## 13.0 THE INDEPENDENT MARKET RESEARCH REPORT

VITAL FACTOR CONSULTING
Creating Winning Business Solutions

**Vital Factor Consulting Sdn Bhd**
(Company No.: 266797-T)
75C & 77C Jalan SS22/19
Damansara Jaya
47400 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel: (603) 7728-0248
Fax: (603) 7728-7248
Email: info@vitalfactor.com
Website: www.vitalfactor.com

19 February 2004

The Board of Directors
Cymao Holdings Berhad
9.1 KM, Jalan Batu Sapi
Locked Bag No.13
90009 Sandakan
Sabah, Malaysia

Dear Sirs/Madam

**Assessment of the Plywood Industry**

The following is a summary of the Assessment of the Plywood Industry prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of Cymao Holdings Berhad in relation to its listing on the Main Board of the Malaysia Securities Exchange Berhad.

### 1. Background

- The objective of this report is to provide an independent assessment of the Plywood Industry.
- Cymao Holdings Berhad (Cymao), located in Sandakan Sabah, is involved in the manufacturing and marketing of the following:
  - Plywood
  - Fancy Plywood
  - Specialty Plywood.
- Cymao's Plywood are used predominantly in the following industries:
  - Furniture and Fixtures
  - Building and Construction
  - Packaging
  - Transportation
  - Musical Instruments.

### 2. Overview of the Wood-based and Plywood Industry

- The Wood-based Industry can be broadly categorised into the following major sectors:
  - Sawmilling
  - Plywood /Veneer and Blockboard
  - Mouldings and Builders Carpentry and Joinery
  - Reconstituted Wood-based Panels
  - Furniture and Furniture Components.

- The Wood-based Industry plays a significant role in the general economic growth of Malaysia. In 2002, the sector contributed RM10.2 billion to Malaysia's total export earnings.
- In 2002, exports of Plywood and Veneers amounted to RM4.2 billion representing 41.2% of the total exports of the Wood-based Industry.
- The Second Industrial Master Plan 1996-2005 has identified the Wood-based Industry as a key area of development.
- The larger sawmills and Plywood mills are concentrated in Sabah and Sarawak whilst most of the secondary and tertiary wood-based industries are located in Peninsular Malaysia. *(Source: Malaysia Industrial Development Authority)*
- The two categories of users of normal and Fancy Plywood are as follows:
  - **Direct Usage:** This category uses the plywood 'as-is' with minimum value-adding or further processing. Some value adding may include cutting to size and coating.
  - **Further Processing:** This category uses the Plywood as base material to manufacture end-products. There is significant value-adding.

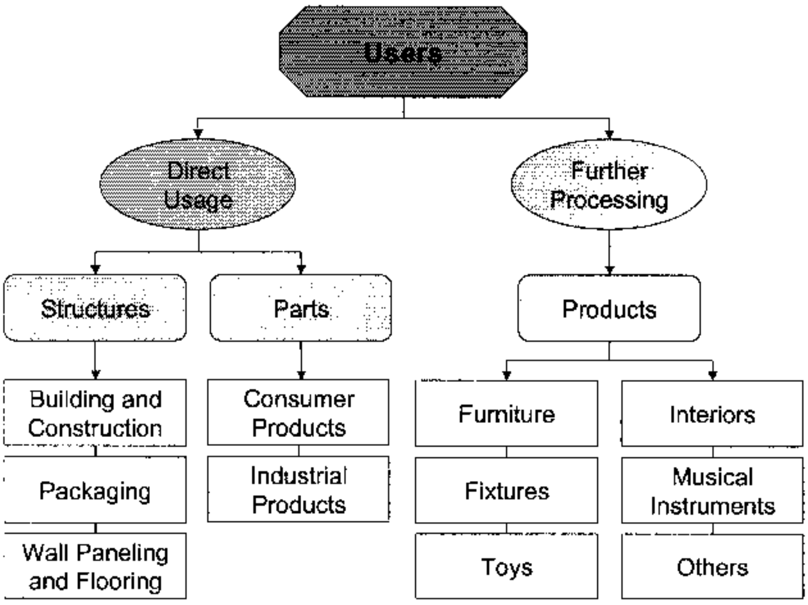


**Figure 1.1 Users of Plywood**

3. **Government Legislation, Policies and Incentives**

- Sawmills, Blockboard Mills and Chipboard Mills in Sabah are required to obtain a number of Licences, Permits and Approvals from the State as well as the Federal Government. Some of the material Licences, Permits and Approvals include, among others:

- Federal Manufacturing Licence from the Malaysian Industrial Development Authority
- State Government Approval from the Department of Industrial Development and Research
- Permit to install Equipment and Operate Factory from the Department of Occupational Safety and Health
- Import Permit/Licence from the Ministry of International Trade and Industry and Malaysian Timber Industry Board
- Export Permit from the Custom and Excise Department
- Export Licence from the Malaysian Timber Industry Board
- Processed Timber Export Licence from the Sabah Forestry Department
- Wood Processing Plant Licence from the Sabah Forestry Department

*(Source: Handbook on Licences, Permits and Approvals, Sabah Department of Industrial Development and Research)*

- The issuance of licences for sawntimber Plywood and Veneer in Sabah has been stopped since 1991. *(Source: Sabah Forestry Department)*

**Government Incentives**

- The following are classified Promoted Products for small scale industries, and are therefore eligible for either Pioneer Status of Investment Tax Allowance:
  - Fancy and Decorative Plywood
  - Products derived from utilisation of wood waste (for example, activated charcoal, wooden briquettes and wood wool).

- The following are eligible for Industrial Adjustment Allowance (IAA):

| Activity | IAA Rate |
|---|---|
| Expansion of production capacity/modernisation of plant, equipment and machinery following takeovers,/mergers within the existing sawmilling, veneer and plywood subsector | 100% |
| Diversification into downstream wood-based activities by existing sawmilling, veneer and plywood companies | 80% |
| Expansion/Relocation of existing wood-based companies from Peninsular Malaysia to Sabah and Sarawak | 100% |

*(Source: Malaysia Industrial Development Authority)*

**Figure 1.2 Industrial Adjustment Allowance for the Wood-Based Industry**

**CESS and Royalties**

- Royalty on exports of processed timber are as follows:
  - All sawntimber = RM10 per cubic metre
  - Plywood = RM5 per cubic metre
  - Veneer = RM10 per cubic metre
  - Mouldings = RM5 per cubic metre

*(Source: Forestry Department, Sabah)*

- Inspection fee and certification charges on imported timber are as follows:
  - Logs = RM10 per cubic metre
  - Converted timber = RM10 per cubic metre
  - Sawn timber = RM10 per cubic metre
  - Veneer = RM10 per cubic metre

  *(Source: Forestry Department, Sabah)*

- Royalty on processed timber in Sabah was abolished on 1 April 1998. However, in 2002, policy on processed timber in Sabah has been revised and processed timber is subjected to royalty *(Source: Forestry Department, Sabah).*

## 4. Barriers to Entry

- Barriers to entry into the manufacture of Plywood are **moderate.** This is mainly substantiated by the moderate number of manufacturers. As at October 2003, there were 169 Plywood/Veneer mills in Malaysia *(Source: Malaysian Industrial Development Authority).*

- The three main barriers to entry are:
  - moderate capital cost
  - access to global markets
  - skills and experience
  - Veneer and Plywood mill Licence in Sabah.

### Capital Costs

- The capital requirement for setting up a typical Plywood mill (excluding land and building) is moderately high and are as follows:

  - a medium size plant (3 production lines of 96,000 cubic metre annual capacity) costs approximately RM40 million;

  - a small size plant (2 production lines of 65,000 cubic metre annual capacity) costs approximately RM30 million.

### Access to Global Markets

- Plywood is essentially an export market product. This is because the local market is too small to absorb the huge quantity of Plywood produced.

- Thus, one of the critical success factors of a Plywood manufacture is access to global markets.

- 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.

### Skills and Experience

- The technology involved in the manufacture of Plywood is easily accessible. However, to improve recovery rate of a log and reduce reject rates require skills and experience, and investment in quality equipment.

- As Plain Plywood is a commodity, the ability to reduce wastage and improve recovery rate is important to reduce cost to ensure continuing financial viability and growth.

- In addition, the manufacture of certain types of Plywood, for example Fancy Plywood, are far more demanding and thus requires considerable skills, experience and specialised machines.

- This skill and capability represent another barrier to entry.

**Veneer and Plywood mill licence in Sabah**

- 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 *(Source: Sabah Forestry Department).*

- However, new entrants can buy up existing licencees or undertake joint-venture with existing licencees. Alternatively, they may set up Veneer and Plywood mills in other states of Malaysia.

**5. Supply of Plywood, Hardboard and Particle Board**

- The sales value of Plywood, Hardboard and Particle Board registered growth of 3.8% to RM6.0 billion in 2002 compared to a decline of 12.5% in 2001.

- From 1998 to 2002, the sales value of Plywood, Hardboard and Particle Board recorded an average annual growth rate of 2.9%.

- Between 1998 and 2002, the production of Plywood increased by an average annual rate of 2.0%.

- Production of Plywood grew by 0.8% to approximately 4 million cubic metres in 2002;

- In 2002, production of Veneer Sheets amounted to 985,698 cubic metres, a decrease of 0.8% over the previous year.

- Between 1998 and 2002, the production of Veneer Sheets declined by an average annual rate of 3.6%.

- Between 1998 and 2002, the production of Blockboard declined at an average annual rate of 8.5%.

- In 2002, production of Blockboard totalled 103,856 cubic metres representing a decline of 42.2% over 2001.

*(Source: Monthly Manufacturing Statistics, July 2003, Department of Statistics)*

## 6. Demand Dependencies

- Demand for Plywood will predominantly come from overseas countries in terms of exports:
  - From 1998 to 2002, the export value of Plain, Fancy, PVC and Coating Plywood grew by an average annual rate of 3.4% *(Source: Department of Statistics)*;
  - The export value of Plywood increased by 5.8% to reach RM3.7 billion in 2002 *(Source: Malaysian Timber Council)*;
  - However, from 1998 to 2002, the export value of Plywood grew at an average annual rate of 1.2% *(Source: Malaysian Timber Council)*;
  - From 1998 to 2002, the export volume of Plywood declined by an average annual rate of 0.8% *(Source: Malaysian Timber Council)*;
  - Export volume of Plywood declined by 0.2% to 3.5 million cubic metres in 2002 *(Source: Malaysian Timber Council)*;
  - The export value of Veneers declined by 9.9% in 2002 *(Source: Malaysian Timber Council)*;
  - From 1998 to 2002, the export value of Veneers decreased by an average annual rate of 8.0% *(Source: Malaysian Timber Council)*;
  - Export volume of Veneer decreased by 8.4% to reach 600,699 cubic metres in 2002 *(Source: Malaysian Timber Council)*;
  - From 1998 to 2002, the export volume of Veneer declined by an average annual rate of 4.8% *(Source: Malaysian Timber Council)*.

## 7. Supply Dependencies

- The major raw materials required for the manufacture of plywood and veneers are:
  - Logs
  - Exotic Veneer sheets
  - Glue.
- The highest purchased amount of raw material is Meranti Logs, which are sourced locally.
- Most of the imported raw materials are purchased for their individual aesthetic appeal, for example wood grain and colour. This is particularly important for the manufacture of Fancy Plywood.
- Demand for such aesthetic qualities is solely determined by consumer preferences. Thus manufacturers like Cymao would need to manufacture the appropriate product to meet consumer needs.

- Other raw materials that may be used depending on customers' specifications include, among others:
    - Coatings
    - Chemicals for fire retardant.

  However, purchases of these materials are relatively low.

**Supply of All Logs in Sarawak**

- From 1998 to 2002, the average annual growth rate for the production of all logs in Sarawak increased by 1.2%.

- Production of All Logs in Sarawak continued to show growth, which amounted to 11.9 million cubic metres in 2002. From January to July 2003, a total of 7.2 million cubic metres of all logs production was recorded in Sarawak

  *(Source: Forest Department of Sarawak)*

- The positive growth trend in the supply of logs is a reflection of the pick-up in the Malaysian economy as well as export countries. This will ensure adequate supply of logs to manufacturers of downstream wood-based products including Cymao.

**Supply of All Logs in Sabah**

- Between 1998 and 2002, the production of All Logs in Sabah declined by an average annual rate of 4.2%.

- In 2002, production of all logs from Sabah amounted to 4.4 million cubic metres, representing an increase of 69.2% over 2001. For the first six months of 2003, production of all logs from Sabah amounted to 2.1 million cubic metres.

  *(Source: Sabah Forestry Department)*

**8. Competitive Nature of the Industry**

- Plywood manufacturers operate under **normal** competitive conditions.

- Competitive intensity varies according to the types of Plywood, namely:
    - Veneers and Plain Plywood
    - Fancy Plywood
    - Specialty Plywood.

- In addition, competition is focussed on the global market.

- Competitive intensity amongst the manufacturers of Veneers and Plain Plywood in the global market is **high** and is predicated by the following:

    - Veneers and Plain Plywood are commodities. The two main global competitors for Hardwood Plywood are Indonesia and Brazil. In addition to Malaysia, these three countries produce the bulk of the world's Hardwood Plywood. Competition among these three countries is intense.

- Indonesia is the world's largest Hardwood Plywood producer. In 2002, Indonesia produced 6.3 million cubic metres of Plywood compared to approximately 4 million cubic metres from Malaysia. *(Source: Malaysian Timber Council and Monthly Statistics Manufacturing, July 2003, Department of Statistics)*

- In addition, competition also comes from Softwood Plywood. Softwood Plywood is made from temperate climate timber as opposed to tropical hardwood for Hardwood Plywood. This adds to the competitive intensity of Plywood.

The breakdown in the number of Plywood Manufacturers in Malaysia is as follows:

| | Number of Plywood/ Veneer Manufacturers | Proportion to Total |
|---|---|---|
| Peninsular Malaysia | 48 | 28% |
| Sarawak | 53 | 31% |
| Sabah | 68 | 40% |
| **Total** | **169** | **^100%** |

^ *Total does not add up to 100% due to rounding*

*Source: Malaysian Industrial Development Authority*

**Figure 1.3 Breakdown of Plywood/Veneer Manufacturers in Malaysia**

- The large number of Plywood manufacturers in Malaysia increases the competitive intensity.

- In 2002, Sabah and Sarawak accounted for 95.1% of the total plywood and veneer produced in the country. *(Source: Malaysian Timber Council)*

• Competitive intensity among Fancy Plywood/Veneer manufacturers is **low** based on the following:

  - Fancy Plywood has higher value-adding requiring specialised equipment and higher skill labour and quality standards compared to Plain Veneers and 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' Fancy Plywood. As such, there are substantially less manufacturers of Fancy Plywood.

  - Demand for Fancy Plywood is highly dependent on consumer preferences. Manufacturers who are unable to foresee trends in the type of Fancy Plywood could be caught with expensive temperate climate logs in inventory with no buyers. All these have the impact of potentially reducing profit margins of inexperienced Fancy Plywood mills.

• Competitive intensity for Specialty Plywood manufacturers is **low** based on the following:

- Specialty Plywood serves niche markets. Volumes are relatively small. The low volume pose challenges as follows:

  . Marketing effort required is extensive to service sufficient niche markets to generate adequate production volume to be commercially viable;

  . Most plywood manufacturing plants are geared towards high volume run. As such, many manufacturers would find it highly inefficient to incorporate small runs if they are unable to optimise production runs. This has the impact of cutting into profit margins.

- Research and development required is extensive. In addition, many of the Specialty Plywood, for example fire retardant treated Plywood, would require extensive testing and certification. Very few Plywood manufacturers undertake sufficient research and development, and go through rigorous testing and certification to create Specialty Plywood.

- Strong contacts with major high technology and chemical companies are required for the Plywood manufacturers to be made aware of new technologies that may be applied to Specialty Plywood. Many of these technologies are proprietary and unless Plywood manufacturers are in constant contact with such technology companies, they will not be aware of such developments or able to take advantage of being the first few manufacturers to put their Specialty Plywood in the market.

- All the above reasons result in very few manufacturers developing Specialty Plywood. This reduces significantly the competitive intensity for Specialty Plywood.

**9. Key Players in the Industry**

- Some of the major Plywood manufacturers in Malaysia include:
  - Subur Tiasa Holdings Berhad
  - Jaya Tiasa Holdings Berhad
  - Lingui Developments Berhad
  - Sinora Industries Berhad
  - Evermaster Group Berhad
  - WTK Holdings Berhad
  - Ta Ann Holdings Berhad.

  *(Source: Primary Market Research undertaken by Vital Factor Consulting)*

**10. Industry Outlook and Growth Forecast**

- Growth for the Plywood Industry is forecasted to be relatively stable for the next five years.

**Supporting Factors for Positive Growth**

The following factors and observations in local production and export markets for Wood and Wood Products provide support for the growth forecast:

- **Production Growth Trends**

  - Between 1998 and 2002, sales value of Plywood, Hardboard and Particle Board grew at an average annual rate of 2.9%;

  - The sales value of Plywood, Hardboard and Particle Board registered a growth of 3.8% to RM6.0 billion in 2002;

  - Production of Plywood grew by 0.8% to approximately 4 million cubic metres in 2002;

  - Between 1998 and 2002, the production of Plywood increased by an average annual rate of 2.0%;

  - In 2002, production of Blockboard totalled 103,856 cubic metres representing a decline of 42.2% over 2001;

  - Between 1998 and 2002, the average annual rate for the production of Blockboard declined by 8.5%;

  - In 2002, production of Veneer Sheets amounted to 985,698 cubic metres, a decrease of 0.8% over the previous year.

  - Between 1998 and 2002, the production of Veneer Sheets declined by an average annual rate of 3.6%.

  *(Source: Monthly Manufacturing Statistics, July 2003, Department of Statistics)*

- **Export Growth Trends**

  The bulk of the Wood-Based industry's output is exported, therefore the strong performance of Malaysia's exports in the global markets indicate the growth and demand for Wood and Wood Products:

  - The export of Plywood and Veneer alone was valued at RM4.2 billion, which accounted for 41.2% of total Wood and Wood Products export *(Source: Malaysian Timber Council)*;

  - The export of Wood Products, which include Plywood, was RM6.3 billion, representing 2.1% of total gross exports of goods manufactured in 2002 *(Source: Monthly Statistical Bulletin, July 2003, Bank Negara Malaysia);*

  - Export value of Plywood grew at an average annual rate of 1.2% between 1998 and 2002 *(Source: Malaysian Timber Council);*

  - Malaysia's export of Plywood rose by 5.8% to reach RM3.7 billion in 2002 *(Source: Malaysian Timber Council);*

- From 1998 to 2002, the export value of Plain, Fancy, PVC and Coating Plywood grew by an average annual rate of 3.4% *(Source: Department of Statistics)*;

- Export value of Veneer declined at an average annual rate of 8.0% between 1998 and 2002 *(Source: Malaysian Timber Council)*;

- In 2002, export of Veneer declined by 9.9% compared with previous year *(Source: Malaysian Timber Council)*;

- From 1998 to 2002, export volume of Veneer declined at an average annual rate of 4.8%. Export volume of Veneer reached 600,699 cubic metres, a decline of 8.4% in 2002 *(Source: Malaysian Timber Council)*.

- **Growth of User Industries**

Downstream processing activities such as furniture, joinery works, and other supporting industries such as the construction sector are highly dependent upon the supply of wood-based resources, including Plywood and Veneer. However, it is the demand of these downstream activities and supporting industries that will have direct impact on the Veneer and Plywood production growth.

- Between 1998 and 2002, the sales value of Planning Mills, Window and Door Mills and Joinery Works grew by an average annual rate of 1.7% *(Source: Monthly Manufacturing Statistics, July 2003, Department of Statistics)*;

- In 2002, sales value of Furniture and Fixtures grew at a strong 12.5% to reach RM3.6 billion, compared to RM3.2 billion in 2001 *(Source: Monthly Manufacturing Statistics, July 2003, Department of Statistics)*;

- In 2002, the Construction Sector staged a lift of 2.3% to reach RM7.3 billion *(Source: Monthly Statistical Bulletin, July 2003, Bank Negara Malaysia)*.

- **Growth in Global Demand For Wood and Wood Products**

- In 2002, the total International Timber Tropical Organisations (ITTO) imports of tropical Plywood decreased by 4.9% to reach 9.7 million cubic metres from 10.2 million cubic metres in 2000. Japan was the largest ITTO importer of tropical Plywood, representing 44.5% of total imports in 2002 *(Source: International Timber Tropical Organisations)*;

- The majority of all tropical Plywood imports came from Indonesia and Malaysia with a contribution of 56.3% and 35.1% respectively in 2001 for the top importer, Japan *(Source: Japan Exports and Imports as reported in Jetro Marketing Guidebook for Major Imported Products)*;

- Global consumption of Plywood is expected to grow at a modest pace and reach 60 million cubic metres in 2010 *(Source: Southern African Buyers/Sellers Meeting on Wood and Wood-Based Building Materials, International Trade Centre, 1 June 2000);*

- Total ITTO imports of tropical Veneer amounted to 970 million cubic metres, a decrease of 15.3% in 2002 from 1.1 million cubic metres in 2001. Korea was the largest ITTO importer of Veneer accounting for 20.9% of total imports in 2002 *(Source: International Timber Tropical Organisations).*

## 11. Threats and Risks Analysis

### Availability of Raw Materials

- Malaysia is currently facing a situation whereby log supplies from natural forests have been dwindling and will be reduced further to estimation levels of about 21 million cubic metres (compared to 1996 production of 30.1 million cubic metres) as state governments adhere to the National Forest Policy and implement the annual coupe for logging from the Permanent Forest Estate and state land forests *(Source: Monthly Statistical Bulletin, July 2003, Bank Negara Malaysia).*
- In addition to declining log supplies, forests have to compete with agriculture and other land uses for achieving optimum land utilisation in the form of high yield plantations.

- These phenomena are not only limiting the availability of wood resource from natural forests. These are the cause factors of frequent fluctuations in prices of timber products.

- Malaysia may lose its comparative advantage to other countries with lower production cost and stable wood supply, and may gradually lose its ground as a net exporter of tropical wood and wood products.

**Mitigating Factors**

- In ensuring long-term and stable supply of wood and wood products, forest plantations have been established and are likely to increase in the future. However, slow wood recovery rate from forest plantations will be a constraint for short-term wood supply. In overcoming this situation, Plywood manufacturers will have to make log procurement through imports while anticipating greater wood recovery through forest plantations.

### Increased Use of Alternative Products

- The use of reconstituted wood-based panels in various sectors is gaining popularity. (Reconstituted wood-based panels include Medium Density Fibreboard (MDF), Particleboard/Moulded Particle board/Chipboard, and wood cement board) They present the greatest threat to Plywood as the products have the ability to substitute many of the functions of Plywood. Hence, Plywood markets face increasing competition from wood-based panels with good technical qualities.

- The 1998 Forestry Outlook Study by the FAO Asia-Pacific Forestry Commission reveals that panel products consumption will grow spectacularly with significant substitution for hardwood Plywood by MDF and Oriented Strand Board (OSB) for construction purposes.

- In the United States, Plywood has lost market share to OSB. The consumption gap between OSB and Plywood is expected to grow as OSB emerges as the dominant structural panel replacing Plywood in residential construction, flooring and sheathing.

**Mitigating Factors**

- Plywood is still required in certain furniture parts, interior fittings and marine transport. It cannot be fully substituted by panel products in applications that are highly reliant on Plywood for its low weight, high strength and good screw holding properties. The challenge for the growth of Plywood Industry is to identify higher value Plywood such as Fire Retardant Treated Plywood and promote the unique qualities of Plywood compared with panel products.

**Timber Certification**

- Certification of timber products will become increasingly important in Europe and North America. Wood-based producing markets that do not provide a credible certification system are likely to face bans on timber trade in the Europe and North American markets. This situation will have a direct impact on Plywood manufacturers that export Plywood to the markets concerned.

- In situations where markets constitute strong consumer preferences for certified products, certification is viewed as a powerful means of raising forest management performance. As relevant bodies such as the Forest Stewardship Council (FSC) and World Wildlife Fund (WWF) achieve the status of sole certification system, it will create a monopoly position in timber certification in Europe. Hence, the certified members will ultimately be committed to purchase and sell only certified timber products as well as setting their own targets and timetable for trading certified timber products.

**Mitigating Factors**

- Malaysia and other tropical timber countries will need to implement their own viable certification systems in line with the ITTO Criteria and Indicators to provide a credible alternative to the FSC system and to counter the effect of the system in Europe and North America.

- There are a number of Malaysian wood-based manufacturers that have the necessary certification. However, the overall numbers are low.

- Malaysia itself has come up with its own certification. The National Timber Certification Council, Malaysia was incorporated in October 1998 for the development and implementation of a timber certification scheme in Malaysia.

**Trade Liberalisation**

- With the implementation of Asean (Association of South East Asian Nations) Free Trade Area (AFTA) through the ASEAN CEPT (Common Effective Preferential Tariff) scheme, whereby import duties have been reduced to between 0% and 5%, local Plywood manufacturers face stiffer competition from manufacturers from other countries.

**Mitigating Factors**

- As with all free market enterprise, operators will need to be more cost-efficient as well as create their own market niches to compete successfully in a globalised market.
- In addition, the Plywood Industry is primarily export base, and as such the implementation of AFTA would not have significant impact to Malaysian Plywood manufacturers.

**Economic Slowdown**

- In 2001, there were signs of a slowdown in the economy of the United States of America (USA). This would have a rippling effect on other countries, especially those that export significantly to the USA. These countries could include Malaysia as well as other Asian countries.
- Under such a scenario, consumer demand for Plywood-based goods may fall impacting on Malaysian Plywood manufacturers.

**Mitigating Factors**

- The main export markets for Malaysia's Plywood are in the Asian region including Japan, South Korea and Taiwan. In 2002, USA represented 12.2% of Malaysia's export of Plywood *(Source: Malaysian Timber Council)*. Thus the direct impact of a USA economic slowdown would not be excessive.
- However, if the USA slowdown impacts on other Asian countries, the combined impact on Malaysian Plywood manufacturers may be more severe. In this situation, a number of Asian countries must be directly impacted for the combined effect to be felt by Malaysian Plywood Manufacturers. In particular, a drop in demand from Japan would be severe as Japan took approximately 48% of Malaysia's Plywood in 2002.

**Dumping of Plywood**

- There have been many cases of dumping of Plywood in many major Plywood consuming countries, for example in the USA, Europe and Australia. Countries that have been investigated for dumping Plywood include Indonesia and Malaysia.
- Plywood manufacturers would be affected if customers switch to buying from manufacturers that are dumping Plywood as a result of the significantly lower prices.

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**Mitigating Factors**

- Anti-dumping actions are commonly instituted against countries or manufacturers if dumping is proven. Some of these actions include, among others, anti-dumping duties that have the effect of increasing the final price of Plywood. Under such a circumstance, the impact of dumping would be minimised.

- Manufacturers may also refocus their efforts on products that are not being dumped. This is because most dumpings are focused on a narrow range of products, for example the standard sized 3-ply Plywood. Some of the products that are less susceptible to dumping include:
  - Fancy Plywood
  - Specialty Plywood
  - Non-standard sizes of Plain Plywood.

## 12. Market Size

- In 2002, the market size for the total Plywood Industry (incorporating Plywood, Veneers and Blockboard) in Malaysia based on production was **5.1 million cubic metres.** *(Source: Monthly Manufacturing Statistics July 2003, Department of Statistics)*

## 13. Market Share

- In 2002, the market share of Cymao based on its production of 118,220 cubic metres was approximately **2.3%**.

- In 2002, Malaysia's total exports of Hardwood Plywood to the United States of America (USA) were 445,470 cubic metres *(Source: United States Department of Agriculture, Foreign Agriculture Services)*. For the same period, Cymao's total export volume was 71,725 cubic meters to the USA. Thus, Cymao's share of the total exports of Plywood to the USA was **16.1%** in 2002.

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

## 14.0 INDEPENDENT ASSESSMENT OF THE SUFFICIENCY OF LOG SUPPLY IN SABAH

**VITAL FACTOR CONSULTING**
Creating Winning Business Solutions

**Vital Factor Consulting Sdn Bhd**
(Company No.: 266797-T)
75C & 77C Jalan SS22/19
Damansara Jaya
47400 Petaling Jaya
Selangor Darul Ehsan, Malaysia
Tel: (603) 7728-0248
Fax: (603) 7728-7248
Email: info@vitalfactor.com
Website: www.vitalfactor.com

19 February 2004

The Board of Directors
Cymao Holdings Berhad
9.1 Km, Jalan Batu Sapi
Locked Bag No.13
90009 Sandakan
Sabah, Malaysia

Dear Sirs/Madam

**Independent Assessment of the Sufficiency of Log Supply in Sabah**

The following is in response to the Securities Commission request for an independent assessment of the sufficiency of log supply in Sabah and its implication for Cymao Holdings Berhad (herein together with all its subsidiaries will be referred to as Cymao). This is to comply with the requirements of the Securities Commission for the listing of **Cymao Holdings Berhad** on the Main Board of the Malaysia Securities Exchange Berhad.

### 1. LOG SUPPLY SUFFICIENCY IN SABAH TO FULFIL THE NEEDS OF THE TIMBER AND RELATED INDUSTRIES

- Generally the supply of logs in Sabah is insufficient to meet all the needs of the timber and related industries in Sabah.
- As such, Sabah relies on imports to supplement its log supply.
- However, despite imports, there are still insufficient logs to meet all the needs of the timber and related industries in Sabah. This is substantiated below.

### 1.1 Declining Round Log Production in Sabah

- The local log supply in Sabah comes from two main sources:
  - production of Round Logs from commercial natural forest reserves;
  - production of Plantation Logs.
- Local supply of logs has reached a critical stage and is reflected in the following statements and observations:
  - Many Sabah-based logging and timber processing companies may be forced to close down in 2002 as most of Sabah's 2.7 million hectares of commercial forest has been depleted *(Source: Sabah Timber Association)*.

- During the period from 1970 to 1996 virgin forest areas of Sabah's productive Commercial Forest Reserves had declined by 90% due to excessive logging, especially during the period between 1972 and 1994 *(Source: Sabah Forestry Department).*

- If Sabah does not strictly adhere to the guidelines laid down by the International Tropical Timber Organisation on Sustainable Forest Management practice by the year 2000, all virgin forest areas will be gone by the year 2010 *(Source: Sabah Forestry Department).*

- As a result, the production of Round Logs has been on a declining trend in Sabah compared to 1997:

| Year | Round Log Production *Volume - $M^3$* | Plantation Log Production *Volume - $M^3$* | Total Log Production *Volume - $M^3$* |
|---|---|---|---|
| 1997 | 6,958,897.00 | 488,274.91 | 7,447,171.91 |
| 1998 | 5,265,242.00 | 261,763.99 | 5,527,005.99 |
| 1999 | 3,435,522.04 | 472,226.36 | 3,907,748.40 |
| 2000 | 3,727,762.15 | 423,726.62 | 4,151,488.77 |
| 2001 | 2,588,417.46 | 511,632.39 | 3,100,049.85 |
| 2002 | 4,436,381.04 | 434,148.95 | 4,870,529.99 |

*$M^3$ = cubic metres*
*Source: Annual Report, Various Issues, Sabah Forestry Department*

**Figure 1 Production of Round Logs and Plantation Logs – 1997 to 2002**

- Overall, the production of Round Logs from natural forest has been declining at an average annual rate of 8.6% between 1997 and 2002. This decline has been attributed to the slowdown in logging activities.

- Some of the reasons, among others, for the slowdown in logging activities are as follows:

  - Lower demand by downstream manufacturers as a result of decreased global demand for their end-products *(Source: Maskayu, Various Issues for 2001, Malaysian Timber Industry Board)*

  - Preference for imported logs, especially from Indonesia, as they are cheaper *(Source: Maskayu August 2001, Malaysian Timber Industry Board)*

  - The decline was attributed to lower logging activities in line with the full implementation of sustainable forest management in all Class II Production Forest (Commercial Forest Reserves) *(Source: Annual Report 1999, Sabah Forestry Department).*

- The drop in log production in 2001 was attributed to the declining timber resources and the impact of the Government's commitment to fully implement sustainable forest management in the state *(Source: Annual Report 2001, Sabah Forestry Department).*

- In 2002, production of Round Logs reached 4,436,381.04 cubic metres, representing an increase of 71% over the previous year *(Source: Annual Report 2002, Sabah Forestry Department).*

- This is attributed to increased logging activities particularly in the Benta Wawasan area and also to an increase in the use of small diameter logs and branches for pulp and paper by Sabah Forest Industries Sdn Bhd amounting to 693,527 cubic metres. Previously this data was not included *(Source: Annual Report 2002, Sabah Forestry Department).*

## 1.2 Insufficient and Inappropriate Plantation Logs

- As part of the Sabah Forestry Department's implementation of sustainable forest management policies, one of the measures to manage forest resources in Sabah is to supplement natural Forest Logs with Plantation Logs. In 2002, production of Plantation Logs reached 434,148.95 cubic metres.

- Between 1997 and 2002, production of Plantation Logs decreased at an average annual rate of 2.3%.

- However, the production of Plantation Logs is insufficient to compensate for the decline in Round Logs as in 2002, production of Plantation Logs represents only 8.9% of total log production.

- In addition, the species in Plantation Logs are mainly softwood. The top three species of Plantation Logs harvested in 2002 were as follows:
  - Acacia Mangium = 238,848.69 cubic metres (55.0% of total)
  - Albizia Falcataria = 131,099.48 cubic metres (30.2% of total)
  - Gmelina Arborea = 61,392.80 cubic metres (14.1% of total)

  *(Source: Production and Export Statistics of Forest Products 2002, Sabah Forestry Department)*

- Softwood logs have constraints in applications. Among others, it does not help alleviate the shortage of logs for Plywood manufactures as the bulk of their requirements are for hardwood logs.

- Another problem with Plantation Logs is that their diameter is too small to be commercially viable for Plywood manufacturers. This is because the process of manufacturing Plywood would require the peeling of logs lengthwise down to a certain diameter where it would then be discarded. As such, the yield from small diameter logs is usually too low to be commercially viable.

- Note that despite the above, Cymao is able to use Plantation Logs in general and Radiata Pine from New Zealand in particular for its Plywood manufacturing. This is achieved though research and development incorporating new methods of processing as well as modification of machineries *(Source: Cymao)*

- During the Sabah Economic Congress 2003 the Director of Forestry of the Sabah Forestry Department mentioned that Cymao Plywood Sdn Bhd has been aggressive in its own Research and Development and has research collaboration with the Sabah Forestry Department Research Centre to improve the utilisation of timber and the marketability of lesser known and plantation species *(Source: Session 3, Paper 8, Perspectives of the Timber Industry in Sabah under Present Forest Policy, Where and How they Progress from Here, Sabah Economic Congress 2003, 22 - 23 September 2003, Datuk Daniel KS Khiong, Director of Forestry, Sabah Forestry Department).*

- Not withstanding the achievement of Cymao, Plantation Logs are generally not suitable for the Plywood manufacturing industry as the methods used by Cymao is proprietary and is not commonly available or practiced in Malaysia.

## 1.3 Insufficient Imports to Compensate for Shortfall in Demand of Round Logs

- Over the past few years, local sources of log supply into Sabah have been supplemented by imports (including imports from Sarawak). The growth in imports between 1997 and 2002 are reflected in the following:

| YEAR | QUANTITY *(Volume $M^3$)* |
|---|---|
| 1997 | 77,184.03 |
| 1998 | 5,077.67 |
| 1999 | 77,019.69 |
| 2000 | 126,122.26 |
| 2001 | 305,198.03 |
| 2002 | 202,170.87 |

*Source: Department of Statistics, Sabah*

**Figure 2 Imports of Sawlogs and Veneer Logs of all types - 1997 to 2002**

- Between 1997 and 2002, quantity of imported Sawlogs and Veneer Logs of all types increased at an average annual rate of 21.2%.

- In 2002, quantity of imported Sawlogs and Veneer Logs fell by 33.8% over the previous year.

- Following are the percentages of logs imported from Indonesia:

| | **Quantity ($M^3$) Imported from Indonesia as a percentage of total Imports** |
|---|---|
| 1997 | 91.7% |
| 1998* | 0.0% |
| 1999 | 90.7% |
| 2000 | 96.1% |
| 2001 | 98.5% |

** Only a small quantity of logs (5,077.671 $M^3$) were imported for that year*
*(Source: Sabah Statistics Department)*

**Figure 3 Imported Sawlogs and Veneer Logs from Indonesia – 1997 to 2001**

- Although there are a number of imported sources of Sawlogs and Veneer Logs, Indonesia predominates having accounted for more than 90% of total imports of Sawlogs and Veneer Logs into Sabah for most of the six-year period between 1997 and 2001

## 1.4 Demand Exceeds Supply of Logs

| **Year** | **Total Round and Plantation Log Production** *Volume - M3* | **Add Import of Saw Logs and Veneer Logs** *Volume - M3* | **Less Export of Round and Plantation logs** *Volume - M3* | **Available for Local Consumption#** *Volume - M3* |
|---|---|---|---|---|
| 1997 | 7,447,171.91 | 77,184.03 | 357,210.55 | 7,167,145.39 |
| 1998 | 5,527,005.99 | 5,006.81 | 540,075.13 | 4,991,937.67 |
| 1999 | 3,907,748.40 | 77,013.69 | 989,427.11 | 2,995,334.98 |
| 2000 | 4,151,488.77 | 124,802.58 | 759,430.98 | 3,516,860.37 |
| 2001 | 3,100,049.85 | 298,538.76 | 273,588.05 | 3,125,000.56 |
| 2002 | 4,870,532.99 | 202,170.87 | 503,526.16 | 4,569,177.70 |

*#Production + Imports – Exports = Local Consumption*
*(Source: Sabah Forestry Department)*

**Figure 4 Production, Import and Exports of Logs in Sabah – 1997 to 2002**

- For 2002, the installed input capacity of mills utilising Logs was 6.3 million cubic metres *(Source: Annual report 2002, Sabah Forestry Department)*. However, what is available for local use in Sabah is approximately 4.6 million cubic metres, representing a shortfall of approximately 1.7 million cubic metres.

- The above calculation indicates an excess input capacity of 27%. According to the Sabah Forestry Department, a significant cause is due to the lack of supply of logs to meet demand.

- In 2002, there were 314 active mills compared to 352 in 2001, representing a drop of 11% in the number of active mills. This decrease is primarily due to the economic slowdown, intense competition among other timber producing countries and consolidation of the timber industry in Malaysia *(Source: Annual Report 2001 and 2002, Sabah Forestry Department)*.

## 2. LOG SUPPLY SUFFICIENCY IN SANDAKAN

- Log supply in Sandakan is relevant to Cymao because its Plywood Mill is located in Sandakan. Generally, Cymao obtains its logs from Sandakan and Tawau.

- As Sabah in general does not have sufficient logs to satisfy all downstream timber based manufacturers, by logical extension, Sandakan would not have sufficient logs to satisfy all its downstream manufacturers.

- This is mainly predicated by the current log shortage in Sabah that meant log users are obtaining supplies from anywhere in Sabah as well as importing them from Indonesia and Sarawak. As such, the question of sufficient supply of log to meet user needs for a particular area is less relevant as users are buying logs from all over Sabah as well as importing them. This situation has meant that log users in Sabah do not have the opportunity to obtain logs in proximity to their manufacturing plants.

- This situation also applies to Cymao as it obtains most of its logs from Tawau while its manufacturing plant is in Sandakan.

### 2.1 Demand Exceeds Supply of Logs in Sandakan

- In 2002, Sandakan used 1,527,049.88 cubic metres of timber and produced 821,507.28 cubic metres of timber products *(Source: Annual Report 2002, Sabah Forest Department)*.

- By comparison, Sandakan only produced 878,867.33 cubic metres of logs in 2002 *(Source: Annual Report 2002, Sabah Forest Department.*

- Thus, Sandakan timber-based manufacturers used 1.7 times the volume of logs produced in Sandakan. As such, the total log production from Sandakan is insufficient to meet the total log requirements of Sandakan.

## 2.2 The bulk of Log Supply in Sabah comes from Tawau and Sandakan

- The following are the log production segmented by region within Sabah in 2002.

| Region | 2002 Log Production ($M^3$) | Proportion of Total Sabah (%) |
|---|---|---|
| Tawau | 2,313,130.01 | 52.1 |
| Kota Kinabalu | 893,823.59 | 20.1 |
| Sandakan | 878,867.33 | 19.8 |
| Keningau | 305,997.31 | 6.9 |
| Kudat | 44,562.80 | 1.0 |
| **TOTAL SABAH** | **4,436,381.04** | **^100.0** |

*^Total does not add up due to rounding (Source: Production and Export Statistics of Forest Products 2002, Sabah Forestry Department)*

**Figure 5 Log Production in Sabah segmented by Region in 2002**

- The above table indicates that Tawau is by far the largest supplier of logs followed by Kota Kinabalu and Sandakan.

- In total, Tawau and Sandakan represented 71.9% of the total log production of Sabah in 2002.

| REGION | 1998 *Volume ($M^3$)* | 1999 *Volume ($M^3$)* | 2000 *Volume ($M^3$)* | 2001 *Volume ($M^3$)* | 2002 **Volume** *($M^3$)* | 1998-2002 *Avg. Yearly Volume ($M^3$)* | 1998-2002 *Avg. Yrly Vol %age of Total* |
|---|---|---|---|---|---|---|---|
| Tawau | 1,831,855.52 | 904, 619.02 | 1,559,497.59 | 1,407,578.74 | 2,313,130.01 | 1,778,015.47 | 43.7% |
| Sandakan | 1,759,615.99 | 1,414,686.29 | 1,358,268.50 | 681,453.93 | 878,867.33 | 1,218,578.41 | 30.0% |
| K. Kinabalu | 515,749.34 | 555,544.94 | 407,594.19 | 198,063.94 | 893,824.59 | 514,155.40 | 12.6% |
| Keningau | 951,152.22 | 438,882.24 | 303,461.52 | 301,312.20 | 305,997.31 | 460,161.10 | 11.3% |
| Kudat | 206,868.96 | 121,789.55 | 98,940.35 | 8.65 | 44,561.80 | 94,433.86 | 2.3% |
| **TOTAL** | **5,265,242.03** | **3,435,522.04** | **3,727,762.15** | **2,588,417.46** | **4,436,381.04** | **3,890,664.94** | **^100.0** |

*^Total does not add up due to rounding*
*(Source: Production and Export Statistics of Forest Products various issues, Sabah Forestry Department)*

**Figure 6 Log Production in Sabah segmented by Region - 1998 to 2002**

- Over the last five years, log production in Sabah has been experiencing fluctuations. In year 2002, overall production of logs had increased by 71.4% amounting to a volume of 4,436,381.04 cubic metres after contracting by 30.6% in 2001.

- In 2002, all regions in Sabah, experienced growth in log production.

- Between 1998 and 2002, Tawau had the highest average yearly volume of log production at 43.7% followed by Sandakan at 30.0% of the total in Sabah.

- Based on the above information, Cymao, located in Sandakan and also obtaining logs from Tawau, is relatively better off in terms of access to supply of logs compared to manufacturers based outside of Sandakan and Tawau.

## 2.3 Proportion of Log Production Exceeds Proportion of Mills

- The following are the total number of mills segmented by region within Sabah in 2002.

| | No. of Licensed Mills | %age of Total Sabah | Active Mills | %age of Total Active Mills | Inactive Mills |
|---|---|---|---|---|---|
| Tawau | 155 | 28.8% | 88 | 28.0% | 67 |
| Sandakan | 140 | 26.0% | 78 | 24.8% | 62 |
| Kota Kinabalu | 108 | 20.0% | 75 | 23.9% | 33 |
| Keningau | 116 | 21.5% | 63 | 20.1% | 53 |
| Kudat | 20 | 3.7% | 10 | 3.2% | 10 |
| **Total Sabah** | 539 | 100.0% | 314 | 100.0% | 225 |

*Note: Mills include Sawmills, Plywood Mills, Moulding Mills, Match Factory, Paper Mill, Particle Board Mills, Chip Mills, Wood Preservation Plants, Carbon Rod Mills, Medium Density Fibreboard*
*(Source: Production and Export Statistics of Forest Products 2002, Sabah Forestry Department)*

**Figure 7 Number of Mills in Sabah segmented by Region in 2002**

- Based on the number of Mills and comparing them against log production for various region in Sabah for 2002:
  - Tawau and Sandakan combined produces 71.9% of all logs while having 52.8% of all Mills in Sabah.

- Although the above comparison does not take into account actual log consumption, it gives an indication that manufacturers sourcing logs from Tawau and Sandakan were relatively better served in terms of supply of logs compared to other regions in Sabah.

- As Cymao is located in Sandakan and obtains the bulk of its logs from Tawau, Cymao is in a relatively better position in obtaining sufficient supply of logs.

- The following is the number of Sawmills segmented by region within Sabah in 2002:

| | Total No. of Sawmills | %age of Total Sabah | Active Mills | %age of Total Active Mills | Inactive Mills |
|---|---|---|---|---|---|
| Tawau | 41 | 23.0 | 24 | 21.4 | 17 |
| Sandakan | 44 | 24.7 | 26 | 23.2 | 18 |
| Kota Kinabalu | 29 | 16.3 | 21 | 18.8 | 8 |
| Keningau | 53 | 29.8 | 34 | 30.4 | 19 |
| Kudat | 11 | 6.2 | 7 | 6.3 | 4 |
| **Total Sabah** | **178** | **100.0** | **112** | **^100.0** | **66** |

*^Total does not add up due to rounding*
*(Source: Production and Export Statistics of Forest Products 2002, Sabah Forestry Department)*

**Figure 8 Number of Sawmills in Sabah segmented by Region in 2002**

- The following is the number of Plywood Mills segmented by region within Sabah in 2002:

| | Total No. of Plywood Mills | %age of Total Sabah | Active Mills | %age of Total Active Mills | Inactive Mills |
|---|---|---|---|---|---|
| Tawau | 27 | 38.6 | 18 | 42.9 | 9 |
| Sandakan | 24 | 34.3 | 16 | 38.1 | 8 |
| Kota Kinabalu | 5 | 7.1 | 1 | 2.4 | 4 |
| Keningau | 13 | 18.6 | 7 | 16.7 | 6 |
| Kudat | 1 | 1.4 | 0 | 0.0 | 1 |
| TOTAL | **70** | **100** | **42** | **^100.0** | **28** |

*^Total does not add up due to rounding*
*(Source: Production and Export Statistics of Forest Products 2002, Sabah Forestry Department)*

**Figure 9 Number of Plywood Mills in Sabah segmented by Region in 2002**

- Even when considering Sawmills and Plywood Mills, the two operations that use the most logs, it also reconfirms the suggestion that Tawau and Sandakan are relatively better served in terms of log supply compared to other regions in Sabah:
  - Tawau and Sandakan combined produces 71.9% of all logs while having 54.5% of total Sawmills and Plywood Mills in Sabah in 2002.

## 2.4 Implication

- Although by logical extension Cymao's location would mirror the general shortage of logs in Sabah, Cymao's supply of logs is relatively better served as its manufacturing plant is situated within the largest log supplying regions of Sandakan and Tawau in Sabah.

## 3 INDUSTRY MITIGATING FACTORS

- Sabah is importing logs primarily from Indonesia. This would help elevate some of the log shortage in Sabah.
- Between 1997 and 2002, quantity of imported Sawlogs and Veneer Logs of all types increased at an average annual rate of 21.2%.
- The Sabah government has also launched various forest management programmes to sustain its remaining forest reserves and to rejuvenate areas that have already been logged. This will provide a longer term solution to the current log supply shortage.
- One successful example undertaken by the Sabah Forestry Department is the forest management of the Deramakot Forest Reserve. This is a holistic approach to forest reserve management, which includes accurate stock inventory, eco-friendly harvesting systems, forest rehabilitation and silviculture. The success of the Deramakot experience has led the Sabah Government to implement the Deramakot approach to forest management across the state of Sabah.
- The Sabah Government has also encouraged development of plantation forest to provide a sustainable and renewable supply of logs. Although, at this point most of the current species of Plantation Logs are not suitable for Plywood manufacturing, other log users could switch to Plantation Logs where possible. Some examples would include the Paper and Pulp, Moulding and Furniture Industries. This would relieve some of the demand for hardwood logs allowing Plywood manufacturers to have a larger share of the supply of hardwood logs.
- As of December 2002, there were 150,492 hectares (2001: 145,844 hectares) of planted forest areas in Sabah of which 79.2% were for tree plantations while the remainder were for rattan plantation and enriched natural forest areas *(Source: Annual Report 2001 and 2002, Sabah Forestry Department)*.
- To encourage higher forest plantation development, various incentives such as pioneer status and investment tax allowances are tailored specifically for forest plantation development. The latest tax incentive in 2002 allowed companies to off-set their taxes to other companies within the same group of companies.
- In addition, many manufacturers are undertaking research and development to use Plantation Logs. This include Plywood manufacturers as they adapt their manufacturing processes as well as reposition their Plywood products to meet different market segments and to increase acceptance from existing and new customers.

**VITAL FACTOR CONSULTING**

Creating Winning Business Solutions

- Cymao is one example. If the success of Cymao in using Plantation Logs were to be adopted by other Plywood manufacturers, Plantation Logs will contribute towards a sustainable and long term solution to Sabah's current natural forest log shortage.

Vital Factor Consulting Sdn Bhd has prepared this report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the log supply sufficiency in Sabah within the limitations of, among others, secondary statistics and information, and primary market research. Our assessment is for the overall log situation in Sabah and may not necessarily reflect the situation of any company. We do not take any responsibilities for the decisions or actions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the shares of any company.

Yours sincerely

Wooi Tan
Managing Director
Vital Factor Consulting Sdn Bhd

**CYMAO HOLDINGS BERHAD** (445931-U)

9.1 KM, Jalan Batu Sapi, 90000 Sandakan, Sabah

Tel : 089-612233
Fax : 089-612607

**Registered Office:**

Room 2.01, 2nd Floor
Alliance Bank Building
TB1086, Jalan Utara
91000 Tawau
Sabah

17 February 2004

The shareholders
Cymao Holdings Berhad

Dear Sir/Madam

On behalf of the Board of Directors of Cymao Holdings Berhad ("Cymao"), I report after due inquiry that during the period from 31 August 2003 (being the date to which the last audited financial statements of the Company and its subsidiary company have been made up) to 17 February 2004 (being a date not earlier than fourteen (14) days before the date of issue of this Prospectus), that:

(i) the business of Cymao and its subsidiary company has, in the opinion of the Directors, been satisfactorily maintained;

(ii) in the opinion of the Directors of Cymao, since the last audited financial statements of Cymao and its subsidiary company, no circumstances have arisen which have adversely affected the trading or the value of the assets of Cymao or its subsidiary company;

(iii) the current assets of Cymao and its subsidiary company appear in the books at values which are believed to be realisable in the ordinary course of business;

(iv) there are no contingent liabilities by reason of any guarantees or indemnities given by Cymao and/or its subsidiary company; and

(v) there have not been, since the latest audited financial statements of the Cymao Group, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings which the Directors are aware of; and

(vi) there have been, since the last audited financial statements of Cymao, no changes in the published reserves or any unusual factors affecting the profits of Cymao and its subsidiary company.

Yours faithfully
For and on behalf of the Board of Directors
**CYMAO HOLDINGS BERHAD**

Lin Kai Min
Executive Director