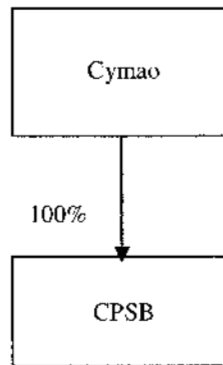

5. INFORMATION ON THE CYMAO GROUP

5.1 History and Business

Cymao was incorporated in Malaysia under the Act on 5 September 1997 as a public limited company under the name of Green Energy Holdings Berhad. On 13 November 2000, the Company assumed its present name.

Cymao is an investment holding company while the principal activity of its only subsidiary company, CPSB, is the manufacturing and marketing of processed downstream wood products such as veneer, plywood and decorative plywood.

The existing Group structure of Cymao is as follows:



The Promoters are from Taiwan where they operated a company known as CPLC which formed part of Formosa Plastic Group, a conglomerate in Taiwan.

CPLC was established in Taiwan in 1960, with a long history as manufacturer of quality and innovative wood products. CPLC's manufacturing facility in Taipei, in northern Taiwan together with its sister company Sunrise Plywood Corporation's facilities in central and southern Taiwan represented Taiwan's major players in wood based primary, secondary and further downstream processing industry. From 1960 to 1989, CPLC consolidated its position as, inter-alia, a supplier of both plywood panels and value added products including decorative plywood, doors, flooring and venetian blinds. However, CPLC ceased operations in Taiwan in 1990 in view of rising labour costs which led to overall increased production costs and reduced profit margins.

In 1991, the Promoters decided to set up a similar manufacturing operation in Sandakan, Sabah. CPSB was set up in view of Malaysia's abundant availability of raw materials, adequate infrastructure for plywood operation and government incentives to promote the industry. In the beginning, CPSB was involved in the production of sawn timber. In 1992, with a team of personnel experienced in production and management system know-how from Taiwan, CPSB commenced plywood manufacturing and secondary processing and ceased being involved in sawn timber production.

The move from Taiwan to Malaysia has resulted in significant skill and technology transfers to Malaysia. The skill and technological transfers were made possible by the moving of the manufacturing and marketing operations of a wide range of timber and plywood products. Along with the transfer of its team of experienced and highly skilled production personnel from Taiwan, Cymao also inherited its predecessor's marketing network.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

The increased production of plywood and decorative plywood and cessation of sawn timber production was in line with the Group's objective to direct its activities towards the production of higher value plywood products.

5.2 Restructuring and Listing

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of Cymao on the Main Board of MSEB, the Company has implemented the restructuring exercise which was approved by the SC on 10 September 2003, the MITI on 10 August 2001 and the FIC on 19 July 2001. Details of the restructuring exercise consist of the following:

(i) Acquisition of CPSB

Acquisition by Cymao of the entire issued and fully-paid up share capital of CPSB of RM51,000,000 comprising 51,000,000 ordinary shares of RM1.00 each for a purchase consideration of RM72,863,088.

The purchase consideration was arrived at on a willing buyer-willing seller basis after taking into consideration its audited NTA as at 31 December 2000 (being the latest audited NTA preceding the date of the application in relation to the Public Issue to the SC on 21 June 2001) of RM72,863,088.

The total purchase consideration of RM72,863,088 also represents of a discount of 23% as compared to its audited NTA as at 31 August 2003 (being the latest audited NTA preceding date of this Prospectus) of RM94,710,726.

The total purchase consideration of RM72,863,088 was fully satisfied by the issuance of 50,999,998 new Cymao Shares at an issue price of approximately RM1.43 per share to the following vendors:

Vendor of CPSB:	Shareholding -----in CPSB----->		No. of new Cymao Shares issued
	No. of shares	%	
Lin Tsai-Rong	16,830,000	33.00	16,829,998
Tsay Chung-Wen	6,600,000	12.94	6,600,000
Hsu How-Tong	4,950,000	9.70	4,950,000
Chang Huci-May	2,640,000	5.18	2,640,000
Chen, Huang Kuei-Liang	990,000	1.94	990,000
Tsung Wun-I.an	990,000	1.94	990,000
Osman bin Omar	1,050,000	2.06	1,050,000
Datuk Mohd Zain bin Omar	1,050,000	2.06	1,050,000
Mohammad Anuar bin Mohd Yunus	1,050,000	2.06	1,050,000
Maksum bin Latif	1,650,000	3.24	1,650,000
Datuk Hajah Faridah @ Faridah binti Abu Hassan	600,000	1.18	600,000
Omar bin Hj Mohammad	300,000	0.59	300,000
Mendu	6,000,000	11.76	6,000,000
Forum Timber	6,000,000	11.76	6,000,000
Tengku Mohamed Fauzi bin Tengku Abdul Hamid	300,000	0.59	300,000
Total	51,000,000	100.00	50,999,998

The 50,999,998 new Cymao Shares were issued free from all charges, liens and encumbrances and rank pari passu in respects of the existing ordinary shares of Cymao and carry all rights to receive in full all dividends and other distributions declared and paid subsequent to the allotment hereof. The acquisition of CPSB was completed on 3 November 2003.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

Subsequent to the completion of the Acquisition Agreement, the two (2) subscriber shares in Cymao were disposed to one of the Vendors, namely Lin Tsai-Rong for a cash consideration of RM2.00. The disposal was completed on 14 November 2003.

(ii) Public Issue

Public Issue of 9,000,000 Cymao Shares at the issue price of RM2.50 per share payable in full upon application, which shall be allocated in the following manner:

(a) 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 the success of the Cymao Group.

(b) 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.

(c) 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.

For further details on the Public Issue please refer to Section 3.5 of this Prospectus.

(iii) Listing

Listing of and quotation for the entire enlarged issued and paid-up share capital of RM60,000,000 divided into 60,000,000 ordinary shares of RM1.00 each in Cymao on the Main Board of MASEB.

5.3 Share Capital

(i) Existing Authorised Share Capital

The present authorised share capital of Cymao is RM100,000,000 comprising 100,000,000 ordinary shares of RM1.00 each.

(ii) Existing Issued and Paid-Up Share Capital

The present issued and paid-up share capital of the Company is RM51,000,000 comprising 51,000,000 ordinary shares of RM1.00 each..

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

The changes in the issued and paid-up share capital of Cymao since its incorporation are as follows:

Date of issue and allotment	No. of shares issued and allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
05.09.1997	2	1.00	Subscribers' shares	2
03.11.2003	50,999,998	1.00	Issued as consideration for the Acquisition	51,000,000

The changes in the shareholdings of Cymao since incorporation are as follows:

	<-----No. of Cymao Shares held----->		
	Upon incorporation	Upon Acquisition being completed	After the transfer of subscriber shares
Katherine Chung Mei Ling	1	-	
Lin Kui Mee	1	-	
Lin Tsai-Rong		16,829,998	*16,830,000
Tsay Chung-Wen		6,600,000	6,600,000
Hsu How-Tong		4,950,000	4,950,000
Chang Huei May		2,640,000	2,640,000
Chen, Huang Kuei-Liang		990,000	990,000
Tsung Wun-Lan		990,000	990,000
Osman bin Omar		1,050,000	1,050,000
Datuk Mohd Zain bin Omar		1,050,000	1,050,000
Mohammad Anuar bin Mohd Yunus		1,050,000	1,050,000
Maksum bin Latiff		1,650,000	1,650,000
Datuk Hajah Faridah@ Faridah binti Abu Hassan		600,000	600,000
Omar bin Hj. Mohamad		300,000	300,000
Tengku Mohamad Fauzi bin Tengku Abdul Hamid		300,000	300,000
Mendu		6,000,000	6,000,000
Forum Timber		6,000,000	6,000,000
Total shares	2	50,999,998	51,000,000

Note:

* Including the two (2) subscribers' shares in Cymao which were disposed of to Lin Tsai-Rong for a cash consideration of RM1.00 per share.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.4 Business Overview of the Cymao Group**5.4.1 Products**

The products manufactured and sold by Cymao Group include veneer, conventional plywood or plain plywood, decorative plywood also known as fancy plywood and specialty plywood which includes lay-ons, engineered wood flooring, decorative medium density fibreboard ("MDF"), concrete forming panel and marine plywood.

5.4.1.1 Veneer

Veneer is a thin sheet of wood which forms the building block for plywood. Veneer used for plywood in Cymao varies in thickness from 0.5 millimetres to 3.8 millimetres.

5.4.1.2 Conventional Plywood or Plain Plywood

A piece of plywood consists of multi-layered veneer laminated together. The veneers are laminated such that the grains are layered criss-crossed in perpendicular directions. It is this criss-cross of the wood fibre that gives the plywood its well known tough, flat, uniform in thickness and yet flexible features. Plywood is usually composed of an odd number of plies. It is usually layered such that the grain of the odd number plies runs in the same direction whereas the even plies are arranged such that their grains run perpendicular to the direction of the odd plies thus giving it a balanced and stable construction.

Thin plywood panels are built up of veneer exclusively. For thicker panels, sawn lumber or some other materials are often used as the centre ply, also known as core. There are two (2) types of plywood which are commonly manufactured, namely interior and exterior plywood. Interior plywood is used only in dry or low moisture locations and uses water resistant glues while exterior plywood uses water proof glues that enable them to be used in all weather conditions.

Plywood has a number of advantages over solid timber:

- (i) It can be manufactured into large sheets with few defects;
- (ii) It is stronger than a piece of timber board of the same thickness;
- (iii) Shrinking and swelling are almost eliminated because the plies criss-cross each other;
- (iv) Splitting when handling or nailing is greatly reduced;
- (v) Wood of lower grades can be used for the core; and
- (vi) Dry plywood can be made from green logs¹ within a day as veneers can be dried within minutes.

Cymao produces plywood for structural and general purposes.

Structural plywood is characterised by its ease of gluing, high strength and stiffness and is commonly applied in construction of floor panels, wall panels, box beams, roof sheathing, concrete formwork and containers.

¹ Green logs refer to freshly cut logs which require to be dried before it can be used.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

However, the bulk of Cymao's plywood is focussed on general purpose plywood. This category of plywood is characterised by ease of reprocessing, low shrinkage and uniform straight grain. The core veneer is generally of lower cosmetic quality and has minor defects such as borer holes and other blemishes. The most common applications of general purpose plywood include: interior decoration, sides of drawers, back of picture frames, wall partitions of temporary buildings, serves as the inner ply of decorative plywood and as substrate for paper overlay and other laminates.

The manufacturing process for structural and general purpose plywood is similar. The only difference is in selection of wood species and veneer composition. Different species are required to produce end-products whose characteristics differ between structural and general purpose plywood.

Cymao manufactures four (4) grades of conventional plywood as categorised by qualitative function as follows:

- (i) Top grade (for use as overlay and direct varnishing);
- (ii) Cosmetic grade-zero surface defect (for use in direct varnishing);
- (iii) Utility (for general purpose and for direct retail to consumers-minor surface defects); and
- (iv) Packing (for industrial use-reutilisation of wood waste).

Cymao is capable of making various number of plies (layers) of plywood. Typically, the number of plies ranges from three (3) to nine (9) plies. Cymao mass-produces the three (3)-ply plywood while other combinations are manufactured to order. The types of wood used for conventional plywood are all sourced locally; the most common of which include Meranti, Kapur, Keruing and Nyatoh. These species of wood are suitable for both structural and general purpose plywood. The dark Meranti and Nyatoh are also suitable for decorative plywood.

5.4.1.3 Decorative Plywood or Fancy Plywood

Decorative plywood also known as fancy plywood is made by laminating specially prepared decorative veneer with thickness ranging from 0.1 millimetres to 0.9 millimetres on the conventional plywood to transform the plywood into ones with a highly attractive finish.

This extra veneer is extracted from species of wood that produce attractive finish, which are usually more expensive. As such, the process of laminating only a thin layer of the desired wood veneer reduces the cost dramatically by comparison to producing solid timber from the desired wood species. To obtain the required wood grain and colour for the decorative plywood, Cymao uses mainly wood from the following countries:

Type of Wood	Country of Origin
Red Oak	USA and Canada
Birch	USA, Russia and Canada
Sapele	Africa
Ash	USA, Canada and Peoples' Republic of China
Maple	USA and Canada
Cherry	USA and Canada
Walnut	USA and Canada
Sen	Japan
Beech	Germany, France and Denmark
Nyatoh	Malaysia

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

Cymao's decorative plywoods are commonly used in the following applications:

- (i) Panelling;
- (ii) Furniture;
- (iii) Fixture; and
- (iv) Interior decorating.

5.4.1.4 Specialty Plywood

Specialty plywood are plywood which have gone through additional processing to attain special properties or characteristics such as fire retarding, waterproof, scratch proof and low formaldehyde emission glue. The processes may involve, among others, soaking in special chemicals (for fire retarding properties), applying a layer of polyester (for scratch proof characteristic) or use of low formaldehyde glue.

Cymao manufactures specialty plywood made to specification which are significantly value-added and therefore command a higher price and profit. Some of these specifications may include, amongst others:

- (i) Resistance to moisture or water-proof properties;
- (ii) Low formaldehyde emission plywood
- (iii) Special sizes and thickness for use in flooring, wall panelling etc;
- (iv) Flexible characteristics, such as bendable;
- (v) Coatings with varnish and/or paint;
- (vi) Special coating such as polyurethane to prevent scratching, or corrosion resistance; and
- (vii) Musical instruments, which use plywood of significantly higher quality by comparison to the conventional plywood.

Other examples of these specialty plywood are:

- **Polyester Plywood**

Polyester plywood is made by applying a layer of polyester on the facing side of the plywood. The advantage is its durability especially in being scratch resistant and water proof. However, it is different from formica top as polyester is a transparent layer that allows the natural wood grain to be visible.

- **Decorative Particle Board**

The manufacturing process involved is to apply thin veneer of desirable wood grain onto particle board. This process is similar to decorative plywood except instead of plywood, particle board is used. The facings of particle board do not have high aesthetic values. As such, plain particle board is normally hidden from view in end products or else some sort of coating would be applied. By putting a layer of aesthetically attractive wood veneer on normal particle board, it would have wider applications.

- **Lay-on**

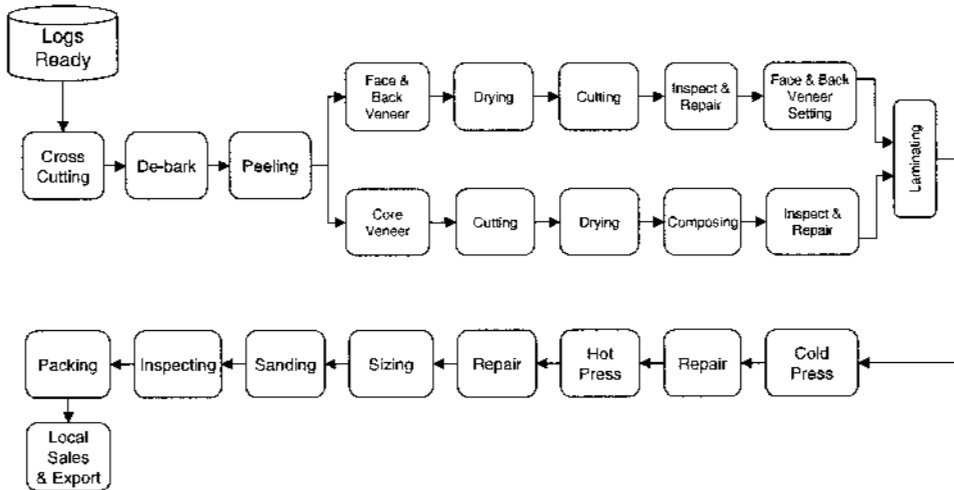
Lay-on is thin veneers of highly desirable wood grains where one-side is treated with special glue. By placing lay-on on timber materials and applying heat and some pressure, the lay-on will stick on to the timber material to provide an aesthetically desirable top. This is a simple process and is liken to ironing the lay-on to the timber material. The material cost of lay-on is very low, but it commands a price premium. According to Cymao, there is high demand for lay-on in the USA.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.4.2 Manufacturing Process

5.4.2.1 Conventional Plywood

Typical manufacturing process for conventional plywood is depicted in the figure below:



From Log Storage to Cross-cutting² to De-barking³ to Peeling

The round log handling facility consists of log storage and sorting system and log cross-cutting section. At this facility, logs of similar nature are de-barked, sorted and arranged for future processing. Once the logs are sorted, they are transported to the cross-cutting section. Cymao's cross-cutting section consists of roller conveyor and a jumbo chain saw affixed to the side of the conveyor system. The logs are transported length-wise along the roller conveyor. When the log reaches a predetermined point the chain-saw will cut the log into sections, thus giving it the desired length.

The next step is to transport these log sections to the peeling section. The logs are sorted again based on their natural properties and dimensions. Cymao's peeling facilities consist of lathe machines and veneer handling systems. The lathe machines are giant rotary peelers and capable of peeling the veneer off logs of various lengths/ dimensions as well as thickness. Cymao utilises lathes of different dimensions and in different combinations that provide Cymao the capability of making different dimensional types of plywood at any given time. Peeling is a process where logs are peeled lengthwise in a circular manner to obtain a continuous layer of wood, also known as veneers. This process is very similar to sharpening a pencil where the pencil shavings are the desired continuous sheet of wood. The main difference is, unlike the sharpening of pencils where peeling is done at the tip of the pencil only, the peeling is carried out for the whole length of the log.

There are two (2) types of veneer. One is the core veneer that will be sandwiched by a face and back veneer. As the core veneer is hidden from view, the process of treating the core veneer is different from those of the front and back veneers.

² Cross-cutting refers to the cutting of logs into the desired length.

³ De-barking involves the removal of the bark from the round logs.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

Drying to Cutting to Inspect and Repair

After peeling, the veneers are sent to the dryers. The veneer is dried to a specific moisture content so as to facilitate the adhesion process later. The long grain veneer (the face and back veneer) is passed through a continuous dryer whilst the short grain veneer (core veneer) is passed through a roller dryer.

After the drying process, the short grain veneer or better known as core, is sent to another machine called the core builder machine. The core builder uses a special kind of glue to join the core. After stacking about 300 to 400 pieces of core (depending on the thickness), the core stack is then sent to the repair areas where any irregularities are repaired. Finally, the core is rearranged so that it will be easier to use at the glue area.

Long grain veneer obtained from the dryer is selected and divided into two (2) categories, the face and the back quality. Once they are categorised, the long grain veneer is then set up and prepared to be used at the glue area.

Laminating

The glue area is made up of the glue spreader, cold press and the repair area. First the face veneer is placed down onto the receiving area, then the core is passed through the glue spreader and placed on top of the laid up face. Finally, the back is placed on top of the core. This process repeats until a substantial amount of three (3) ply is done.

Cold Press to Hot Press

The stack is then placed into the cold press so that the glue is distributed evenly throughout the plywood and good bonding is achieved. Exiting from the cold press, the rough plywood is inspected for faults. If there is a fault or a defect, the rough plywood is then sent to the repair area to be repaired. The acceptable ones are then setup for the next stage, that is, the hot press. The hot press has layers of heated plates where the rough plywood is placed between the heated plates to be pressed. After the pressing process, the plywood is then collected and stacked for the next stage.

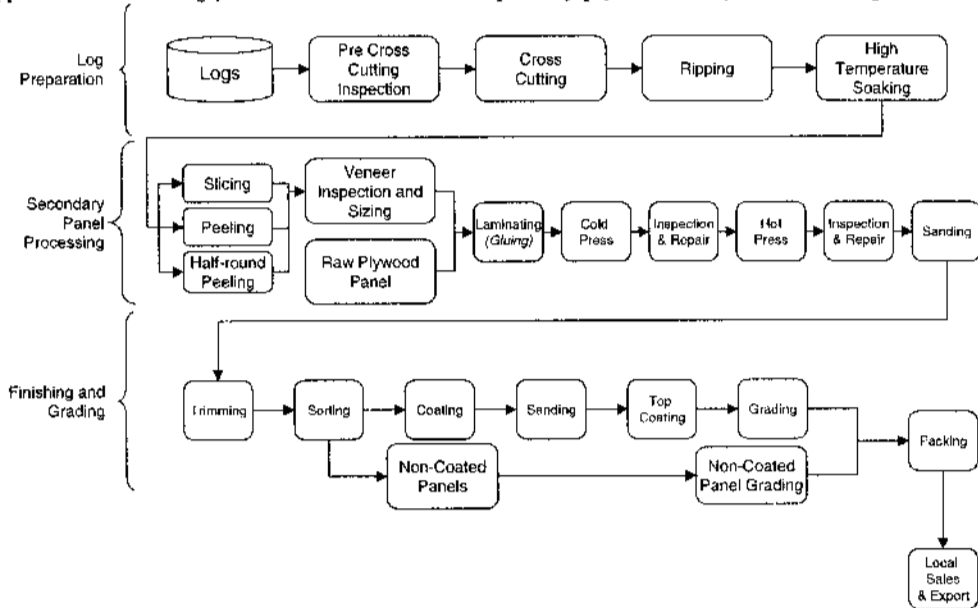
Sizing to Sanding to Inspecting to Packing and Shipping

The uncut plywood goes through another quality check where if it is not presentable, it will be puttied to fill minor cracks or defects on the face. Once done, the uncut plywood is sent for finishing. At the finishing lines, the plywood is sent through double sizer to cut off the trimming and then to the sander to give the face of the plywood a nice smooth finish. Finally, the finished plywood goes through a quality check and graded. The grading system sorts the plywood into different grades based on market standard and pack them for shipping.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.4.2.2 Decorative Plywood

Typical manufacturing process for decorative and specialty plywood is depicted in the figure below:



The manufacturing of decorative plywood undergoes three (3) main processes:

Process 1: Log Preparation

The quality required in the production of decorative plywood is very high. Therefore the production process begins with the selection of good logs upon procurement. Logs used for the production of decorative plywood are mainly from temperate regions such as the USA, Canada, Africa, Denmark, France, Russia, Japan and China. Logging is seasonal and shipping takes a long time. Hence, Cymao usually has to procure a whole year’s worth of inventory during the winter months, i.e. logging season.

Due to the large inventory, the storage system is very important. The storage facilities are log ponds with time controlled sprinkler systems to keep the exposed portion of the log wet in order to prevent cracks due to the moisture content of the logs.

Depending on the order, logs of a particular species are treated in the log treatment facility to achieve the desired condition before the next process such as peeling, slicing and half-rounding⁴. This log treatment facility consists of giant cooking vats with steam heating tubes and hoists for handling these logs. Each vat is equipped with automatic temperature regulator. This facility can simultaneously treat more than eight (8) log species with complex heating and treatment cycles. The normal treatment cycles are three (3) days and each vat can treat enough logs for twenty-four (24) hour-processing.

⁴ Half-rounding refers to the peeling of logs whereby the logs are mounted onto the peeling machine in such a way that the axis of rotation is located outside its central core. This will result in a different pattern of grain as compared if the axis of rotation is the central core of the logs.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

Process 2: Secondary Panel Process

After the logs are treated, they are transported to the peeling/ veneering section. Cymao's decorative veneering section consists of two (2) types of veneering systems.

Slicing

The first system is slicing lines. This system usually processes Red Oak, White Oak, Nyatoh, Beech, Cherry, Walnut, American White Ash, China Ash and Japanese Sen. Cymao has four (4) slicing lines capable of cutting veneer dimension of up to 14 feet long and each of these machines can slice veneer down to the useful thickness of 0.10 millimetres. Decorative logs are first inspected for its grain pattern and the flitching⁵ plan is drawn up. Then, decorative logs are flitched according to plan into log squares. This log square (or flitch) is then put into the slicer machine. The sliced veneer is then stacked for further processing.

Peeling and Half-round Peeling

The second system is rotary lines. The rotary lines can be classified into two (2) sub-systems, namely, full rotary and half-round rotary. Cymao has two (2) such lines. The full rotary cutting sub-system usually processes Birch, Maple, Walnut and small diameter Red Oak and White Oak. The half round rotary sub-system usually processes Birch, Maple, Red Oak and White Oak. The output veneer of these lines is stacked like the slicing system for further processing.

The next stage of the process involves sending the decorative veneer over to the veneer conditioning line for treatment against blue stain (contamination of iron particle from the machinery, dust particles and handling equipment). The treating equipment consists of several treatment tanks used to dip the veneer.

After veneer treatment and conditioning, decorative veneer will be cut by using cutting machines known as guillotines in order to provide a perfectly trimmed straight line for later lay-up process. Care must be taken to ensure all veneer are line up perfectly and tightly without any movement before cutting can be performed on both edge of the veneer.

Laminating

Once the veneers are prepared at this stage, they are sent to the lay-up for lamination onto the substrates. The substrates are usually plywood manufactured in Cymao. But on occasions, when the customers request other substrates⁶ to be used, Cymao can usually accommodate their requests. Cymao's decorative plywood has three (3) such adaptive lay-up lines.

⁵ Flitching refers to the cutting of a log into lumber sections that do not include its central core.

⁶ Substrates refer to the many different materials onto which veneer is layered. For example, aluminium, plastics or other polymers.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

Cold Press to Hot Press to Sanding

After the decorative veneers are lay-up onto the substrates, they are sent to cold press machines. Under minor pressure and at room temperature, the glue lined in between the decorative veneer and the substrate will be forced to distribute more evenly and at the same time minor adhesion will be formed. When the process is completed, the semi-finished decorative plywood will be inspected and since the glue has not been cured at this stage, manufacturing defect up to this point can still be repaired. Once the repaired is done, this semi-finished decorative plywood is then sent to hot press to cure the glue line. After this stage, it is re-inspected and repair effort will be applied again, then the semi-finished decorative plywood will be sent into the sanding line.

Process 3: Finishing and Grading

The sanded decorative plywood will be trimmed and sorted then graded based on appearance features and any manufacturing defect will be repaired. If after repairing at this stage, the manufacturing defect is still visible, it will be scrapped.

5.4.2.3 Specialty Plywood

Specialty plywood is produced using similar manufacturing process of both plywood and decorative plywood. However, specialty plywood makes use of special chemicals, glue, coating and different composition⁷ of veneer in order to have add significant value and therefore command a higher price and profit premium.

5.4.3 Location

All of Cymao Group's assets (which include its administration building, marketing office, plant and machinery) are located at its principal place of business and production facility at 9.1 KM, Jalan Batu Sapi, 90000 Sandakan, Sabah.

⁷ Different compositions mean using veneers of various thickness, species and also how the grains are laid, i.e. in a criss-cross fashion or in the opposite direction.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.4.4 Production Capacities and Output

The annual production capacity and output of CPSB for each product for the last five (5) financial years are as follows:

Products	Capacity m ³ [^]	<-----Volume of Production ----->						Eight (8)- month period ended 31 August 2003 m ³
		<-----Financial Year Ended 31 December----->						
		1998 m ³	1999 m ³	2000 m ³	2001 m ³	2002 m ³		
Plywood [*]	150,000	26,183	34,933	36,322	75,707	100,742	64,462	
Decorative plywood [*]	30,000	5,625	7,220	10,590	17,852	17,217	19,351	
Veneer [*]	150,000	6,075	8,093	8,817	1,022	-	-	
Lay-on	-	-	-	-	1,022	2,219	1,534	
Engineered wood flooring	-	-	-	-	2,711	3,776	2,580	
	>	37,883	50,246	55,729	98,314	123,954	87,927	

Notes:

* In view of the manufacturing process of plywood, decorative plywood and veneer overlap, the volume of production above represents the final end-products which are sold and not subject to further processing.

[^] Production capacity as at 31 August 2003.

> It is not meaningful to provide cumulative figure as the capacity to produce veneer and plywood overlaps. This is because plywood is made from veneer.

5.4.5 Employees

As at 12 February 2004 (being the latest practicable date prior to the printing of this Prospectus), the Cymao Group has a total of 1,821 employees, none of whom belongs to any union. There have not been any industrial disputes in the past and accordingly, the management believes it enjoys a cordial working relationship with its employees.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

The total number of employees with the breakdown into categories and average number of years of services is as follows:

Years of Service Category	Full-time employees		Contract employees	Total
	≥5	<5		
Management	4	2	6	12
Executive	7	13	-	20
Technical and Supervisor	20	20	4	44
Clerical	2	6	-	8
General Worker	8	835	894	1,737
Total	41	876	904	1,821

The Company provides continuous training to its employees vide the following programmes:

General workers

Training programmes

New recruits

- In-house classroom lecture on job description and procedures
- On the job training with section counselors and/or co-workers on technical application

Existing workers

- Job rotation to acquire different skill sets
- Participation in company productivity and quality elevation exercise
- In-house classroom lectures on new process/ techniques

Management

Training programmes

Trainees

- In-house classroom lectures on company, policies, products, management procedures, and production processes.
- On the job training with technical support department for product and production process familiarisation
- Professional training courses offered and approved by Pembangunan Sumber Manusia Bhd

Existing management trainees, and management

- External courses offered by professional training centers, which are approved by Pembangunan Sumber Manusia Bhd
- Job rotation to acquire different skill sets

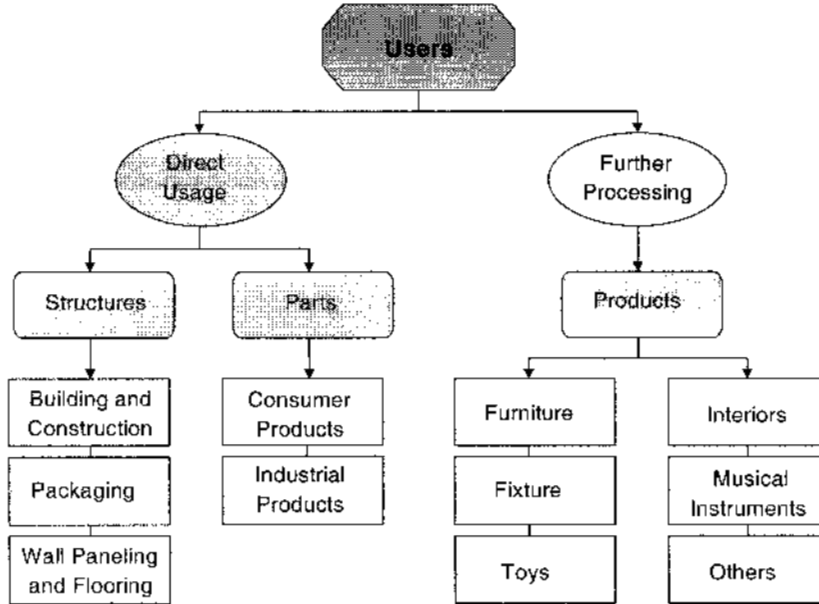
5.4.6 Interruption/Disruption in Business

The Group did not experience any disruption in its business that significantly affected its operations for the twelve (12) months prior to 12 February 2004 (being the latest practicable date prior to the printing of this Prospectus).

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.4.7 Users of Cymao's Wood Products

There are two (2) categories of users of conventional and decorative plywood as depicted below:



(Source: Independent Market Research Report by Vital Factor)

5.4.7.1 Direct Usage

This category uses the plywood 'as-is' basis with minimum value-adding or further processing. Some value adding may include cutting to size and coating. There are two (2) sub-categories for this group of users, namely:

- (i) Plywood used as part of structures; and
- (ii) Plywood used as part of other products.

The building and construction industry uses a lot of plywood, such as, holding structure for cement to set walls and floors as well as partitions for temporary and permanent buildings. Plywood is also used extensively for packaging and may be used for, among others, agriculture produce and manufactured products and equipment. The main function is to provide rigid structure to protect the content, especially during transit, transportation and storage. Plywood is also used in a number of consumer and industrial products. Examples of consumer products include the back of speaker sets, back of picture frames, back of furniture, and leisure boats and examples of industrial products include panels of covered trucks and base of pallets. (Source: Independent Market Research Report by Vital Factor)

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.4.7.2 Further Processing

This category uses the plywood as base material to manufacture end-products. There is significant value-adding and transform plywood into furniture, fixture, kitchen cabinets, doors, musical instruments and toys.

5.4.8 Principal Markets

Cymao's principal markets are mainly overseas markets as shown below:

	Revenue for Eight (8)-Month Period ended 31 August 2003 RM'000	Proportion of Total Revenue %
Export	84,417	77.8
Local	24,091	22.2
Total	<u>108,508</u>	<u>100.0</u>

The export market comprises the following:

	Revenue for Eight (8)-Month Period ended 31 August 2003 RM'000	Proportion of Total Revenue %
USA	67,972	62.6
Middle East	5,922	5.5
Mexico	3,987	3.7
Korea	3,787	3.5
Taiwan	1,002	0.9
Singapore	873	0.8
United Kingdom	637	0.6
Japan	156	0.1
Bangladesh	81	0.1
	<u>84,417</u>	<u>77.8</u>

Within each export country, Cymao has a number of independent customers. In addition, each of these customers buys a number of types of products. All these provide Cymao some diversification in its customer base to reduce overdependence.

The main export market for Malaysia's plywood is in the Asian region including Japan, South Korea and Taiwan. In 2002, the USA represented 12.2% of Malaysia's export of Plywood. In 2002, Japan alone represented 48% of Malaysia's total export of plywood. (*Source: Independent Market Research Report by Vital Factor*). Thus, Cymao's focus on the USA market provides Malaysia with some market diversification from overdependence on the Asian markets. Additionally, the USA market is large, thus providing significant growth opportunities for Cymao.

5.4.9 Key Players in the Industry and Competitive Conditions

As at October 2003, there were 169 plywood/veneer mills in Malaysia of which 68, representing 40% of total plywood/veneer manufacturers, are located in Sabah. However, by comparison to general plywood manufacturers, there are relatively fewer manufacturers of decorative plywood

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

Veneer and conventional plywood are considered commodities. The two (2) main global competitors of hardwood plywood are Indonesia and Brazil. In addition to Malaysia, these three (3) countries produce the bulk of the world's hardwood plywood, hence, competition among these three (3) countries is intense. (Source: *Independent Market Research Report by Vital Factor*). Despite the intense competition, Cymao continues to compete in the highly competitive markets of veneer and plywood in order to have economies of scale and a broad base revenue. Cymao's continuing growth and profitability demonstrates its success in this highly competitive market.

Competition among decorative plywood/veneer manufacturers is low. This is in view that decorative plywood has higher value-adding hence require specialised equipment and expertise. It 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. Poor skills and low quality standards will result in high wastage, thus reducing profits in view that there is no market for low grade decorative plywood. Therefore, decorative plywood must either make the quality requirement or they are scrapped. Demand for decorative plywood is highly dependent on consumer preferences in terms of different wood grain and colour, in contrast, conventional plywood is a commodity and only has a few variations in terms of grades and sizes. Manufacturers who are unable to foresee trends in demand of different types of decorative plywood could be caught with expensive temperate climate logs in inventory with no buyers and this will adversely affect the profit margin of inexperienced plywood mills.

Specialty plywood serves niche markets. Volumes are relatively small, hence, the low volume poses challenges as intensive marketing effort is required to service sufficient niche markets to generate adequate production volume of the same to be commercially viable. Most plywood manufacturing plants are geared towards high volume runs, as such, many manufacturers would find it highly inefficient to incorporate small runs if they are unable to optimise production runs in view of narrowing profit margin.

R&D required is extensive. In addition, many of the specialty plywood, for example fire retarding plywood, would require extensive testing and certification. Very few plywood manufacturers in Sabah undertake sufficient R&D and go through rigorous testing and certification to create specialty plywood.

As such, there are substantially fewer manufacturers of specialty plywood.

As with decorative plywood, specialty plywood enables Cymao to increase its profit margin significantly compared to conventional plywood and veneer. Hence, Cymao's strategy of being in commodity based as well as premium markets provides it with a good combination of volume and high margin. This two (2)-pronged product strategy enables it to compete successfully within the plywood industry.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

5.4.10 Key Achievements and Awards

To date, Cymao's key achievements can be seen from its R&D area set out in Section 5.4.12 of this Prospectus whereby Cymao has successfully produced ancillary raw material such as glue, wood putty and colour-coating on its own to enhance the quality and characteristics of plywood, decorative plywood and specialty plywood produced by Cymao. In addition, Cymao has successfully made a breakthrough by introducing plywood of special characteristics such as flexible plywood which are bendable and special coated plywood.

Cymao is one of the few manufacturers of plywood in Malaysia that is able to use plantation logs to manufacture plywood. This capability will enable Cymao to reduce somewhat its dependency on tropical hardwood forest logs. *(Source: Prospects and Future Plans of Cymao Holdings Berhad by Vital Factor)*

The Cymao Group and its products have also been recognised by many national and international bodies, for example:

- (i) The Malaysian Timber Industry Board confirms its products have been manufactured from well managed forests in accordance with Malaysia's National Policy and Strategy which also complies with ITTO Guidelines for the sustainable management of natural tropical forests and the draft criteria for sustainability.
- (ii) The FSC had issued a chain-of-custody certificate for selected products manufactured by the Cymao Group, which states that its products have been harvested from forests that meet stringent environmental, social and economic standards.
- (iii) The Malaysian External Trade Corporation awarded CPSB the Industry Excellence Award 2001 for product excellence and innovative product.

(Source: Business Overview of Cymao Holdings Berhad by Vital Factor)

5.4.11 Distribution Network and Marketing Strategies

Cymao's distribution channel strategy is through direct channels, using its own internal sales and marketing force. Customers tend to make large volume purchases and, due to market forces, the prices of plywood tend to fluctuate. Hence, in view of these factors, customers prefer to deal directly with Cymao to obtain the best possible price for their large volume purchases.

Cymao utilises the following marketing strategies to sustain and expand its business:

- (i) Providing high quality products and services to establish long term customer loyalty and obtain repeat business;
- (ii) Keeping abreast with rapidly changing consumer trends (for example, wood species preferences) and technological development (for example, stable low formaldehyde glue) to stay ahead of the competition as well as to better meet the needs of customers;
- (iii) Work in close partnership with its existing customers to secure higher sales in existing and new products;

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

- (iv) Regularly visit trade shows and exhibitions to obtain new ideas as well as to meet up with existing and potential buyers. Some examples include:
 - (a) Musical instrument shows in Germany;
 - (b) International Wood Products Association trade shows in USA; and
 - (c) Machine trade shows in Malaysia, Indonesia, Japan, Singapore and USA; and
- (v) Joining various associations to increase networking as well as to promote the Company. This is achieved through listing in the associations' directories and attending their many functions to increase Cymao's profile as well as to network among operators within the industry. Cymao is a member of the following associations:
 - (a) International Wood Products Association (USA);
 - (b) Hardwood Plywood Veneer Association (USA);
 - (c) Sabah Timber Industry Association; and
 - (d) Malaysian Plywood Manufacturers Association.

5.4.12 R&D

5.4.12.1 Areas and Roles of R&D

Cymao undertakes significant R&D which provides Cymao with advantages for business sustainability, growth and profitability. R&D plays a critical role in creating competitive advantages for Cymao in the following manner:

- (i) sustainable business growth through development and marketing of new and better quality products and products with desired characteristics;
- (ii) continuous cost reduction to ensure sustainable price competitiveness and increased profitability; and
- (iii) minimising the impact of competitive pressure through new products where competition is less intense.

Cymao undertakes R&D in the following areas:

- (i) Creation of new products;
- (ii) Improvement and variations of existing products;
- (iii) Creation of proprietary consumables, e.g. primer, wood putty and stabilised catalyst;
- (iv) Waste recycling; and
- (v) Production process improvement.

Investment on R&D and linkage to research institutions to improve the utilisation of timber and the marketability of lesser known plant species as well as the enhancement of timber value amongst the local manufacturers are lacking.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

The Group has, for the past five (5) years and the eight (8)-month period ended 31 August 2003, spent on R&D as follows:

	<-----Year ended 31 December----->					Eight (8)- month period ended 31 August 2003	Total
	1998	1999	2000	2001	2002		
R&D Expenditure (RM'000)	1,035	623	2,016	574	744	500	5,492
Proforma group revenue (RM'000)	50,813	69,774	74,793	116,310	139,613	108,508	559,811
As a percentage of revenue (%)	2.04	0.89	2.70	0.49	0.54	0.46	0.98

5.4.12.2 R&D Facilities and Skilled Knowledge

The R&D facility, Cymao is located at 9.1 KM, Jalan Batu Sapi, 90000 Sandakan, Sabah.

Cymao's R&D facility is a laboratory where two (2) engineers and five (5) laboratory assistants conduct experiments and testing on existing and new products. Approximately fifty (50) workers are also partly involved in the R&D effort on the production lines.

Cymao's R&D capabilities are supported by its in-house facility and expertise as well as joint R&D carried out with research centres, such as Sabah Forest Research Centre and local universities. Cymao has experienced technical personnel. Further, the Promoters have cumulative knowledge and technical expertise of more than 50 years in the business, especially during their involvement in wood product production in Taiwan where they manufactured a wide range of products.

Cymao's in-house knowledge base, especially derived from the Promoters' experiences is vital to its R&D efforts. This is because many of the products being developed by Cymao in Malaysia have either been undertaken before or are an extension of some other previous products developed by the Promoters in Taiwan.

5.4.12.3 Cymao's Achievements and Innovations

Cymao has worked with organisations such as National Beijing University of China; South West Texas University of the USA, Du Pont Chemicals of the USA and Forest Research Institute Malaysia ("FRIM") in carrying out R&D for fire-retarding plywood and other products. In addition, Cymao works closely with researcher from Industrial Technology Research Institute of Taiwan in carrying out R&D on glue. Cymao also collaborates with Sabah Forest Research Centre in identifying suitable plantation logs for use in the manufacture of plywood. Key areas which are currently being researched and developed are stable low formaldehyde glue, fire-retarding plywood and adaptive environment friendly phenolic type glue (water proof glue).

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

Cymao's role in these organisations is to provide direction to the researchers. Upon completion and success of the research in the laboratory, Cymao's functions would be to continue the R&D process for commercialisation such as follows:

- (a) apply in mass production; and
- (b) testing under commercial applications, usage and environmental conditions including:
 - . wear and tear;
 - . corrosion;
 - . ageing testing;
 - . coatings and pigmentation; and
 - . bleaching.

Cymao's achievements with regard to its R&D efforts are the application of technology in the following:

- (a) Stabilised catalyst used in the laminating process;
- (b) Environment friendly wood putty of different colours to suit the colours of different species plywood and decorative plywood;
- (c) Primer, a semi-liquid chemical, used in unifying the colour of different species of plywood and decorative plywood;
- (d) Bending plywood used in musical instruments and architectural design;
- (e) Colour and special coating used in coated plywood; and
- (f) Jelly water used in repairing decorative plywood.

The above achievements were researched and developed by the R&D team of Cymao headed by Lin Kai Hsuan and supported by two (2) engineers.

Through its R&D efforts, Cymao has created the following products:

New Products	Applications	Benefits	Status
Stable Low Formaldehyde Glue (Low emission of formaldehyde fumes)	Carpet Flooring Clean Room General Plywood	<ul style="list-style-type: none"> ▪ New business segment ▪ Win market share targeted at consumers who are sensitive to formaldehyde ▪ Better working environment for workers 	Launched.
Marine Plywood (Water proof)	All types of marine crafts	<ul style="list-style-type: none"> ▪ New business segment 	Launched.
Softwood Core (use of Radiata Pine from New Zealand)	As per conventional plywood	<ul style="list-style-type: none"> ▪ High assurance of long term regular supply thus reducing over-dependence on hardwood ▪ Eco-certified to address European and USA eco-markets 	Launched.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

New Products	Applications	Benefits	Status
Lay-on (Thin veneer to be ironed onto plywood)	Furniture Fixture Interior	<ul style="list-style-type: none"> ▪ New business segment especially for USA market ▪ Premium pricing ▪ Low competition because very few manufacturers in this segment 	Launched.
Carpet Flooring (Strips of joined plywood enabling it to be rolled away for storage)	Roll-on plywood carpets to preserve cleanliness, wear and tear of covered area (e.g. sleeping quarters)	<ul style="list-style-type: none"> ▪ New business segment especially for the Japan market ▪ Premium pricing as value adding include low formaldehyde glue and joining of plywood strips 	Launched.
Engineered wood flooring (Thick plywood to support heavy weight)	All types of flooring	<ul style="list-style-type: none"> ▪ New business segment 	Launched.
Platform (Lay-on to be ironed onto platform)	Industry application for panel manufacturers	<ul style="list-style-type: none"> ▪ New business segment in USA and potentially Europe 	Launched.

For products that Cymao will commercialise in the near future, please refer to Section 6.1.1 and 6.1.2

5.4.12.4 Patents, Trademarks and Franchises

Save for the trade mark registration for its logo, Cymao currently does not hold any other patents, trademarks or franchises.

5.5 Information on the Subsidiary Company

As at 12 February 2004 (being the latest practicable date prior to the printing of this Prospectus), Cymao has one subsidiary company, CPSB.

5.5.1 History and Business

CPSB was incorporated as a private limited company in Malaysia under the Act on 9 April 1990. The present authorised share capital of CPSB is RM100,000,000 divided into 100,000,000 ordinary shares of RM1.00 each. The present issued and fully paid-up share capital of CPSB is RM51,000,000 divided into 51,000,000 ordinary shares of RM1.00 each. CPSB is directly 100% owned by Cymao. CPSB has no subsidiary or associated companies.

The principal activities of CPSB are the manufacture and sale of veneer, conventional plywood, decorative plywood and specialty plywood. CPSB commenced its business in 1991.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.5.2 Changes in Share Capital

Details of changes in the issued and paid-up share capital of CPSB since its incorporation are as follows:

Date of issue and allotment	No. of shares issued and allotted	Par value RM	Consideration	Total issued and paid-up share capital RM
09.04.1990	2	1.00	Subscribers' shares	2
06.05.1991	3,499,998	1.00	Cash	3,500,000
26.08.1993	3,000,000	1.00	Cash	6,500,000
01.07.1996	5,318,182	1.00	Bonus issue 1:1.22	11,818,182
01.01.2000	10,000,000	1.00	Capitalisation of debts	21,818,182
15.01.2000	29,181,818	1.00	Bonus issue 1.34:1	51,000,000

5.5.3 Profit and Dividend Record

The audited profit and dividend record of CPSB for the past five (5) years ended 31 December 2002 and for the eight (8)-months period ended 31 August 2003 are summarised as follows:

	<-----Year ended 31 December----->					Eight (8)- month ended 31 August
	1998 RM'000	1999 RM'000	2000 RM'000	2001 RM'000	2002 RM'000	2003 RM'000
Revenue	50,813	69,774	74,793	116,310	139,613	108,508
EBITDA	9,623	14,334	16,830	18,624	20,265	16,259
Interest	(895)	(48)	(160)	(246)	(154)	(21)
Depreciation	(4,093)	(4,129)	(4,290)	(4,529)	(4,791)	(3,544)
Profit before exceptional item	4,635	10,157	12,380	13,849	15,320	12,694
Exceptional item	-	-	-	-	-	-
Profit before taxation	4,635	10,157	12,380	13,849	15,320	12,694
Taxation	(1,210)	2,107	683	835	(949)	(1,863)
Profit after taxation	3,425	12,264	13,063	14,684	14,371	10,831
No of ordinary shares in issue ('000)	11,818	11,818	51,000	51,000	51,000	51,000
Adjusted no. of ordinary shares in issue ('000)	51,000	51,000	51,000	51,000	51,000	51,000
Gross EPS (sen)	9.09	19.92	24.27	27.15	30.04	*37.34
Net EPS (sen)	6.72	24.05	25.61	28.79	28.18	*31.86
Tax exempt dividend rate (%)	-	-	-	-	-	49.02

Notes:

* Annualised.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

- (i) *The summarised income statements for the financial years 1998 to 2002 have been restated to incorporate the prior year adjustment made in the 8-month period ended 31 August 2003. The prior year adjustment was in relation to the change in accounting policy on deferred taxation arising from the adoption of Standard No. 25, Income Taxes issued by the Malaysian Accounting Standards Board amounting to:*
- *RM1.210 million of tax expense for the financial year 1998;*
 - *RM2.107 million, RM0.683 million, and RM0.835 million tax income for the financial years 1999 to 2001 respectively; and*
 - *RM0.949 million tax expense for the financial year 2002.*
- (ii) *Revenue represented invoiced value of veneer, plywood, decorative plywood, engineered wood flooring and lay-on less returns and discount.*
- (iii) *For the financial year ended 31 December 1999, the improvement in revenue and profit before taxation was mainly attributed to the regional economy recovery that boosted sales volume and selling prices, and the increase in export to the USA which fetched higher selling prices.*
- (iv) *For the financial year ended 31 December 2000, the increase in revenue and profit before taxation was mainly attributed to CPSB's focus on the production and marketing of decorative plywood which fetched better margins.*
- (v) *For the financial year ended 31 December 2001, the significant increase in revenue despite the sluggish global demand was mainly attributed to the increase in sales volume of plywood, in particular, to the USA. This was led by the R&D and marketing efforts of the company to supply quality plywood with various specifications to meet customer requirements. Despite a 55.51% increase in revenue, profit before taxation increased by 11.87% only. This was mainly due to lower average selling prices of timber products affected by the sluggish global demand.*
- (vi) *For the financial year ended 31 December 2002 and the eight (8)-month period ended 31 August 2003, the increase in revenue and profit before taxation was mainly attributed to the efforts to increase sales by obtaining repeat orders and securing a new major customer from the USA.*
- (vii) *CPSB was granted pioneer status (100% of the adjusted income) under the Promotion of Investment Act, 1986 for its plain plywood and fancy plywood operations until 31 August 1997, which was subsequently extended to 31 August 2002.*
- (viii) *For the financial years ended 31 December 1998 to 2001, the CPSB was not liable for tax on profits from its plain plywood and fancy plywood operations in view of the pioneer status granted. Profits generated from veneer operation were not taxable due to the availability of capital allowances. Tax income and tax expense for these financial years were in respect of the origination and reversal of deductible temporary differences. The deductible temporary differences was related to capital expenditure incurred for pioneer operations during the pioneer period which were deemed to be incurred on the first day of the post pioneer period (1 September 2002) as the application of the company for pioneer status was made prior to 1 January 1991.*
- (ix) *For the financial year ended 31 December 2002 and the 8-month period ended 31 August 2003, CPSB was not liable for tax on profits generated from operations in view of the availability of unabsorbed capital allowances. Tax expense for these financial year/period represented reversal of the deductible temporary differences previously provided.*
- (x) *There were no exceptional or extraordinary items for the relevant financial years/period under review.*
- (xi) *The gross and net EPS have been calculated based on the profit before and after taxation respectively and the adjusted number of ordinary shares in issue for each financial year/period under review. The adjusted number of ordinary shares was arrived at after adjusting for the capitalisation of debts of and bonus issue and the financial year ended 31 December 2002. The gross and net EPS for the eight (8)-month period ended 31 August 2003 have been calculated on an annualised basis.*
- (xii) *CPSB does not have any associated companies and has not been involved in any joint ventures during the financial year/period under review.*

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

5.6 Industry Overview

5.6.1 Overall Malaysian Economy

The growth momentum of the Malaysian economy continues to be sustained despite the adverse external environment, arising from geopolitical tensions and the outbreak of Severe Acute Respiratory Syndrome ("SARS"). Growth in the first half of 2003 was significantly stronger at 4.5% compared with 2.6% during the corresponding period in 2002. The Government's quick response and timely policy initiatives and measures, in particular the implementation of the Package of New Strategies Towards Stimulating The Nation's Economic Growth dated 21 May 2003 have contributed substantially towards the rapid expansion in domestic economic activities. The higher growth achieved amidst an environment of low inflation as well as increased international reserves further reinforced the strength of Malaysia's macroeconomic fundamentals. With these in place, the nation is poised to achieve the growth target of 4.5% in 2003 (*Source: Ministry of Finance, Malaysia, Economic Report 2003/2004 dated 12 September 2003*).

With the prospects of an improved recovery in the global economic environment and the stronger growth momentum in the Malaysian economy, the private sector will need to resume its role as the engine of growth. The private sector needs to venture into new endogenous sources of growth and develop broader-based economic activities, especially in the services and agriculture sectors. In addition, it has to undertake greater concerted efforts to enhance value creation activities to produce high quality Malaysian products and services

Growth is expected to be broad-based with all sectors in the economy registering higher output with services and manufacturing continuing to spearhead growth. Growth is also expected to emanate from the domestic sector as well as pick-up in the external sector, following improved world prospects. (*Source: Ministry of Finance, Malaysia, Economic Report 2003/2004 dated 12 September 2003*).

5.6.2 Overview of Wood-Based Industry

The wood-based industry plays a significant role in the general economic growth of Malaysia.

The wood-based sector in Malaysia was previously dominated by primary processing activities such as sawmilling, veneer and plywood production. However, in recent years, downstream processing activities such as the manufacture of mouldings, furniture and joinery have increased significantly. 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.

In 2002, the sector contributed RM10.2 billion to the country's total export earnings.

The Second Industrial Master Plan 1996-2005 has identified the wood-based industry as a key area of development.

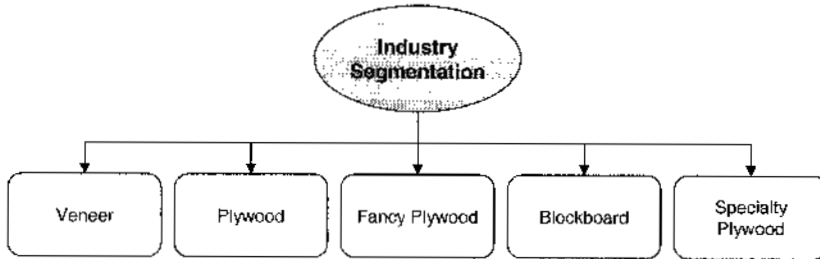
Malaysian Industrial Development Authority ("MIDA") considers the plywood/veneer and blockboard industry as a sub-sector of the larger wood-based industry.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

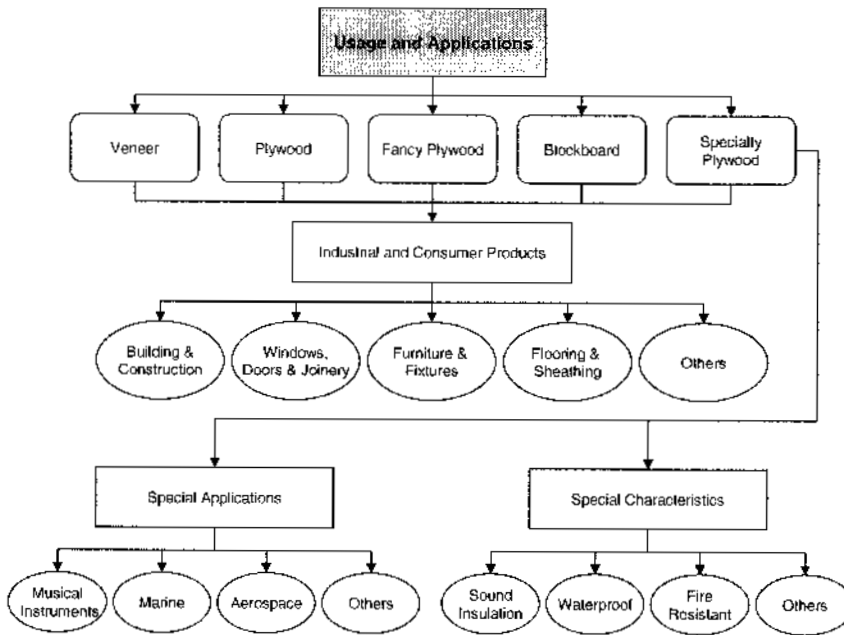
The sub-sectors of the wood-based industry are as follow:

- sawmilling
- plywood /veneer and blockboard
- mouldings and builders carpentry and joinery
- reconstituted wood-based panels
- furniture and furniture components.

The plywood industry can be broken down into the followings:



The plywood industry can be further structured by usage and applications:



The usage and applications of the different types of plywood products is extensive and include both industrial and consumer applications.

Specialty Plywood is produced to specifications. Some of the unique characteristics of this type of plywood include fire retarding, anti-slip surface, better heat and sound insulation resulting from the sandwich structure of the plywood. Specialty Plywood is being used extensively in airplanes for fuselage sides, bulkheads, engine bearers, wing ring webs and other parts of the plane. It is also used for boat building and in the making of musical instruments.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

In total, there were 169 plywood/veneer mills in Malaysia as at October 2003. 48 were located in Peninsular Malaysia, 68 in Sabah and 53 in Sarawak. *(Source: Malaysian Timber Council)* There were approximately 12 laminated board and blockboard manufacturers mostly located in Peninsular Malaysia.

In 2002, Sabah and Sarawak accounted for 95.1% of the total plywood and veneer produced in the country.

In 2002, the production of plywood increased by 0.8% to approximately 4 million m³ while the production of veneer decreased by 0.8% to 985,698 m³.

The sales value of plywood, hardboard and particle board mills increased by 3.8% to RM6.0 billion in 2002.

Export of plywood and veneer amounted to RM3.7 billion and RM0.4 billion respectively in 2002.

Major export markets for plywood and veneer include:

- (a) Japan;
- (b) Singapore;
- (c) Hong Kong ;
- (d) United States;
- (e) China; and
- (f) Taiwan.

From 1998 to 2002, the production of plywood increased by an average 2.0%. Demand for plywood has predominantly come from overseas countries. The export value of plywood increased by 5.8% to reach RM3.7 billion in 2002. Global consumption of plywood is expected to grow at a modest pace and reach 60 million m³ in 2010 with growth for the plywood industry in Malaysia forecasted to be relatively stable in the next five (5) years.

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

5.6.3 Government Policies and Incentives Towards the Timber Industry

Government Licences, Permits and Approvals

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:

- (a) Federal Manufacturing Licence from the MIDA
- (b) State Government Approval from the Department of Industrial Development and Research
- (c) Permit to install Equipment and Operate Factory from the Department of Occupational Safety and Health
- (d) Import Permit/Licence from the MITI and Malaysian Timber Industry Board
- (e) Export Permit from the Custom and Excise Department
- (f) Export Licence from the Malaysian Timber Industry Board
- (g) Processed Timber Export Licence from the Sabah Forestry Department
- (h) Wood Processing Plant Licence from the Sabah Forestry Department

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).*

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

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

Government Incentives

Following are classified as promoted products for small scale industries:

- (a) Fancy and Decorative Plywood; and
- (b) Products derived from utilisation of wood waste (for example, activated charcoal, wooden briquettes and wood wool).

Companies manufacturing promoted products are eligible for either Pioneer Status or Investment Tax Allowance.

The following activities 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%

5.6.4 Threat of Substitute Products

There are many substitute products for plywood. Some of these substitute products include, among others, the following:

Product	Application
Solid timber	Used to make all sorts of furniture and fixture.
Bamboo	Can be flattened and joined for use in panelling and flooring.
Rattan	Can be used for furniture.
Polymers (Plastics)	Can be used in place of top face of decorative plywood or normal plywood. Other applications include pallets, storage and transportation containers and boxes.
Synthetic fibreboard	Used in many furniture and fixture.
Chipboard and particleboard	Used in many furniture and fixture as well as for building and construction.
Oriented strand board	Load bearing structure for building and construction.
Medium density fibreboard	Used in many furniture and fixture, especially for kitchen cabinets and cupboards.
Metal	Used in furniture as well as fire retarding doors.
Cement	In place of panels.
Granite and Marble	Instead of scratch proof table, cabinet plywood tops and flooring.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

These substitute products may replace plywood under specific conditions and usage. No substitute product can substitute for all functions, applications and usages of plywood. In addition, these substitute products have varying cost advantages and disadvantages in comparison to plywood depending on applications.

Although there are many substitute products for plywood, the major advantages of plywood over these substitute products are as follows:

- (a) Low cost;
- (b) Plentiful of supply;
- (c) Easy to handle;
- (d) Wide sheets to minimise joints;
- (e) Relatively strong when compared to similar thickness of alternative products;
- (f) More resilient to bending compared to other products;
- (g) Less susceptible to moisture and water compared to reconstituted products like medium density fibreboard;
- (h) Good nail and screw holding properties; and
- (i) Highly versatile in applications.

In practical terms the following substitute products would represent a closer substitute and higher threat to plywood:

- (a) Chipboard and particleboard provide some cost advantages over plywood for similar applications; and
- (b) Medium density fibreboard is fast becoming the material of choice for kitchen cabinets and cupboards due to its many superior qualities over plywood, for example it can be moulded.

(Source: Prospects and Future Plans of Cymao Holdings Berhad by Vital Factor)

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5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.7 Major Customers

The major customers of the Cymao Group for the eight (8)-month period ended 31 August 2003 are as follows:

Name of customer	Amount of sales* RM'000	% of total revenue	Length of relationship Year(s)	Main Products Sold
Georgia Pacific Corporation, USA	13,816	12.73	5	Plywood, decorative plywood and engineered wood flooring
Woodland Panels Sdn Bhd, Malaysia	13,815	12.73	3	Plywood, decorative plywood and engineered flooring
Asas Jelas Sdn Bhd, Malaysia	13,077	12.05	2	Decorative plywood
The Penrod Company, USA	9,717	8.96	11	Plywood, decorative plywood, lay-on and engineered wood flooring
Liberty Woods International Inc., USA	6,525	6.01	9	Plywood and decorative plywood
Canusa Wood Products Ltd, Canada	6,014	5.54	8	Plywood and decorative plywood
S.A. Shahab And Co. Pte Ltd, Singapore	5,622	5.18	2	Plywood, decorative plywood and engineered wood flooring
Patriot Timber Prod Int Inc, USA	4,393	4.05	3	Plywood
Ike Trading Co. Ltd, USA	4,194	3.87	9	Plywood, decorative plywood and engineered wood flooring
ES Eng Soon Trading Sdn Bhd, Malaysia	4,144	3.82	8	Plywood and decorative plywood

Note:

* For the eight (8) months period ended 31 August 2003.

The above customers merely represent their length of relationship with CPSB. However, certain Promoters have between 10 to 30 years of relationship with these customers in view of their approximately four (4) decades of market presence in the timber industry. The Group is not overly dependent on any single major customer.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

5.8 Major Suppliers

The major suppliers of the Cymao Group for the eight (8)-month period ended 31 August 2003, all of whom are Malaysian, are set out below:

Name of supplier	Amount of purchases* RM'000	% of total purchases	Length of relationship Years	Raw material supplied
Country-Forest-Industries Sdn Bhd	9,629	14.44	5	Veneer
Kemudi Teguh (M) Sdn Bhd	5,746	8.62	3	Round logs
Prospect One Sdn Bhd	5,251	7.88	3	Plywood
SHE	5,162	7.74	12	Round logs
Saingan Mewah Sdn Bhd	4,850	7.28	3	Round logs
Chemical Industries Sabah Sdn Bhd	4,393	6.59	13	Gluc
Sanbumi Sawmill Sdn Bhd	4,382	6.57	14	Round logs
Woodland Panels Sdn Bhd	3,734	5.60	3	Veneer
Samawang Sawmill Sdn Bhd	3,492	5.24	6	Plywood
Syarikat Jah Cherg Sdn Bhd	2,268	3.40	6	Round logs

Note:

* For the eight (8) months period ended 31 August 2003.

Although the Group is not overly dependent on any single supplier for business, a significant portion of its raw material purchases is made up of log supplies. As log supply is a diminishing resource in Malaysia, the Group has taken steps to mitigate its exposure to this dependency. Amongst the steps taken are to enter into long term agreements with local and overseas suppliers. Further details of these agreements are set out in Sections 5.8.1, 5.8.2 and 5.8.3.

5.8.1 Long Term Agreements with Major Local Suppliers

The Group does not have any timber concession of its own and depends on its suppliers to supply adequate amount of logs to sustain its business. To mitigate the dependency, the Group has entered into several log, veneer and plywood supply agreements with its major suppliers to ensure a constant and adequate supply. The cumulative amount of log, veneer and plywood agreed to be supplied exceeds the current requirements of the Cymao Group.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

The log, veneer and plywood supply agreements signed between CPSB and its major suppliers are as follows:

Supply of Veneer and Plywood

Name of supplier	Minimum annual volume (m ³)	Period of agreement	Notes
Country-Forests Industries Sdn Bhd	30,000	Perpetual	1
Sabah Forest Industries Sdn Bhd	17,000	Perpetual	2

Notes:

1. *The agreement subsists unless terminated by either party by giving six (6) months notice to the other party. The price payable is the price agreed between the parties. Under the terms of and conditions of the agreement, either party shall be entitled to terminate the agreement by written notice to the other party only in any of the following:*
 - i. *if an encumbrancer takes possession of or receiver is appointed over any of the property or assets of that party;*
 - ii. *if the other party makes any voluntary arrangement with its creditors;*
 - iii. *if the other party goes into liquidation; or*
 - iv. *if the supplier is unable to supply due to the buyer.*

2. *The agreement subsists unless terminated by either party by giving three (3) months notice to the other party. The price payable is the price agreed between the parties based on international market price of the product. Under the terms of and conditions of the agreement, either party shall be entitled to terminate the agreement by written notice to the other party only in any of the following:*
 - i. *if an encumbrancer takes possession of or receiver is appointed over any of the property or assets of that party;*
 - ii. *if the other party makes any voluntary arrangement with its creditors;*
 - iii. *if the other party goes into liquidation; or*
 - iv. *if the supplier is unable to supply due to the buyer.*

Supply of Logs

Name of supplier	Minimum annual volume m ³	Size of the concessions Hectares	Expiry date of the concession /concession rights owned by suppliers	Location of the concession	Period of agreement	Notes
SFD	Year 1-30,000 Year 2-60,000 Year 3 to 10-70,000	95,300	19.06.2102	Sapulut Forest Reserve, Kalabakan, Tawau, Sabah	Ten (10) years	1
SHE	Year 1-40,000 Year 2-50,000 Year 3 to 10-60,000	5,022	One (1) year subject to renewal as disclosed in Section 5.8.2 below	Bonggaya Forest Reserves, Sabah	Ten (10) years	2

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

Notes:

1. The price of logs obtained from SFD shall be at the prevailing market price as may be agreed by both parties. Under the terms and conditions of the agreement, either party shall be entitled to terminate the agreement by written notice to the other party only in any of the following:
 - i. if an encumbrancer takes possession of or receiver is appointed;
 - ii. if that other party makes any voluntary arrangement with its creditors or subject to an administration or judicial order;
 - iii. if that other party goes into liquidation;
 - iv. if that other party becomes "affected person" within the meaning of the *Pengurusan Danaharta Nasional Berhad Act '98*;
 - v. if that other party commits material breach of the Agreement which is not remedied within 30 days of written notice; or
 - vi. if the supplier is unable to supply timber logs due to statutory or regulatory restrictions.

2. The price of logs obtained from SIE shall be at the prevailing market price as may be agreed by both parties. Under the terms of and conditions of the agreement, either party shall be entitled to terminate the agreement by written notice to the other party only in any of the following: -
 - i. if an encumbrancer takes possession of or receiver is appointed;
 - ii. if that other party makes any voluntary arrangement with its creditors or subject to an administration or judicial order;
 - iii. if that other party goes into liquidation;
 - iv. if that other party becomes "affected person" within the meaning of the *Pengurusan Danaharta Nasional Berhad Act '98*;
 - v. if that other party commits material breach of the agreement which is not remedied within 30 days of written notice; or
 - vi. if SHE is unable to supply timber logs due to statutory or regulatory restrictions.

Furthermore, SHE has concession rights to seven (7) plots of loggable forest land by way of power of attorney, which is renewable every year. SHE has successfully secured the concession rights in the past. Details of the aforementioned licences are set out in the Section 5.8.2 below.

5.8.2 Concession Rights of SHE

Concession	Tenure	Location	Details of Power of Attorney
1.	Licensed for one (1) year expiring on 17 March 2004	Sungai Bonggaya (Bonggaya Forest Reserve)	The Director of Forestry has granted Grand Landmarks Developer Sdn Bhd the right to extract timber at Sungai Bonggaya (Bonggaya Forest Reserve), Beluran, Sandakan under a licence, which is valid for a period of one (1) year until 17 March 2004. By PAs dated 30 March 2002, 23 April 2002, and 24 July 2002, SHE had been appointed to be the true and lawful attorney and substitute for them on their behalf and on behalf of Grand Landmarks Developer Sdn Bhd to do certain acts and things in relation to the said concession as set forth in the said PAs.
2.	Licensed for one (1) year expiring on 9 February 2005	Sungai Bonggaya (Bonggaya Forest Reserve)	The Director of Forestry has granted Digiinfo Sdn Bhd the right to extract timber at Sungai Bonggaya (Bonggaya Forest Reserve), Beluran, Sandakan under licence, which is valid for a period of one (1) year until 9 February 2005. By PAs dated 30 March 2002, 23 April 2002 and 24 July 2002, SHE had been appointed to be the true and lawful attorney and substitute for them on their behalf and on behalf of Digiinfo Sdn Bhd to do certain acts and things in relation to the said concession as set forth in the said PAs.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

3.	Licensed for one (1) year expiring on 18 March 2004	Sungai Bonggaya (Bonggaya Forest Reserve)	The Director of Forestry has granted Ambangan Gold Sdn Bhd the right to extract timber at Sungai Bonggaya (Bonggaya Forest Reserve), Beluran, Sandakan under licence, which is valid for a period of 1 year until 18 March 2004. By PAs dated 30 March 2002, 23 April 2002 and 24 July 2002, SHE has been appointed to be the true and lawful attorney and substitute for them on their behalf and on behalf of Ambangan Gold Sdn Bhd to do certain acts and things in relation to the said concession as set forth in the said PA.
4.	Licensed for one (1) year expiring on 14 March 2004	Sungai Bonggaya (Bonggaya Forest Reserve)	The Director of Forestry has granted Digibit Sdn Bhd the right to extract timber at Sungai Bonggaya (Bonggaya Forest Reserve), Beluran, Sandakan under licence, which is valid for a period of one (1) year until 14 March 2004. By PAs dated 30 March 2002, 23 April 2002 and 24 July 2002, SHE had been appointed to be the true and lawful attorney and substitute for them on their behalf and on behalf of Digibit Sdn Bhd to do certain acts and things in relation to the said concession as set forth in the said PAs.
5.	Licensed for one (1) year expiring on 20 March 2004	Sungai Botitian (Timimbang Forest Reserve)	The Director of Forestry has granted Fortress Consult Sdn Bhd the right to extract timber at Sungai Botitian (Timimbang Forest Reserve), Beluran, Sandakan under licence, which is valid for a period of one (1) year until 20 March 2004. By PAs dated 30 March 2002, 23 April 2002 and 24 July 2002, SHE had been appointed to be the true and lawful attorney and substitute for them on their behalf and on the behalf of Fortress Consult Sdn Bhd to do certain acts and things in relation to the said concession as set forth in the said PAs.
6.	Licensed for one (1) year expiring on 20 March 2004	Sungai Botitian (Timimbang Forest Reserve)	The Director of Forestry has granted Utamewah Sdn Bhd the right to extract timber at Sungai Botitian (Timimbang Forest Reserve), Beluran, Sandakan under licence, which is valid for a period of one (1) year until 20 March 2004. By PAs dated 30 March 2002, 23 April 2002 and 24 July 2002, SHE had been appointed to be the true and lawful attorney and substitute for them on their behalf and on the behalf of Utamewah Sdn Bhd to do certain acts and things in relation to the said concession as set forth in the said PAs.
7.	Licensed for one (1) year expiring on 31 May 2004	Sungai Bonggaya (Bonggaya Forest Reserve)	The Director of Forestry has granted Rokfa Enterprise Sdn Bhd the right to extract timber at Bonggaya Forest Reserve, Beluran, Sandakan under licence, which is valid for a period of (one)1 year until 31 May 2004. By a PA dated 7 August 2002, Rokfa Enterprise Sdn Bhd had appointed Syarikat Hung Enterprise as their attorney for them and on their behalf to do certain acts and things set forth in the said PA including the power to appoint substitutes in connection with the said concession.

5. INFORMATION ON THE CYMAO GROUP (Cont'd)

5.8.3 Logs Supply Agreements with Overseas Suppliers

As for the supply of logs from import markets, the Cymao Group has entered into several log supply agreements with suppliers of these imported logs.

A table showing the log supply agreements signed between CPSB and its overseas suppliers is as follows:

Name of Supplier	Minimum annual Volume (m ³)	Period of Agreement	Notes
Gaintrad Ltd., Taiwan	1,000	Perpetual	1
Woodleader Enterprise Co Ltd, Taiwan	*1,500	Perpetual	2
China Timber Import and Export Corporation, China	1,000	Perpetual	3

Notes:

* Consist of 1,000 m3 (temperate logs) and 500 m3 (decorative veneer).

1. The price of logs obtained from Gaintrad Ltd shall be at the price agreed between the parties based on prevailing market price. Under the terms of and conditions of the agreement, either party shall be entitled to terminate the agreement by giving six (6) months notice to the other party only in any of the following:
 - (i) if an encumbrancer takes possession of or receiver is appointed over any of the property or assets of that party;
 - (ii) if the other party makes any voluntary arrangement with its creditors;
 - (iii) if the other party goes into liquidation; or
 - (iv) if the supplier is unable to supply the goods to the buyer.

2. The price of logs obtained from Woodleader Enterprise Co. Ltd shall be at the the price agreed between the parties based on prevailing market price. Under the terms of and conditions of the agreement, either party shall be entitled to terminate the agreement by giving six (6) months notice to the other party only in any of the following:
 - (i) if an encumbrancer takes possession of or receiver is appointed over any of the property or assets of that party;
 - (ii) if the other party makes any voluntary arrangement with its creditors;
 - (iii) if the other party goes into liquidation; or
 - (iv) if the supplier is unable to supply the goods to the buyer.

3. The price of logs obtained from China Timber Import and Export Corporation shall be at the price agreed between the parties based on prevailing market price. Under the terms of and conditions of the agreement, either party shall be entitled to terminate the agreement by giving six (6) months notice to the other party only in any of the following:-
 - (i) if an encumbrancer takes possession of or receiver is appointed over any of the property or assets of that party;
 - (ii) if the other party makes any voluntary arrangement with its creditors;
 - (iii) if the other party goes into liquidation; or
 - (iv) if the supplier is unable to supply the goods to the buyer.

The logs imported by Cymao are Red Oak, Birch, Beech, Maple, Cherry, Walnut, Sapele, Sen and Ash.

5. INFORMATION ON THE CYMAO GROUP *(Cont'd)*

5.8.4 Comments from Directors of Cymao on the Adequacy of Logs Supply

The Directors of Cymao is of the opinion that Cymao has adequate supply for its operations for at least ten (10) years. This is in view of the following:

- (i) CPSB has signed long term log supply agreements with SHE, SFD, Gaintrad Ltd., Taiwan, Woodleader Enterprise Co. Ltd., Taiwan and China Timber Import and Export Corporation, China;
- (ii) CPSB has signed long term contracts with its overseas suppliers; and
- (iii) Cymao's prompt and reliable payment and good relationship fostered with its log suppliers, will assist in ensuring continuous log supplies to Cymao in the future.

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