on and polyester plywood. These investments will reduce the dependency on manual labour and increase the efficiency in production. The capital expenditure will improve the technological manufacturing capabilities and increase the Group's competitiveness. The machinery is expected to be commissioned within six (6) months after the Listing exercise.

Brief details on the utilisation of proceeds for the purposes of capital expenditure are as follows:

Section	Descriptions	RM
Lay-on	1 unit of slicer	900,000
Lay-on	1 unit of veneer guillotine	390,000
Lay-on	1 unit of glue application machine	175,000
Decorative plywood	1 unit of half-run rotary lathe	840,000
Lay-on	1 unit of crossfeed veneer splicer	850,000
Polyester plywood	1 unit of polyester plywood machinery	950,000
		<u>4,105,000</u>

The machines shall be purchased from overseas and therefore the purchase price shall subject to fluctuations in exchange rates. In the event the amount is more than the budgeted amount, the Group will finance the difference via internally generated funds.

2. Acquisition of Land

A portion of the funds will be utilised to acquire one (1) vacant piece of industrial leasehold land held under TL 077526599 and TL 077528039, District of Sandakan, situated at Jalan Batu Sapi measuring in total 5.1 acres which is located 300 metres from the CPSB's plant for purchase consideration of RM1,200,000 based on the sales and purchase agreement dated 17 December 2003 entered into between the vendor of the said land, Inovwood Sdn Bhd and Cymao.

The remaining leasehold period of the land is 65 years to be expired on 31 December 2068. The land to be purchased is free from all charges, liens, encumbrances, security interests, claims and equities whatsoever.

The acquisition of the land will enable the Group to build a new plant and warehouse described below. The acquisition of land is expected to be completed and conditional upon completion of the Listing.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE *(Cont'd)*

3. *Construction of New Plant and Warehouse*

In view that the current CPSB's plant is congested and with Cymao intending to expand its downstream activities, a new plant and warehouse will have to be built to cater for increased production of decorative plywood and new downstream wood products such as lay-on and polyester plywood. The proposed plant and warehouse will be built on the land to be acquired as mentioned above. The construction of the new plant and warehouse will commence within three (3) months from the completion of the acquisition of the land referred to above.

4. *Working capital*

The amount will be utilised mainly to purchase logs and sawn timber for inventory purposes. The additional inventory will be utilised for its existing business demand and will act as a contingency for any additional demand that may arise from customers.

5. *Estimated Listing Expenses*

Please refer to Section 3.12 of this Prospectus.

Financial Impact of Utilisation of Proceeds

The proceeds from the Public Issue are mainly used for expansionary purposes. If the Company cannot obtain funding via this initial public offering, it will need to source for other modes of financing to realise its expansion plans. This may include interest-bearing borrowings that will be less cost effective than the Public Issue.

Furthermore, failure to obtain funds may result in the Company unable to seize the opportunities and the increased demand for plywood in the world market.

3.10 Brokerage, Underwriting Commission and Placement Fee

Brokerage fee is payable by the Company at the rate of 1% on the issue price of RM2.50 per share in respect of successful applications bearing the stamp of Alliance, member companies of MASEB, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS.

The Underwriters had entered into an underwriting agreement with the Company on 12 February 2004 ("Underwriting Agreement") to underwrite 3,000,000 Public Issue Shares which are made available for application by the Malaysian Public and 3,000,000 Public Issue Shares which are made available for application by the eligible directors, employees, customers and suppliers of Cymao Group. The underwriting commission and managing underwriter's fee are payable by the Company at the rate of two point five percent (2.5%) and zero point one two five percent (0.125%), respectively, of the issue price of RM2.50 per Cymao Share for the Public Issue Shares being underwritten.

A placement fee is also payable by the Promoters to the Placement Agent for the placement of 3,000,000 Cymao Shares to be placed out by the Placement Agent to identified public investors at the rate of 2% of the amount of Public Issue Shares reserved for private placement.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (*Cont'd*)

3.11 Salient Terms of the Underwriting Agreement

The Company entered into an underwriting agreement with Alliance and the Underwriters on 12 February 2004 to underwrite 3,000,000 new Cymao Shares that are available for application by the Malaysian Public and 3,000,000 new Cymao Shares that are available for application by the eligible directors, employees, customers and suppliers of the Cymao Group.

The salient terms of the Underwriting Agreement are summarised as follows (Note: Unless otherwise stated, all capitalised items shall bear the same meanings as prescribed in the Underwriting Agreement):

Conditions Precedent

Obligations Conditional

The commitment and obligations of each Underwriter under the Agreement shall be conditional upon:

- (i) MSEB having granted, on or prior to the Closing Date, its approval in principle to the listing and quotation and trading of the Enlarged Share Capital on the Main Board of MSEB and that the Underwriter being reasonably satisfied that the Enlarged Share Capital will be listed and quoted on the Main Board of MSEB; and
- (ii) the approval of the SC and the acceptance for registration by the SC of the Prospectus together with all documents in relation thereto as required by and pursuant to the Securities Commission Act and the registration of the Prospectus with the SC under the Section 42 of the Securities Commission Act and as well as the lodging of a copy of the registered Prospectus together with the form of application accompanying the Prospectus with the ROC.

Right to Terminate/Waiver

If any of the conditions precedent set out in Clause 3.1 is not fulfilled or satisfied by or as at the Closing Date, each Underwriter shall thereupon be entitled at its option:

- (i) to waive that or those condition(s) set out in Clause 3.1 which is not fulfilled or satisfied by or as at the Closing Date; or
- (ii) to terminate its commitment and obligations under and in relation to this Agreement by giving to the Company written notice to such effect, whereupon that Underwriter shall with immediate effect be released and discharged from its obligations and liabilities hereunder and the Company shall have no further obligation or liability to that Underwriter save and except that for the liability of the Company for the payment of costs and expenses referred to in Clause 9 incurred prior to or in connection with such termination.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (*Cont'd*)

Underwriters Entitled to Elect to be Discharged in Case of Breach

In the event of any breach of the warranties or representations of the Company set out in Clause 6.1 or failure on the part of the Company to perform any of the agreements or obligations herein contained or any change rendering any of the said warranties representations or agreements inaccurate in any material respect coming to the notice of any Underwriter prior to the Closing Date, that Underwriter shall be entitled (but not bound) by giving notice in writing to the Company to elect to treat such breach, failure or change as releasing or discharging it from its commitment and obligations hereunder PROVIDED THAT the Company shall remain liable for the payment of all costs and expenses referred to in Clause 9 hereof which are incurred prior to or in connection with such release and discharge AND PROVIDED FURTHER THAT failure to make such election aforesaid shall be without prejudice to:

- (i) the rights of each of the other Underwriters to treat such breach, failure or change as releasing and discharging each of the other Underwriters from its obligations hereunder; and
- (ii) the right of any of the Underwriters to treat any further or other breach or change as releasing and discharging that Underwriter from its obligations hereunder.

Termination by Underwriters

In addition to but not in derogation of the other provisions of this Agreement, each Underwriter may at any time on or before the Closing Date terminate its commitment and obligations hereunder by notice in writing to the Company if:

- (i) the coming into force of any laws, regulations or directives which has or is likely to involve a prospective material and adverse change in the business of the Company or any of its subsidiary or which has or is likely to involve a prospective material and adverse change in the condition (financial or otherwise) of the Company or any of its subsidiary from that set forth in the Prospectus; or
- (ii) that Underwriter is of the opinion that there has been an adverse change or any development likely to involve a prospective material and adverse change in the business and/or condition (financial or otherwise) of the Company or any of its subsidiary from that set forth in the Prospectus or that there has occurred and is subsisting any event rendering untrue or incorrect in any material respect any representations or warranties contained in the Agreement to an extent which is material and adverse, as though they had been given or made on such date; or
- (iii) that Underwriter is of the opinion of that there has been such a change in national or international monetary, financial, political or economic conditions or in exchange control or in currency exchange rates as would in its reasonable opinion be likely to prejudice materially the success of the Public Issue and the distribution or sale of the Public Issue Shares (whether in the primary market or in respect of dealings in the secondary market) or in the event of war or the declaration of a state of national emergency;

whereupon such termination, that Underwriter so terminating as aforesaid shall be released and discharged from its commitment, obligations and liabilities under and in relation to this Agreement, and the Company shall also be released and discharged from any and all obligations and liabilities to that Underwriter under and in relation to this Agreement save and except that the liability of the Company for the payment of costs and expenses as provided in Clause 9 incurred prior to or in connection with such termination shall remain and shall not be affected by such termination.

3. INTRODUCTION AND PARTICULARS OF THE PUBLIC ISSUE (Cont'd)

3.12 Estimated Listing Expenses

The estimated listing expenses for the proposed listing of and quotation for the enlarged issued and paid-up share capital of 60,000,000 Cymao Shares on the Main Board of MSEB are as follows:

	To be borne by Cymao RM	Notes
MSEB's initial listing fees	30,000	1
Prospectus lodgement fee with ROC	500	Estimated
Prospectus registration fee with SC	5,000	Estimated
SC processing fee	60,000	2
Issuing house fee and disbursement	120,000	Estimated
Advertisement of prospectus	150,000	Estimated
Printing of application forms, share certificates and prospectus	100,000	Estimated
Professional advisory fees	800,000	Estimated
Underwriting commission and managing underwriter's fees	393,750	3
Brokerage fees	75,000	4
Placement fees	150,000	5
Contingencies	115,750	6
Total Estimated Listing Expenses	<u>2,000,000</u>	

Notes:

- 1 Initial Listing Fee-the higher of the following:
 - (i) RM500 per million RM or part thereof the issued capital of the Company i.e. $RM500(60,000,000/1,000,000)=RM30,000$.
 - (ii) A minimum fee of RM2,000 and a maximum of RM50,000 is payable for initial listing.
- 2 Nominal Fee + (0.05% of the issued capital to be listed on the stock exchange) i.e. $RM30,000 + (0.05\% \times 60,000,000)=RM60,000$.
- 3 2.5% of the amount of shares underwritten and 0.125% of shares managing underwriter's fee, i.e. $2.625\% \times 6,000,000 \times RM2.50 = RM393,750$.
- 4 1.0% of the amount of Public Issue Shares i.e. $1.0\% \times 3,000,000 \times RM2.50 = RM75,000$.
- 5 2.0% of the amount of Public Issue Shares reserved for private placement i.e. $2.0\% \times 3,000,000 \times RM2.50 = RM150,000$.
- 6 Any unutilised amount shall be used for working capital purposes. However, if the estimated listing expenses exceeds RM2,000,000, the additional amount will be funded from internally generated funds.

4. RISK FACTORS

IN EVALUATING AN INVESTMENT IN THE PUBLIC ISSUE SHARES, PROSPECTIVE INVESTORS SHOULD EVALUATE AND CONSIDER CAREFULLY ALL THE INFORMATION CONTAINED HEREIN (WHICH MAY NOT BE EXHAUSTIVE) INCLUDING BUT NOT LIMITED TO THE GENERAL AND SPECIFIC RISKS WHICH MAY HAVE A SIGNIFICANT IMPACT ON THE FUTURE PERFORMANCE OF THE CYMAO GROUP BEFORE APPLYING FOR THE PUBLIC ISSUE SHARES.

4.1 No Prior Market for Cymao Shares

Prior to this Public Issue, there has been no public market for Cymao Shares. There can be no assurance that an active market for Cymao Shares will develop upon its listing on the Main Board of MSEB or, if developed, that such market will be sustained. The issue price of RM2.50 per Cymao Share has been determined after taking into consideration:

- (i) the Group's financial and operating history and conditions;
- (ii) the prospects the industry in which the Group is involved;
- (iii) the Group's PE multiple and forecast earnings;
- (iv) the Group's proforma consolidated NTA; and
- (v) the Group's dividend forecast.

There is no assurance that the Issue Price will correspond to the price at which Cymao Shares will trade on the Main Board of MSEB upon or subsequent to its listing or that an active market for Cymao Shares will develop and continue upon or subsequent to its listing. The price at which the Cymao Shares will trade may be higher or lower than the Issue Price.

4.2 Business Risks

The Group is subject to risks inherent in the manufacturing industry and those specific to the timber industry. Apart from the log supply availability, fluctuation in log prices, fluctuation in product prices, entry of new players and foreign exchange rates, operational risks such as fire breakouts, unavailability of electricity supply and other energy crises, constraints in labour supply, increase in labour and overhead costs, demand for timber/plywood products and negative publicity from non-governmental organisations concerned with effects of the timber industry on the environment which may affect certain export markets as highlighted below, other business risks include credit risks, financing risks and risks of over expansion.

In order to mitigate such risks, the management has implemented various strategies such as having a sound credit verification system for its customers, maintaining a good relationship with the suppliers and customers, as well as the financing institutions for its credit facilities. However, no assurance can be given that these measures will have its desired effects and any change in the business environment will not have a material adverse effect on the Group's business.

4.3 Risks Relating to New Products

The Group has projected to invest in capital expenditure for the production of new products such as fire retarding panels, coating panels and polyester plywood. There can be no certainty as to the demand for these products as the Group has not previously established a market for these products. While these products represent opportunities for the Group to further expand its business, there is potential risk that the investment will not be successful and that the Group may suffer a loss as a result.

4. RISK FACTORS (Cont'd)

4.4 Risk in Relation to the Inadequacy of Long Term Contracts

The Company does not have long term contracts with its major customers. The risk of absence of long term contract is the lack of sustainable and reliable cashflows as customers are not bound for the long term purchases. Due to its extensive product range that can be matched according to customers' specifications that changes based on their needs, it is frequently impractical to maintain long term contracts.

However, this risk is mitigated by the fact that the Company has long term relationship with its customers and it is common industry practice to have short term contracts that allow for more flexibility in pricing, which may prove not competitive if the contracts are for the long term.

4.5 Risk in Relation to Trend in Demand for Decorative Plywood

Decorative plywood is a much higher quality product and as such, entails a more meticulous process requiring higher skilled labour force compared to conventional veneer and plywood. The decorative veneer is peeled from temperate logs imported from various countries. These temperate logs are only harvested during winter seasons, hence, temperate logs have to be stocked up in anticipating the demand from customers since decorative plywood is highly dependent on consumer preferences in terms of different wood grain and colour. In this regard, manufacturers of decorative plywood must have adequate financial resources to stock up temperate logs which usually take a few months to complete the production cycle. Decorative plywood must either make the quality requirement or they are scrapped. In view of this, manufacturers of decorative plywood who are unable to foresee trends in demand of different types of decorative plywood and meet quality requirements of its customers could be caught with expensive temperate climate logs in its inventory with no buyers and this will adversely affect the profit margin of inexperienced decorative plywood mills.

In the case of Cymao, it has sufficient financial resources to stock up on these temperate logs. It also has good customer relationship established by the Promoters of Cymao since their operation in Taiwan earlier, complemented by its marketing team's of industrial experience enables Cymao to predict with some level of accuracy in the pattern of demand from its customers. In addition, so far, the decorative plywood manufactured by Cymao has met the quality requirements of its customers evident from its increased volume of decorative plywood exported over the years.

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4. RISK FACTORS (Cont'd)

4.6 Supply of Log, Plywood and Veneer

The long term viability of the timber industry is dependent on the availability of consistent and sustainable log supply. The Malaysian Government has thus set up the Malaysian Timber Industry Board to regulate the felling of trees and sustainability of forests. Furthermore, as the timber industry undergoes structural adjustments towards downstream processing, there would be increasingly higher demand for logs as the Government introduces various incentives to encourage and promote greater downstream and value added activities in the wood-based industry. The long term viability of a timber based company depends to a large extent on the sustainability and long term supply of logs, being the main raw material. Presently, Cymao's logs requirement is sourced from import markets as well as locally in the open market.

To reduce the Group's susceptibility towards any adverse repercussions arising from the shortage of supply of logs in the open market, CPSB has entered into:

- (i) two (2) log supply contracts with logs suppliers to secure reasonable supply of logs for up to the next 10 years;
- (ii) two (2) veneer and plywood supply contracts to secure reasonable supply of veneer and plywood. These contracts are on a yearly basis and are automatically renewable every year. The purpose of the purchase of veneer and plywood from external source is to reduce the cost and shorten the production process for decorative plywood; and
- (iii) three (3) logs supply agreements with overseas suppliers of imported logs to secure consistent supply of the imported logs for its decorative plywood production. These contracts for the supply of imported logs are on a yearly basis and are automatically renewable every year. The imported logs veneer is used for the production of decorative plywood, one of Cymao wood products.

The total volume of log, veneer and plywood to be supplied by various suppliers is more than adequate to meet the current consumption of the Cymao Group.

The components of decorative plywood consist of, up to 95% local logs and 5% imported logs as at 31 August 2003. Cymao has been granted permission by the Ministry of Primary Industries to import certain types of logs from countries such as the USA, Africa, Peoples' Republic of China, Myanmar, New Zealand, Europe, Canada, Taiwan, Thailand, Indonesia and Japan. Cymao's prompt and reliable payment and the long term relationships fostered with these logs suppliers will assist in ensuring continuous log supplies to Cymao in the future.

4.7 Concession Rights of SHE

The Cymao Group had executed a long-term log supply contract with SHE on 20 December 2002. SHE is one of the major suppliers of Cymao. Under the agreement, SHE is to supply timber logs to the Cymao Group as follows:

Year	Quantity (m ³) per annum
Year 1	Not less than 40,000
Year 2	Not less than 50,000
Year 3 to 10	Not less than 60,000

SHE has the rights to the concessions via several assignments entered into between the Company and several parties. These parties, in turn, have the rights to the concession via several PAs and assignments with other parties. This arrangement in respect of the rights to the concessions via PAs and assignments ultimately trace to the ultimate concession holders which have the licences for same.

4. RISK FACTORS (Cont'd)

There are seven (7) concessions in all, subject to the agreement, located at several parcels of land at Sungai Botitian, Timimbang Forest Reserve, and Sungai Bonggaya, Bonggaya Forest Reserve, all and around Beluran, Sandakan, all are located in Sabah with a total area of 5,021 hectares.

The Sabah Forestry Department had initially granted the licence to take forest produce ("Licence") to Utamewah Sdn Bhd, Fortress Consult Sdn Bhd, Ambangan Gold Sdn Bhd, DigiBit Sdn Bhd, Grand Landmarks Developer Sdn Bhd, Digiinfo Sdn Bhd and Rokfa Enterprises Sdn Bhd ("collectively referred to as the Original License Holders"). The Licence is valid for a period of one (1) year and renewable every year. In the past, these licences have been successfully renewed by the authorities.

Subsequently, save for Rokfa Enterprises Sdn Bhd, Original Licence Holders granted PAs to various 3rd parties which was later substituted by SHE. Thus, in effect SHE has the same powers as the first attorney. In respect of Rokfa Enterprise Sdn Bhd, the company granted the power of attorney directly in favour of SHE. Further details of this arrangement are provided in Section 5.8.2 of this Prospectus.

If the Licences granted to the Original Licence Holders are not renewed when they are due, there is a risk that SHE and several parties who holds the PAs may not be able to meet their obligations under the arrangement above. Further, in the event of default by one of the PAs holders (including SHE), the default would ultimately affect the rights of SHE on the concession who supplies the timber logs to the Group.

The Company, to best of its belief and knowledge, all the PAs granted are non-revocable and thus ensures that SHE continues to enjoy the concession rights, as long as the Licence granted to the Original License Holders are renewed every year. Further, the Group has also sought to mitigate this risk via diversifying its suppliers base as set out in item 4.6 above.

However, no assurance can be given that any changes in the above will not have a material adverse effect on the Group's business.

4.8 Fluctuation in Raw Material Prices

The long term viability of the Cymao Group depends significantly on the long term sustainable supply and cost of logs, being the main raw material. Other raw materials include exotic veneer sheets and glue. Although, the Group has executed several logs, veneer and plywood supply contracts with various suppliers, the Cymao Group's profits will still be subject to fluctuations due to changes in the cost of raw material. Therefore, no assurance can be given that the Group will continue to have available necessary raw materials at a reasonable price as any increases in raw material costs would have a material adverse effect on the Group's results.

A sensitivity analysis showing the impact of variation in purchase price of logs on the profits of the Company is contained in Section 11.7.3 of this Prospectus.

4. RISK FACTORS (Cont'd)

4.9 Fluctuation in Product Prices

The prices of Cymao's products are determined based on the prices of plywood and logs and the profit margin to be charged. These in turn is dependent on the demand and supply and contractual agreements with the log suppliers.

Fluctuation in the selling prices of plywood is an inherent risk. However, the impact of such fluctuations can be mitigated through the diversification of the range of products and markets, thus preventing over-reliance on any particular product or single customer.

By branching out into various product mix and with its clientele base covering a wide geographical area (Asia, Europe, USA and Mexico), the Group is able to spread the risk of fluctuation in product prices. The Group does this by monitoring the demand for its products and track revenue generated by product and market. For example, if a market downtrend is detected for a particular product category or geographical segment, the Group will be able to react by improving the product (if necessary) or enhancing the marketing of such products, which includes competitive pricing.

The price of plywood varies with the demand which depends also on the type of plywood.

This elasticity of demand for conventional plywood and veneer is high. This is because:

- (i) Conventional plywood is considered a commodity product. In addition, there are many plywood manufacturers in Malaysia as well as overseas;
- (ii) In 2003, Malaysia has 169 plywood manufacturers;
- (iii) Indonesia is the world's largest hardwood producer. In 2002, Indonesia produced 6.3 million m³ of plywood compared to approximately 4 million m³ from Malaysia;
- (iv) The large number of local and overseas manufacturers has the impact of putting pressure on price; and
- (v) Price competition is also dependent on the price of logs. Some countries have advantage of plentiful and low cost supply of logs. This enables them to reduce price, which has the impact of bringing global prices of conventional plywood down (*Source: Prospects and Future Plans for Cymao by Vital Factor*).

The elasticity of demand for decorative plywood is medium. This is due to:

- (i) There are relatively fewer decorative plywood manufacturers in Malaysia as well as overseas. As an example, in Sabah there are 68 operational plywood mills but only 8 of them manufactures decorative plywood. This put less pressure on prices;
- (ii) Apart from price, quality plays an important role in the ability for manufacturers to sell its products as well as the ability to demand higher pricing;
- (iii) Decorative plywood has higher value-adding requiring specialised equipment and higher skill labour and quality standards compared to plain veneers and conventional plywood. Poor skills and low quality standards will result in high wastage, thus reducing profits. This is because there is no market for 'low-grade' decorative plywood. As such, there are substantially less manufacturers of decorative plywood. (*Source: Prospects and Future Plans for Cymao by Vital Factor*).

4. RISK FACTORS (Cont'd)

The elasticity of demand for specialty plywood is low. This is mainly due to the following:

- (i) There is significantly lower number of manufacturers of specialty plywood. These types of plywood are usually made to order and to customers' specifications. As such, the ability to meet product characteristics, for example scratch proof polyester top and fire retarding plywood, plays a significantly more important role than price; and
- (ii) The ability to meet product specifications requires significant technical skills as well as R&D. Not many plywood manufacturers have these capabilities as well as facilities. As such, pricing is not a determining factor of specialty plywood

(Source: Independent Market Research Report by Vital Factor).

A sensitivity analysis showing the impact of variation in selling price of Cymao's products on the revenue and profits of the Company is contained in Section 11.7.1 of this Prospectus.

4.10 Dumping of Plywood

There have been cases of dumping of plywood in major plywood consuming countries. Cymao's business will be affected if its customers switch to buying from manufacturers that are dumping plywood as a result of significantly lower prices. However, some of the mitigating factors for Cymao are as follows:

- (i) Cymao manufactures a wide range of products and can easily focus on manufacturing products that are not being dumped. This is because most dumping is mainly focused on a narrow range of products, for example the standard sized three (3)-ply plywood. Some of the products that are less susceptible to dumping and which Cymao manufactures include:
 - (a) Decorative plywood;
 - (b) Specialty plywood; and
 - (c) Non-standard sizes of conventional plywood.
- (ii) Cymao also takes advantage of 'dumped' plywood by buying these plywoods to provide value-adding, for example in the manufacturing of decorative plywood. By purchasing the 'dumped' plywood instead of manufacturing it, Cymao frees up manufacturing capacity for other range of products. Furthermore, sometimes, the 'dumped' plywood costs less than if Cymao were to produce its own, it enables Cymao to increase its profit margin.

4.11 Foreign Exchange Risk

In terms of sales, the Group exports 77.8% of its products for the eight (8) month period ended 31 August 2003. The Group's products are exported to various countries such as USA, Mexico, China, Japan, Saudi Arabia. The transactions are all denominated in USD, hence the Company is subject to risks of fluctuations in foreign exchange rates.

However, Cymao is currently not vulnerable to such risks due to the Malaysian government's selective capital controls, which includes the pegging of RM to the USD. Nevertheless, there is no certainty of the permanence of the control or the revision of the peg in the future. In this regard, any strengthening of the RM against USD would have an adverse effect on the results of the Group. Likewise, any weakening of the RM against USD would contribute favourably to the results of the Group.

4. RISK FACTORS (Cont'd)

4.12 Reliance on USA Market

For the eight (8) months period ended 31 August 2003, approximately 62% of the Group's sales are from exports to the USA. As such, the Group's future growth and level of profitability are expected to be closely linked to the political and economic development of the USA. However, there is no guarantee that the USA economy will not fall into a recession or experience a downward trend.

This risk is mitigated in view that Cymao has an extensive product range and covers a wide geographical area in the USA:

- (i) In terms of product range, Cymao has diverse products that are marketed to different market sectors, such as home and commercial, office building, retailers and remodelling, luxury office and hotel interior decorations, high end decorative panel, furniture components, and general construction. The demand from this sector varies during the economic cycle. For example, there will be a strong demand for plywood from the construction sector during high economic growth whilst during the slow economic growth, there is strong demand from the retail sector which caters to the DIY market; and
- (ii) In terms of geographical reach, Cymao's marketing networks cover the whole of the USA. Each region in the USA would have its own economic cycle. If, for example, the sales of Cymao products is affected in one part of the USA, it may be off-set by other regions of USA.

Hence, although Cymao's biggest market is in the USA, it is neither overly reliant on a single customer nor on a limited product mix. Even so, Cymao is actively seeking new markets such as Europe and the Middle East to reduce its dependence on the USA market.

4.13 Sensitivity to Political, Economic and Social Risks

Cymao is subject to risks inherent in the timber industry and timber export industry. For the years 1996 to 2003, Cymao's exports accounted for between 77% to 91% of total sales volume. Being primarily export based to a diverse export markets, Cymao would be susceptible to the economic downturn of not only Malaysia but the economies of the importing countries. Adverse developments in the political, economic and regulatory conditions in Malaysia and other countries where Cymao markets its products could materially and adversely affect the prospects of the Cymao Group. Political and economic uncertainties include (but not limited to) changes in general economics, business and credit conditions, government legislation and policies affecting manufacturers, inflation, interest rates, taxation, fluctuation in foreign exchange rates and political or social developments both within and outside Malaysia. Other uncertainties include risks of war, epidemics such as Severe Acute Respiratory Syndrome, expropriation, nationalisation or nullification of existing contracts.

Notwithstanding the above, Cymao's susceptibility to a single economy's downturn is minimised as Cymao services an international clientele from various industries with a wide range of products.

4. RISK FACTORS (Cont'd)

4.14 Dependence on Key Personnel

The Group believes that its continued success will depend, to a significant extent, upon the abilities and continued efforts of its existing Directors and senior management. Key personnel with strong background in the production of plywood are valuable assets to the Group. The loss of any of the Group's Directors or key members of the senior management may affect the Group's continued ability to compete effectively in the veneer and plywood manufacture industry.

However, every effort is presently made to groom the junior and middle level executives to ensure continuity of the management team. The Group's future success will also depend upon its ability to attract and retain experienced personnel.

Other than the service contracts signed with key management personnel for up to three (3) years, the Company has also put in place a management succession plan that will ensure that the operations of the Company will not be disrupted should such key person no longer able to serve the Company. For details of the management succession plan, please refer to Section 7.11 of this Prospectus.

4.15 Risk of Fire

The raw material, consumables used in its production, finished products and waste material of Cymao are flammable. The outbreak of fire in the factory may disrupt operations.

However, the risk of fire is mitigated by the adequate precautions taken by Cymao. For example, the Company has on its premises, a fire fighting system which includes two (2) fire fighting pumps, one pump is powered by Sabah Electricity Board and another pump is engine-powered. The factory employees also conduct quarterly fire drills along with the local fire brigade. The factory has assigned teams to handle fire break-outs and the team has trained Cymao employees to handle fire emergencies, which in its over ten (10) year history has never occurred. The Company has two (2) water tanks with 1,500 metric tonnes and 150 metric tonnes capacity to deal with fire breakouts. Furthermore, the Company has adequate insurance coverage against the net book value of its insured assets.

4.16 Energy Shortage Risk

The factory operates twenty-four (24) hour a day and uses approximately 1,500kW of electricity per day. Any power outages may disrupt its operations and cause reduction and delays in output and shipment. However, Cymao has never experienced any disruption in electricity supply as at 12 February 2004 (being the latest practicable date prior to the printing of this Prospectus). This is because, in addition to the constant supply by the Sabah Electricity Board, it has three (3) diesel power generators with a combined power capacity of 2,600kW. These generators are automatically switched on whenever there is a break in supply from the Sabah Electricity Board. Furthermore, these power generators provide up to 1.7 times cover of Cymao's daily energy requirement of 1,500kW.

4. RISK FACTORS (Cont'd)

4.17 Risk of Labour Shortage

As at 12 February 2004 (being the latest practicable date prior to the printing of this Prospectus), Cymao has 1,821 employees. The factory runs on two (2) twelve (12)-hour shifts. Cymao's operations are labour intensive and rely partly on foreign workers, which constitute up to 50% of its employees. Any shortage of labour due to the lack of supply or government restrictions on the employment of foreign workers may disrupt its operations and cause reduction and delays in output and shipment.

In order to mitigate the labour shortage, Cymao conducts R&D in:

- (i) management system and tools to increase productivity by early detection of poor performers, and creation of a merit based salary system to improve productivity;
- (ii) new products that is less labour intensive; and
- (iii) efficient process and ergonomic designs that can both increase, and sustain productivity.

Furthermore, Cymao applies technology such as automation of its manufacturing processes to reduce its reliance on labour.

In addition, Cymao continues to source for manpower by:

- (i) tapping into the local educational institutions for those seeking work during term holidays and for long-term employment;
- (ii) canvassing the locality within 20 minutes driving distance and in the future, conduct regular Job Fairs in the villages to tap into these labour pools;
- (iii) encouraging workers both foreign and local to introduce potential employees through their network of friends and relatives;
- (iv) accepting referrals from human resource development agencies and government labour departments; and
- (v) working with foreign recruitment agencies both domestically and overseas for access to foreign labours.

4.18 Competition

Cymao faces competition from existing and new entrants, both local and foreign producers. Competition comes in the form of substitute materials, such as medium density fibreboard and also in the form of selling prices of timber and timber products. Lack of logs and labour will increase the production cost for timber companies and ultimately the selling prices of the products supplied.

Some of the steps taken to mitigate the competition risk include:

- (i) To enter into a long term log supply contracts with various concessionaires to ensure abundant and continuous supply of logs;
- (ii) To maintain the good relationship with customers by ensuring a quality and timely delivery of products; and
- (iii) To provide on-the-job training for the staff so as to increase efficiency and productivity to cater to the needs of the customer.

4. RISK FACTORS (Cont'd)

Furthermore, there are many barriers to entry for the production of plywood. These barriers include:

- (i) Licensing
The issuance of licences for sawntimber, plywood and veneer in Sabah has been stopped since 1991. This places a barrier to entry as new entrants are not permitted to establish veneer and plywood mills in Sabah. However, new entrants can buy up existing licences or undertake joint-venture with existing licensees. Alternatively, they may set up veneer and plywood mills in other states of Malaysia (*Source: Independent Market Research Report by Vital Factor*).
- (ii) Technical expertise
Cymao's technical personnel includes nine (9) technicians, four (4) engineers and six (6) marketing specialists have cumulatively more forty (40) years of experience and knowledge in the business to ensure that the Group remains competitive. This knowledge requires many years of experience and continuous training. In addition to this, Cymao continuously updates its technical capability by conducting R&D internally as well as with reputable research houses such as the forest research department of Sabah.
- (iii) High cost of capital
The production of wood products requires a high initial investment. For example, the capital requirement for setting up a typical plywood mill (excluding land and building) is as follows:
(a) medium size plant (3 production lines of 96,000 cubic metre annual capacity) costs approximately RM40 million
(b) a small size plant (2 production lines of 65,000 cubic metre annual capacity) costs approximately RM30 million. (*Source: Independent Market Research Report by Vital Factor*).
- (iv) Reliability, quality and access to global markets
Cymao has an established market presence with a proven track record in delivery of quality products. This is done through continuous production process and product improvement. Since certain Promoters of Cymao have collectively over forty (40) years of experience in the business, the range and quality of its products gives Cymao a distinct advantage over its competitors.

Plywood is essentially an export market product. This is because the local market is too small to absorb the huge quantity of plywood produced. This creates a moderately high barrier to entry as a new entrant would not have track record to convince customers of their quality, quantity and reliability of supply. (*Source: Independent Market Research Report by Vital Factor*).
- (v) High holding cost
Due to the shortage of supply of logs in the market, competitors will have to match Cymao's capacity (both financially and in terms of storage space) for holding inventory of logs. A new entrant requires a substantial amount of financial resources to stock-up raw material which usually take a few months to complete its production cycle.

4. RISK FACTORS (*Cont'd*)

4.19 Control of Substantial Shareholders

After the Public Issue, approximately 51.7% of Cymao's equity will be controlled by the Promoters, Lin Tsai-Rong, Tsay Chung-Wen, Hsu How-Tong and Chang Huei-May.

The Promoters will be able to exercise the voting rights attached to their shares in respect of matters requiring shareholders' approval including election of directors. Depending on how they choose to vote and due to the size of their shareholdings, the controlling shareholders will have a significant influence over matters that require the passing of ordinary resolutions from Cymao's shareholders, unless they are required to abstain from voting by law and/or relevant authorities.

4.20 Environmental Issues

Being in a timber-related industry, Cymao may be subject to negative publicity from non-governmental organisations concerned with effects of the timber industry on the environment, which may affect certain export markets.

The environment is affected by Cymao's manufacturing operation in four (4) ways:

- (i) Bulk waste comprising timber materials;
- (ii) Smoke from burning wood for the boiler;
- (iii) Sawdust in the air in working areas; and
- (iv) Volatile organic compounds from paints and varnishes.

The nature of manufacturing plywood is that the bulk waste comprising saw dust, wood chips, off-cuts and core of logs represent approximately 45% of total timber. (*Source: Independent Market Research Report by Vital Factor*).

In order to minimise the impact of its operations on the environment, Cymao utilises its bulk waste as fuel for its boiler for steam generation. This steam is used as a heating agent in the hard pressed oven and veneer dryer on the recycled wood fibre for manufacturing of packaging material.

To minimise smoke from burning wood waste, Cymao undertakes the following:

- (i) Ensure that optimum combustion by installing chipping machines that converts bulk wood waste chips. Wood chips have larger surface area as compared to bulk wood which makes for better burning, thus minimising smoke emission; and
- (ii) Minimise the use of green log waste.

To better utilise waste, Cymao reuses waste in the manufacture of:

- (i) wood-based filler or putty made from sawdust; and
- (ii) engineering flooring and use of waste timber as the core of the plywood.

To ensure a clean and better working environment, Cymao has a centralised suction and air-filtration system to minimise sawdust in the air (*Source: Business Overview of Cymao Holdings Berhad by Vital Factor*).

In addition, Cymao use water based paint and varnishes to eliminate volatile organic compound in the environment.

4. RISK FACTORS (Cont'd)

In addition, the manufacture of timber products, including plywood, has a major impact on the environment through wide scale harvesting and clearance of virgin forests. However, Cymao has been certified by the Malaysian Timber Industry Board as a supplier of timber products that has been obtaining logs from well-managed forests in accordance with Malaysia's National Policy and Strategy. The said policy also complies with the ITTO Guidelines for the sustainable management of natural tropical forests and the draft criteria for sustainability at National and Forest Management Unit Level within the Framework of Target 2000 agreed by the International Tropical Timber Council in Yokohama, Japan in December 1991 (*Source: Prospects and Future Plans of Cymao Holdings Berhad by Vital Factor*).

This is further mitigated by the fact that Cymao is an FSC certified manufacturer. The FSC certification is recognised worldwide as assurance that Cymao's production process is environmentally friendly and that it only uses timber from renewable source. The certification allows Cymao to penetrate into developed markets which only allow the admission of products with renewable timber source.

4.21 Borrowings

The banking facilities of the Group comprising overdraft and trade facilities, all of which are short term local borrowings. The said facilities are charged against certain assets of the Group. However, as at 12 February 2004, the Group has no outstanding borrowings. The Cymao Group does not have any foreign borrowings and long term interest-bearing assets.

As a matter of policy, the Group manages its interest rate exposure by maintaining a prudent mix of fixed and floating rate borrowings. The Group actively reviews its debt portfolio, taking into account the investment holding period and nature of its assets. This strategy allows it to capitalise on cheaper funding in a low interest rate environment and achieve a certain level of protection against rate hikes.

4.22 Forward-Looking Statements and Achievability of Estimate and Forecast

Certain statements in this Prospectus are based on historical data which may not be reflective of the future results, and others are forward-looking in nature which is subject to uncertainties and contingencies. Because of the inherent uncertainties and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecast as contained herein will be realised and actual results may be materially different from those shown. Investors will be deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecast that are contained herein. In the light of these and other uncertainties, the inclusion of a forward looking statement in this Prospectus should not be regarded that the plans and objectives of the Cymao Group will be achieved.