

5. INFORMATION ON THE EKOWOOD GROUP

5.1 History And Business

Ekowood was incorporated in Malaysia under the Act on 27 May 1994 as a private limited company under the name of Kesuma Cergas Sdn Bhd. It changed its name to TSH-Smallholders Sdn Bhd on 14 December 1994 and to TSH Ekowood Sdn Bhd on 22 February 2001. It was subsequently converted into a public limited company on 25 March 2004. It assumed its present name on 19 April 2004.

The authorised share capital of Ekowood is RM200,000,000 comprising 400,000,000 ordinary shares of RM0.50 each and the issued and paid-up share capital is RM84,000,000 comprising 168,000,000 ordinary shares of RM0.50 each.

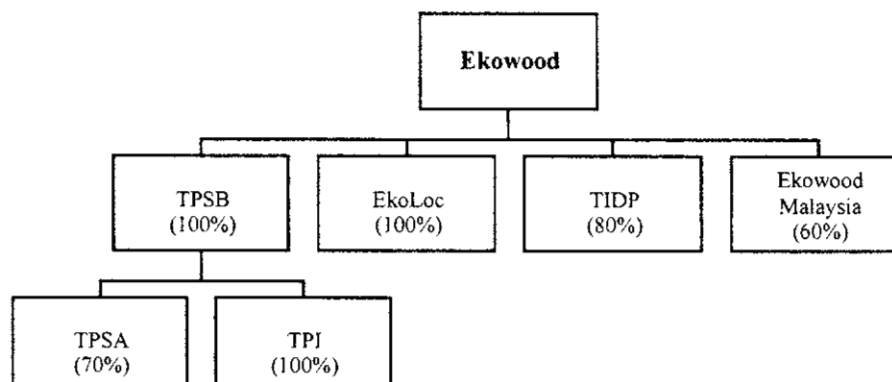
Ekowood's principal activity is the manufacturing and sale of engineered solid hardwood flooring, whilst its subsidiaries are principally involved in business activities set out below:

Subsidiaries	Date And Country Of Incorporation	% Effective Equity Interest	Issued And Paid-Up Capital	Principal Activities
EkoLoc	1 August 1996 Malaysia	100%	RM100,000	Supply and installation of engineered solid hardwood flooring and sub-licensing of the strip lock system for manufacturing of engineered solid hardwood flooring that uses mechanical locking system
TPSB	20 October 1997 Malaysia	100%	RM2	Investment holding and trading of engineered solid hardwood flooring
TIDP	29 December 1998 Spain	80%	Euro3,005	Sales of engineered solid hardwood flooring
Ekowood Malaysia	20 March 1995 Malaysia	60%	RM500,000	Supply and installation of engineered solid hardwood flooring
TPI*	3 May 2000 USA	100%	USD1,000	Sales of engineered solid hardwood flooring
TPSA*	21 June 2000 Luxembourg	70%	Euro31,000	Importation and distribution of engineered solid hardwood flooring

* *Subsidiary of TPSB.*

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

The existing group structure of Ekowood is depicted in the diagram below:



In late 1995, Ekowood commenced its operations in the manufacturing of engineered solid hardwood flooring at its factory with an approximate built up area of 56,000m² on a piece of land measuring approximately 185,000 m² located at Lots 1 to 12 and Lots 39 to 45, Phase II, Kawasan Perindustrian Gopeng, Gopeng, Perak, Malaysia.

The technology and the machinery tools currently used by Ekowood are primarily sourced from Western Europe, which is renowned for its precision and quality. As at 31 December 2003, Ekowood Group has invested more than RM55 million on properties, plants and equipment in the setting up of its manufacturing facilities at its Gopeng factory. The facility is capable of producing 1.3 million m² per annum while running at approximately 82% of its full capacity. Ekowood has over 700 skilled and unskilled experienced workers and employees.

Prior to operation, the management of Ekowood headed by Tan Aik Sim undertook an extensive market research on the products. It was ascertained that the popularity of engineered solid hardwood flooring was gaining momentum and has a bright future. This is proven true judging from growth pattern in the past years. The trend was more obvious in Europe and the USA which later broadened into Asia.

With the goal to be more efficient in distribution, delivery and the provision of technical and customer services, Ekowood established its subsidiaries, TPSB and TIDP, which are incorporated in Malaysia and Spain respectively. The subsidiary in Spain was established to cater for markets in Spain and Portugal.

In year 2000, Ekowood Group set up distribution offices in the USA that covers the USA and Canada, and teamed up with local partners in Luxembourg to tackle the German-speaking countries as well as other parts of Europe.

At present, Ekowood has six (6) warehouses housing its products located throughout the USA and different parts of Europe.

“EKOWOOD” is a registered trademark in Malaysia and many other countries. Throughout the years, Ekowood Group has been promoting its engineered solid hardwood flooring under this brand name.

Ekowood Group has, since the beginning, actively participate in major events and international exhibitions.

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

After successfully establishing a market presence in the overseas market, Ekowood went on to set up its biggest concept showroom in Malaysia in February 2003, at Mid Valley Mega Mall. Ekowood Group through its subsidiary Ekowood Malaysia managed to secure many prestigious projects, including Hilton Hotel at KL Sentral and Westin Hotel at the golden triangle in the heart of Kuala Lumpur city centre.

Demand for Ekowood's products was encouraging. On average, approximately 91% of the Group's products were exported in the last 3 years (2001 – 2003). It is evident that Ekowood has successfully established brand awareness based on its reputation in terms of product quality and reliability.

Ekowood's products are synonymous with quality, uniqueness, long lasting and environmental friendly. To date, Ekowood's products are well received in more than 27 countries around the world. Ekowood's products are sold to the retailers and the Group is not dependent on any single customer or supplier. Please see Sections 5.7 and 5.8 for further details.

Western European countries are known as the traditional market for engineered solid hardwood flooring. Starting from late 2003, Ekowood has been looking for opportunities to enter non-traditional markets namely, China, Japan and Middle Eastern countries. In anticipation of the economic expansion in China, Ekowood has set up ten (10) showrooms in various parts of China.

Ekowood is synonymous with quality. One of Ekowood's best accolades was when it was named "Best Engineered Hardwood Flooring" for 3 consecutive years between 2000 and 2002 in the UK. Ekowood Group is the first Asian manufacturer to have received the prestigious awards.

Ekowood Group received its ISO9001:2000 Certification from UKAS in 2002.

In December 2002, Ekowood Group obtained the licensing rights from Swedish company Valinge Aluminium AB and Berry Finance NV of Belgium to manufacture and distribute glue free mechanical locking system for engineered solid hardwood floorings ("EkoLoc System") worldwide. Ekowood was the first to have acquired the technology in South East Asia. Please refer to Section 14.4 (i) of this Prospectus for the summary of the terms of the said licensing agreement.

Introduction of 'EkoLoc System' is evident that Ekowood continues to strive for more successful stories.

5.2 Listing Scheme

In conjunction with, and as an integral part of the listing of and quotation for the entire issued and paid-up share capital of Ekowood on the Main Board of Bursa Securities after the Offer For Sale, the Company had implemented the listing scheme which has been approved by the SC and FIC and MITI on 9 August and 23 July 2004 respectively. Details of the listing scheme consist of the following:

(a) Offer For Sale

The Offer For Sale encompasses the following:

(i) Existing Shareholders And/Or Warrant Holders Of TSH

The Promoter/Offeror will undertake an offer for sale of 24,106,412 Ekowood Shares to the existing shareholders and/or warrant holders of TSH on the basis of one (1) Ekowood Share for every five (5) existing TSH Shares and/or TSH Warrants held on 23 September 2004 payable in full application.

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

Fractions of a share arising from the offer for sale to the shareholders and/or warrant holders of TSH, if any, will be dealt with by the Board and the Board of Directors of TSH as they may deem fit.

The Offer For Sale to the existing shareholders and/or warrant holders of TSH will be on a non-renounceable basis.

Although the offer for sale to the existing shareholders and/or warrant holders of TSH will be on a non-renounceable basis, the existing shareholders and/or warrant holders of TSH may nominate up to three (3) persons for the OFS Shares to be received by his/her nominated person(s).

Although the existing shareholders and/or warrant holders of TSH who accept their entitlements for the OFS Shares may nominate a person(s) to receive the said OFS Shares, the entitlements will remain with the existing shareholders and/or warrant holders of TSH. The acceptance will be made by the existing shareholders and/or warrant holders of TSH, who will issue the instructions to the share registrar to credit the OFS Shares into the account(s) of their nominee(s), if applicable.

This is unlike an offer for sale on a renounceable basis, where the existing shareholders and/or warrant holders of TSH may refuse their respective entitlements in favour of a third party and the entitlements will be transferred to the third party.

(ii) Eligible Executives Under The ESS

The Promoter/Offeror will undertake an offer for sale of 4,200,000 Ekowood Shares to be offered to the Eligible Executives of Ekowood and its subsidiaries by way of the ESS at an issue price of RM1.05 per ESS Share. Further information on the ESS is set out in Section 3.5.2 of this Prospectus.

(iii) Eligible Directors And Eligible Malaysian Employees Of The Ekowood Group And TSH

The Promoter/Offeror will undertake an offer for sale of 4,200,000 Ekowood Shares to be offered to the eligible directors and eligible Malaysian employees of the Ekowood Group and TSH by way of pink form allocation based on their respective positions and number of years of service with a serving period of at least three (3) months as at the date of this Prospectus, at an issue price of RM1.05 per Ekowood Share payable in full on application. Further information is set out in Section 3.5.3 of this Prospectus.

(iv) Identified Bumiputera Investors Approved By MITI

The Promoter/Offeror will undertake an offer for sale of 24,259,200 Ekowood Shares to be offered to the identified Bumiputera investors approved by MITI at an offer price of RM1.05 per Ekowood Share by way of placement to comply with the NDP requirement of the minimum 30% Bumiputera shareholding.

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

(v) Identified Public Investors

The Promoter/Offeror will undertake an offer for sale of 2,034,400 Ekowood Shares to be offered to identified public investors based on Schedules 2(9), (10) and (11) of the Securities Commission Act, 1993, where the minimum offer would be 250,000 Ekowood Shares per individual with total net assets exceeding RM3 million or corporation with net assets exceeding RM10 million, at an offer price of RM1.15 per Ekowood Share by way of placement.

Offer For Sale	Number Of Ekowood Shares	% Of The Share Capital Of Ekowood	Offer Price
Existing shareholders and/or warrant holders of TSH	24,106,412	14.35	1.05
Eligible Executives	4,200,000	2.50	1.05
Eligible directors and eligible Malaysian employees of the Ekowood Group and TSH	4,200,000	2.50	1.05
Identified Bumiputera investors approved by MITI	24,259,200	14.44	1.05
Identified public investors	2,034,400	1.21	1.15
TOTAL	58,800,012	35.00	

(b) CEO Scheme

TSH will grant the CEO of Ekowood an option to purchase 8,400,000 Ekowood Shares representing 5% of the issued and paid-up share capital of Ekowood under the CEO Scheme at an offer price of RM1.05 per Ekowood Share (“**Option Shares**”) in recognition of him being one of the founding members of the Ekowood Group, to reward his contribution to the Ekowood Group and as appreciation for establishing the “EKOWOOD” brand in the international arena.

The salient details of the CEO Scheme are as follows:

- (i) the option period shall commence on the date of the listing of and quotation for the issued and paid-up share capital of Ekowood on Bursa Securities and ending on the earlier of:
 - (a) the day prior to the fifth (5th) anniversary thereof; or
 - (b) the date on which the CEO of Ekowood ceases to hold any executive post in any company within the Ekowood Group only by reason of his voluntary resignation becoming effective or the lawful termination of his employment with just cause or excuse (“Option Period”);
- (ii) the exercise price of the option granted pursuant to the CEO option (“CEO Option”) will be at the offer price of RM1.05 per Option Share (“Option Price”);

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

- (iii) the CEO Option may be exercised in full by the CEO of Ekowood at any time and from time to time during the Option Period via the following:
- (a) CEO of Ekowood pays TSH in full; or
 - (b) CEO notifies TSH to sell his option entitlement on his behalf in the open market and therefore, only receives the gain.
- (iv) gains from all disposals mentioned in (iii) (b) above will be received by the Nominee. The Nominee will then release the gains over the ESS Period subject to the following percentages:

<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
20% ⁽¹⁾	20% ⁽²⁾	20% ⁽¹⁾⁽²⁾	20% ⁽¹⁾⁽²⁾	20% ⁽¹⁾⁽²⁾

Notes:

- (1) *Based on the gains from disposal(s) of up to 20% of the CEO's total entitlement.*
- (2) *Where the percentage for a particular period is not fully utilised, the percentage not utilised shall be carried forward to the next period and shall not be subject to the maximum percentage for the next period.*
- (v) the Option Price and/or the number of Option Shares shall be adjusted by the Directors of Ekowood at the discretion of the Board of Directors of TSH and if necessary, to seek the consultation of the auditors of Ekowood or any other firm of auditors acceptable to TSH and the CEO of Ekowood in the event of:
- (a) an alteration of the par value of Ekowood Shares by reason of any consolidation, subdivision or conversion;
 - (b) an issue of Ekowood Shares by Ekowood to its shareholders, credited as fully paid, by way of capitalisation of profits or reserves (including any share premium account and capital redemption reserve fund);
 - (c) a capital distribution to shareholders made by Ekowood whether on a reduction of capital or otherwise (but excluding any cancellation of capital which is lost or unrepresented by available assets);
 - (d) an offer or invitation made by Ekowood to its shareholders where they may acquire or subscribe for new Ekowood Shares by way of rights; or
 - (e) an offer or invitation made by Ekowood to its shareholders where they may acquire or subscribe for securities convertible into Ekowood Shares or securities with rights to acquire or subscribe for Ekowood Shares.

(c) **Listing**

Ekowood will seek the listing of and quotation for its entire share capital of 168,000,000 Ekowood Shares on the Main Board of Bursa Securities.

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

5.3 Share Capital

5.3.1 Existing Authorised And Issued And Paid-Up Share Capital

Details of Ekowood's existing authorised and issued and paid-up share capital as at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus) are set out as follows:

	No. Of Ekowood Shares	Par Value RM	Amount RM
Authorised share capital			
- Ordinary shares	400,000,000	0.50	200,000,000
Existing issued and paid-up share capital			
- Ordinary shares	168,000,000	0.50	84,000,000

5.3.2 Changes In Issued And Paid-up Share Capital

Details of the changes in the issued and paid-up share capital in Ekowood since its incorporation until 17 September 2004 (being the last practicable date prior to the printing of this Prospectus) are as follows:

Date Of Allotment	No. Of Shares	Par Value (RM)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (RM)
27 May 1994	2	1.00	Subscribers' shares	2
23 November 1994	4,999,998	1.00	Cash	5,000,000
12 June 2003	535,000	1.00	Cash	5,535,000
12 June 2003	<u>3,946,500</u>	1.00	Bonus issue	<u>9,481,500</u>
1 March 2004	18,963,000	0.50	Share split	9,481,500
1 March 2004	149,037,000	0.50	Debt-equity conversion and bonus issue	84,000,000

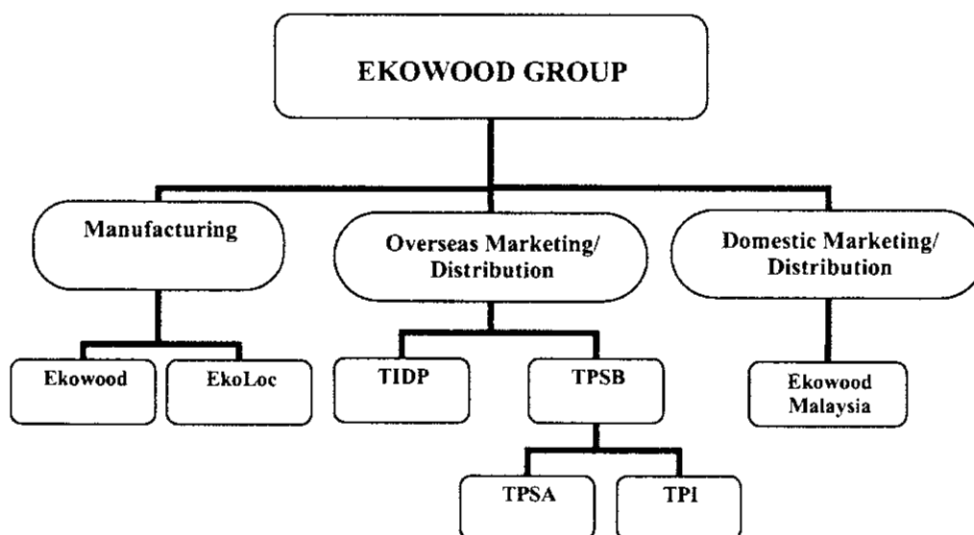
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5. INFORMATION ON THE EKOWOOD GROUP (Cont'd)

5.4 Business Overview

5.4.1 Principal Activity

Ekowood Group is involved in the manufacturing, sales and installation of engineered solid hardwood flooring. The principal activities of the companies within the Ekowood Group can be summarised into three (3) broad categories as shown below:



(i) Manufacturing Division

Ekowood commissioned its first production line of engineered solid hardwood flooring in late 1995 at its factory with an approximate built up area of 56,000m² on a piece of land measuring approximately 185,000 m² located at Lots 1 to 12 and Lots 39 to 45, Phase II, Kawasan Perindustrian Gopeng, Gopeng, Perak, Malaysia.

The engineered solid hardwood flooring range is a new generation of wooden flooring that offer many advantages. The product offers natural beautiful colours of different wood species which are perfect for residential and even commercial applications. Ekowood's engineered solid hardwood flooring is hygienic, maintenance-free and resistant to scratches and common household chemicals.

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

Engineered solid hardwood flooring produced by Ekowood consists of the following species:

Species
White Oak
Red Oak
Hard Maple
Merbau
Kempas
Ash
Cherry
Beech
Tasmanian Oak
Hevea
Doussie
Jatoba
Iroko
Cambridge
Walnut
Burmese Teak
Winchester Collection

(ii) Overseas Marketing And Distribution Division

Ekowood went on export campaigns in late 1997 and 1998. Currently, it exports to the USA, Europe, the Middle East, Africa, China and the Australasian countries. Ekowood's subsidiaries, TPI, TPSA, TPSB and TIDP, were incorporated in the USA, Luxembourg, Malaysia and Spain respectively as its marketing arms to promote and market its internationally recognised products overseas under the brand name of "EKOWOOD".

To be more efficient in distribution, delivery and the provision of technical and customer services, Ekowood Group has set up marketing and distribution offices in the USA to cater for the American and Canadian markets, and Luxembourg to tackle the German-speaking countries and other parts of Europe in year 2000. In addition, Ekowood Group also appointed distributors in countries such as the UK, Ireland, Germany, Italy, some other European countries, Australia, the Middle East and other parts of the world in order to extend the same services elsewhere.

At present the Ekowood Group has six (6) warehouses located throughout the USA and different parts of Europe. In anticipation of the economic expansion in China, Ekowood has set up ten (10) showrooms in various parts of China.

(iii) Domestic Marketing And Distribution Division

Engineered solid hardwood flooring was set to take-off in the domestic market as well. For the past few years, the product had received an overwhelming response due to the nature of wood, range of products offered by the Group and advantages of this type of flooring compared to solid and laminated flooring.

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

Ekowood is a one-stop centre for domestic customers that includes showroom, technical service, after-sales service as well as installation service. Among the prestigious projects awarded to Ekowood are the installation of its products in five-star hotels i.e. Hilton Hotel KL Sentral and Westin Hotel.

Ekowood's products are also installed in housing projects such as bungalows, semi-detached bungalows and condominiums, developed by distinguished developers such as IOI Development Berhad, Island & Peninsular Berhad, Perumahan Kinrara Berhad, Glomac Berhad, Guthrie Properties Sdn Bhd, Hicom Gamuda Sdn Bhd, Bukit Kiara Properties Sdn Bhd, just to name a few.

5.4.2 Technology

The technology, tools and machinery currently used by Ekowood are primarily sourced from Western Europe, which is renowned for its precision and quality of the machine tools. Ekowood is able to produce quality engineered solid hardwood flooring that meets the European EN standard, German DIN standard, Japanese JAS standard (Japanese Agriculture Standard) and American ANSI standard (American National Standards Institute).

Ekowood's engineered solid hardwood flooring consists of 3-layers of solid timber pressed together, perpendicular to each other. The construction of Ekowood's engineered solid hardwood flooring consists of three (3) layers of solid timber namely, bottom layer, middle layer and finally hardwood surface coated with multi-layers of high quality finish. As a result, the flooring is more stable in reaction to humidity and temperature. The middle layer consists of reconstructed layer of solid hardwoods and pressed cross-grain that restrict timber movement substantially when humidity changes when compared to conventional timber flooring.

The 'EkoLoc System' is a glueless mechanical wood lock system introduced by Ekowood in mid 2003. Ekowood was the first in South East Asia to obtain the licensing rights.

The 'EkoLoc System' is an innovative locking system that requires no glue to install and it also minimises long term joint fatigue. The simplicity of installation enables consumers to install the flooring themselves without the need of professional installer services. Besides ease of installation and since no glue is needed, the installation is twice as fast compared to normal "tongue & groove" product.

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

5.4.3 Principal Markets

On average, approximately 91% of the Group's products were exported in the last 3 financial years from 2001 to 2003. Ekowood's products are exported to the UK and Ireland, the USA and some European countries namely Spain, Germany, France and Italy.

Ekowood Group turnover breakdown is analysed as follows:

Sales Of Ekowood Group

	1999	2000	2001	2002	2003	6 months up to 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Ekowood	61,537	74,443	79,187	84,579	104,699	56,134
TPSB	50,954	66,165	73,363	76,780	92,818	53,569
TIDP	3,991	6,068	7,777	14,471	16,687	9,958
TPSA	-	149	3,158	10,182	21,251	14,844
TPI	-	726	4,770	6,422	18,624	5,462
Ekowood Malaysia	-	-	1,467	4,101	7,898	3,839
EkoLoc	-	-	-	-	41	841
Inter-company elimination	(54,525)	(74,410)	(88,593)	(105,423)	(151,342)	(82,760)
	61,957	73,141	81,129	91,112	110,676	61,887

Breakdown Of Ekowood Group Sales Based On Local And Export

	1999	2000	2001	2002	2003	6 months up to 30 June 2004
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Local	8,929	7,692	6,076	7,753	11,366	5,582
Export	53,028	65,449	75,053	83,359	99,310	56,305
	61,957	73,141	81,129	91,112	110,676	61,887

Breakdown Of Export Sales According To Countries In Percentage

	1999	2000	2001	2002	2003	6 months up to 30 June 2004
	%	%	%	%	%	%
USA	1	1	6	9	20	9
Spain	11	14	16	22	20	23
Australia	10	12	8	9	13	14
UK	25	19	21	20	10	11
Italy	2	1	3	5	8	10
Germany	4	1	1	3	6	10
Luxembourg	7	2	2	3	4	1
France	-	-	2	5	4	5
Ireland	6	6	4	3	3	1
Portugal	2	7	8	6	3	6
Denmark	11	17	16	11	2	2
Others	21	20	13	4	7	8
	100	100	100	100	100	100%

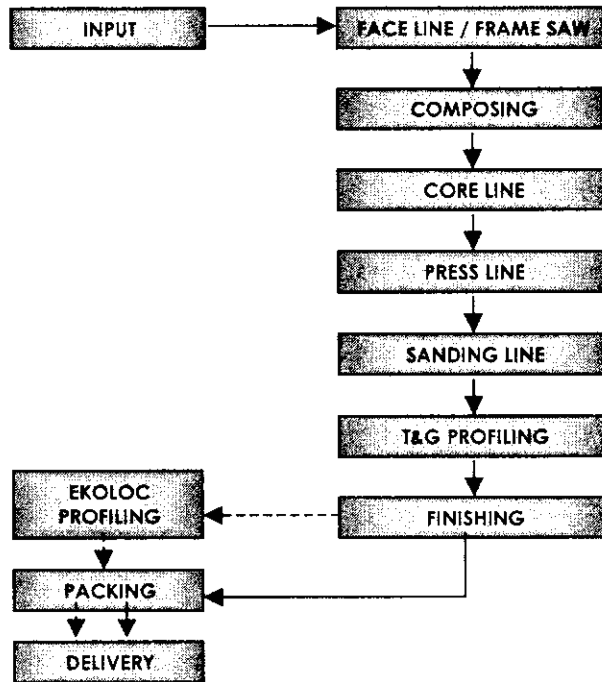
Please refer to Section 5.7 of this Prospectus for a list of Ekowood's major customers.

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

5.4.4 Flow Charts Of Production

The manufacturing of engineered solid hardwood flooring is a high technology process whereby almost all of the processes are semi-automated although a certain amount of manual labour is still needed.

The manufacturing process of engineered solid hardwood flooring products for Ekowood is summarised below:



(i) **Face Line / Frame Saw**

This process is for the surface/top layer where solid hardwood of different species is cut into specified thickness. The cut wood is sent for conditioning to ensure that the moisture content is within specifications to enhance stability of finished product.

(ii) **Composing**

This process is also for surface/top layer where it gives randomness in design where staves are composed into various patterns.

(iii) **Core Line**

The core layer is the middle layer. In this section, wood is ripped into core strips and made into coremat. After the process, the material has to be sent for conditioning to maintain its moisture content.

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

(iv) Press Line

The Press Line presses the 3 solid hardwood layers i.e bottom, middle and top layers, together. After the process, the product is again sent for conditioning - which is critical for stability.

(v) Sanding Line

The surface/top layer is sanded to obtain required thickness as well as to achieve a more even and smoother surface.

(vi) “T&G” Profiling

“T&G” or “tongue & groove” is profiled at all ends of engineered solid hardwood flooring. This process is to provide ease of installation.

(vii) EkoLoc Profiling

As for EkoLoc products, instead of T&G profiling, it will undergo profiling of mechanical locking system at all ends of the boards.

(viii) Finishing

A few coats of high quality finishes, such as varnish or lacquer, are applied on the panels prior to packing. The finishing enhances the flooring durability and its resistance to scratch and common household chemicals.

Ekowood’s engineered solid hardwood flooring is constructed from three (3) layers of solid timber. This enhances flooring stability by up to 70% and restricts timber movement.

The high quality finishes applied on each panel enhances the flooring durability. Maintenance of Ekowood’s engineered solid hardwood flooring is easy and hassle-free.

5.4.5 Estimated Market Coverage

Ekowood’s products are well received in the international market namely, England, Ireland, Scotland, Spain, Portugal, Denmark, Norway, Belgium, Sweden, France, Germany, Middle East countries, the USA, Australia, New Zealand, China, Japan, Hong Kong, Singapore and other countries.

In addition, Ekowood was also voted the “Best Engineered Hardwood Flooring” manufacturer in the UK for three (3) consecutive years, from 2000 to 2002, details of which are set out in Section 5.4.11 of this Prospectus.

5.4.6 Types, Sources And Availability Of Raw Materials

Ekowood’s concept is to offer a broad array of engineered solid hardwood flooring choices to consumers. Ekowood’s products range from tropical timber and temperate wood which are sourced from all over the world.

TSH, the holding company of Ekowood, manages a Forest Management Unit (“FMU”) of about 123,000 hectares of forest land in Ulu Tungud, Sabah for approximately the next 100 years. Thus, ensuring adequate, continuous and reliable supply of tropical timber for Ekowood’s manufacturing facilities.

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

As for other species of timber, Ekowood sources them from several suppliers from all over the world. Ekowood has no problems sourcing for its imported raw materials as the supply arrangement is based mainly on the good working relationship which Ekowood has built over the years with its suppliers. Ekowood has more than 6 years working relationship with most of its top 10 major suppliers, which are detailed in Section 5.8 of this Prospectus.

Ekowood is not dependent on any single supplier. Over the years, Ekowood has built up a large supplier base. Taking this into cognizance, Ekowood believes that it has minimised the risk of being dependent on certain suppliers.

5.4.7 Product Quality / Quality Management Programmes

Ekowood has always placed a strong emphasis on quality in all aspects of its operations, from manufacturing to the provision of service and support to its customers.

Ekowood has very stringent quality control standards, due to the requirements of its exports customers. Ekowood's engineered solid hardwood flooring conform to international quality standards such as the European EN standard, German DIN standard, American ANSI standard and Japan JAS standard.

Quality checking (e.g. sorting, moisture check, profiling, grading, etc) activities occur at every stage of production with the final check at the end of the entire process. All final products are sent through this final stage of production for inspection.

All quality control personnel must have full understanding of the detailed specifications of every product prior to the commencement of quality control checking. They are fully trained and certified by Ekowood's training department. Besides checking products at the end of every line, Ekowood puts a lot of emphasis on operation parameters to ensure that they are complied with and maintained at all times.

Ekowood was awarded "Best Engineered Wood Flooring Award" in the UK and Ireland for three (3) consecutive years of 2000, 2001 and 2002. This further proves that Ekowood products are accepted as the best in quality. Please refer to Section 5.4.11 of this Prospectus for more details.

In line with Ekowood's quality commitment, Ekowood had been accredited with ISO 9001:2000 Quality Management System certified by UKAS in 2002.

5.4.8 Product Development

Consumers today are spoilt for choice and options. Recognising the competition faced by the flooring industry where substitute flooring products such as floor tiles, laminated flooring and floor carpets are well established, the management of Ekowood has always emphasised on product development as the key to maintaining the Company's competitiveness.

Ekowood's product development has been the responsibility of the Technical Development Department. During the past 2 years, the Technical Development Department has developed 2 products, which are the handcrafted Winchester Collection and the 'EkoLoc system'. They are currently developing a new product - EkoMarina, a design that resembles shipdeck flooring of old, incorporating the use of synthetic rubber with flooring panels. This product is set to take-off in the European market.

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

Through product development, Ekowood believes it will be able to counter major concerns of hardwood timber flooring industry namely supply of raw materials, cost of productions and product diversity and hence steer Ekowood to greater profitability.

At present, Ekowood's Technical Development Department is handled by four (4) person namely a manager and three (3) executives. Taking into cognizance that constant enhancement of competitive advantage is critical in a highly competitive market like the US and Europe, Ekowood is committed to scale up its Technical Development Department. It is envisaged that the Group would have a sizeable Technical Development Department by year 2006.

The Group's guiding principles on product developments are as follows:

- (i) to conduct market research on new design by exploring the latest trends and innovative designs;
- (ii) to develop products which are trendy while minimizing the production cost;
- (iii) to improve product quality by conducting research on new technology and new production techniques, and later employ such technology and techniques in the production; and
- (iv) to improve its current product range and develop new products to meet consumers' tastes and preferences.

Ekowood keeps itself abreast on developments on new machinery that will shorten production process and increase the yield from each log.

Over the years, Ekowood has invested and will continue to invest time and financial resources in product development in its bid to:

- (i) provide customer satisfaction through quality and reliability;
- (ii) enhance and widen existing product range and create new products; and
- (iii) have optimal production cycle and lower production and operational costs using improved techniques and supporting machineries

The latest development is the 'EkoLoc System'. Ekowood is the first in South East Asia to obtain such rights. The 'EkoLoc System' is an innovative glueless mechanical wood lock system. Currently, the 'EkoLoc System' is only applied in Ekowood's premium product range. Despite its higher price, this premium product range is well received in the western market. This is due to the fact that labour cost is higher and the Do-It-Yourself market is more popular in the western market.

Notwithstanding the focus on improving its current product range and developing new products to meet consumers' tastes and preferences, the Group is determined not to compromise its product quality. The management of Ekowood has always believed that product quality plays a vital role in differentiating itself from its competitor.

5.4.9 Interruptions In Business

The Ekowood Group did not experience any interruptions in business having significant effect on its operations for the 12 months prior to the date of this Prospectus.

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

5.4.10 Information On Employees

The Ekowood Group's business is supported by competent personnel with sound industry knowledge and hands-on experience and expertise. The key personnel in the Ekowood Group are from diverse technical disciplines, including experience in the timber related industry in Malaysia and overseas and their networks within the local and international market.

The Group continuously provides training and development for its management and technical employees through courses and seminar conducted by both professional and governmental bodies.

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), the Ekowood Group has a total of 764 employees. The employees do not belong to any labour union and to date, no industrial disputes have taken place in the Group since the beginning of its operation. The employees enjoy cordial relationship with the management.

The employees of Ekowood Group can generally be segregated into the following five categories:

Employees Categories	< 1 year	1~5 years	> 5 years	Total	% of Total
Directors	1	6	4	11	1.44
Management and professional	27	23	10	60	7.85
Technical & Supervisory	25	32	34	91	11.91
Clerical & Administration	26	33	8	67	8.77
General Workers	87	406	42	535	70.03
Total	166	500	98	764	100.00
% of Total Workforce	21.73	65.44	12.83	100	100.00

5.4.11 Key Achievements

Over the years, Ekowood has focused its efforts in manufacturing quality products in order to meet customers' needs. The numerous awards and accreditation received since its establishment is evident of its commitment to produce quality products.

Year	Awards / Accreditations	Awarded by
2000	Best Engineered Hardwood Flooring, UK	Contract Floors Magazine
2000	ISO 9001:2000 UKAS Quality Management	Certification International (UK) Limited
2000	FSC Certification	Forest Stewardship Council
2001	Best Engineered Hardwood Flooring, UK	Contract Floors Magazine
2002	Best Engineered Hardwood Flooring, UK	Retail Floors Magazine
2002	First in South East Asia to receive the rights to utilise the 'EkoLoc System'	Berry Finance NV, Belgium and Valinge Aluminium AB Sweden

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

5.4.12 Modes Of Marketing/Distribution

Over the years, Ekowood has built good relationships with its customers. The quality of its products has also brought them many trade inquiries and customer referrals. The Group also relies on feedback from its clients to project future trends and product designs. So far, the Group's personalised approach to marketing has served it well. Ekowood is committed to bringing the best engineered solid hardwood flooring to the market.

Ekowood distributes its products through sales agents, importers, wholesalers and direct customers such as households and property developers either via its subsidiaries or direct from its head office.

Ekowood has also established its website www.ekowood.com which the management believes will create an additional marketing channel for its products. Through e-commerce, Ekowood aims to provide better services and increase the Group's competitiveness in the international market. This will provide a more efficient workflow and increase the responsiveness to customers' needs.

The most traditional method of distribution is by sending the products by sea. This is also the most efficient and cost effective way of distribution to date. This process is called the mid-stream loading process, where cargo is loaded directly onto ships, bypassing the ports. Standard shipping charges are set by the Port Authority. Shipping is the most suitable mode of transportation, given the bulky nature of Ekowood products.

On average for the past three (3) financial years from 2001 to 2003, approximately 91% of Ekowood's products are shipped overseas, whilst the local Malaysian orders are delivered directly to the customers via local transportation.

5.4.13 Production/Operating Capacities And Output

Currently, its Gopeng factory is capable of producing 1.3 million m² of its products per annum while running at approximately 82% of its full capacity. Ekowood has over 700 skilled and unskilled experienced workers and employees. They are currently working on two (2) shifts daily on the production lines.

5.4.14 Location

The factory of the Ekowood Group is located at Lot 1-12, Jalan Industri 2/1, Kawasan Perindustrian Gopeng, KM 15, Jalan Gopeng, 31600 Gopeng, Perak, Malaysia.

Ekowood has subsidiaries operating in the USA, Spain and Luxembourg and it has 6 warehouses, 50 sales representatives and more than 1,000 distribution outlets and showrooms in various countries worldwide.

The Group operates from its factory in Gopeng, which serves as the Group's administrative, operations and marketing hub.

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

5.5 Subsidiaries And Associated Companies

Details of Ekowood's subsidiaries are as follows:

Subsidiaries	Date And Country Of Incorporation	% Effective Equity Interest	Issued And Paid-Up Capital	Principal Activities
EkoLoc (396543-P)	1 August 1996 Malaysia	100%	RM100,000	Supply and installation of engineered solid hardwood flooring and sub-licensing of the strip lock system for manufacturing of engineered solid hardwood flooring that uses mechanical locking system
TPSB (450556-T)	20 October 1997 Malaysia	100%	RM2	Investment holding and trading of engineered solid hardwood flooring
TIDP	29 December 1998 Spain	80%	Euro3,005	Sales of engineered solid hardwood flooring
Ekowood Malaysia (336672-X)	20 March 1995 Malaysia	60%	RM500,000	Supply and installation of engineered solid hardwood flooring
TPI*	3 May 2000 USA	100%	USD1,000	Sales of engineered solid hardwood flooring
TPSA*	21 June 2000 Luxembourg	70%	Euro31,000	Importation and distribution of engineered solid hardwood flooring

* *Subsidiary of TPSB.*

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), Ekowood does not have any associated companies.

5.5.1 Information On EkoLoc

(a) History And Business

EkoLoc was incorporated in Malaysia under the Act as a private limited company on 1 August 1996 under the name of TSH Flooring System Sdn Bhd. Subsequently on 16 January 2003, it assumed its present name. EkoLoc is principally involved in the supply and installation of engineered solid hardwood flooring and sub-licensing of the strip lock system for manufacturing of engineering solid hardwood flooring that uses mechanical locking system.

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

(b) Share Capital

Its present authorised and issued and fully paid-up share capital are as follows:

Type	No. Of Ordinary Shares	Par Value (RM)	Total (RM)
Authorised	100,000	1.00	100,000
Issued and paid-up	100,000	1.00	100,000

Changes in the issued and paid-up share capital of EkoLoc since its incorporation are as follows:

Date Of Allotment	No. Of Shares	Par Value (RM)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (RM)
1 August 1996	2	1.00	Subscribers' shares	2
26 May 1997	99,998	1.00	Cash	100,000

(c) Subsidiaries And Associated Companies

At as 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), EkoLoc does not have any subsidiaries or associated companies.

(d) Substantial Shareholders

EkoLoc is a wholly-owned subsidiary of Ekowood.

5.5.2 Information On Ekowood Malaysia

(a) History And Business

Ekowood Malaysia was incorporated in Malaysia under the Act as a private limited company on 20 March 1995 under the name of Sejahtera Intelek Sdn Bhd. Subsequently, it changed its name into TSH Wood Industries Sdn Bhd on 19 May 1995 and assumed its present name on 4 September 2001. Ekowood Malaysia is principally involved in the supply and installation of engineered solid hardwood flooring.

(b) Share Capital

Its present authorised and issued and fully paid-up share capital are as follows:

Type	No. Of Ordinary Shares	Par Value (RM)	Total (RM)
Authorised	500,000	1.00	500,000
Issued and paid-up	500,000	1.00	500,000

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

Changes in the issued and paid-up share capital of Ekowood Malaysia since its incorporation are as follows:

Date Of Allotment	No. Of Shares	Par Value (RM)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (RM)
20 March 1995	2	1.00	Subscribers' shares	2
28 September 2001	4,998	1.00	Cash	5,000
14 June 2002	495,000	1.00	Cash	500,000

(c) Subsidiaries And Associated Companies

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), Ekowood Malaysia does not have any subsidiaries or associated companies.

(d) Substantial Shareholders

Substantial Shareholders	< -----Direct----- >		< -----Indirect----- >	
	No. Of Ordinary Shares	%	No. Of Ordinary Shares	%
Ekowood	300,000	60.00	-	-
Cheah Tit Boo	100,000	20.00	100,000 ⁽¹⁾	20.00
Toh Wee Peng	50,000	10.00	150,000 ⁽²⁾	30.00
Cheah Boon Chye	25,000	5.00	175,000 ⁽³⁾	35.00
Cheah Boon Poh	25,000	5.00	175,000 ⁽⁴⁾	35.00

Notes:

⁽¹⁾ Deemed interested by virtue of the shareholdings of his spouse, Toh Wee Peng, and his sons Cheah Boon Chye and Cheah Boon Poh in Ekowood Malaysia per Section 122A of the Act.

⁽²⁾ Deemed interested by virtue of the shareholdings of her spouse, Cheah Tit Boo, her sons Cheah Boon Chye and Cheah Boon Poh in Ekowood Malaysia per Section 122A of the Act.

⁽³⁾ Deemed interested by virtue of the shareholdings of his parents, Toh Wee Peng and Cheah Tit Boo, and his sibling, Cheah Boon Poh, in Ekowood Malaysia per Section 122A of the Act.

⁽⁴⁾ Deemed interested by virtue of the shareholdings of his parents, Toh Wee Peng and Cheah Tit Boo, and his sibling, Cheah Boon Chye, in Ekowood Malaysia per Section 122A of the Act.

5.5.3 Information On TPSB

(a) History And Business

TPSB was incorporated in Malaysia under the Act as a private limited company on 20 October 1997 under the name of Exotic Plantations Sdn Bhd. Subsequently on 1 July 1998, it assumed its present name. TPSB is principally involved investment holding and trading of engineered solid hardwood flooring.

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

(b) Share Capital

Its present authorised and issued and fully paid-up share capital are as follows:

Type	No. Of Ordinary Shares	Par Value (RM)	Total (RM)
Authorised	100,000	1.00	100,000
Issued and paid-up	2	1.00	2

Changes in the issued and paid-up share capital of TPSB since its incorporation are as follows:

Date Of Allotment	No. Of Shares	Par Value (RM)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (RM)
20 October 1997	2	1.00	Subscribers' shares	2

(c) Subsidiaries And Associated Companies

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), the subsidiaries of TPSB are as follows:

Subsidiaries	Date And Country Of Incorporation	% Effective Equity Interest	Issued And Paid-Up Capital	Principal Activities
TPI	3 May 2000 USA	100%	USD\$1,000	Sales of engineered solid hardwood flooring
TPSA	21 June 2000 Luxembourg	70%	Euro31,000	Importation and distribution of engineered solid hardwood flooring

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), TPSB does not have any associated companies.

(d) Substantial Shareholders

TPSB is a wholly-owned subsidiary of Ekowood.

5.5.4 Information On TIDP

(a) History And Business

TIDP was incorporated in Spain under the laws of Spain as a private limited company on 29 December 1998 under its present name. TIDP is principally involved in the sales of engineered solid hardwood flooring.

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

(b) Share Capital

Its present authorised and issued and fully paid-up share capital are as follows:

Type	No. Of Ordinary Shares	Par Value (Euro)	Total (Euro)
Authorised	500	6.01	3,005
Issued and paid-up	500	6.01	3,005

Changes in the issued and paid-up share capital of TIDP since its incorporation are as follows:

Date Of Allotment	No. Of Shares	Par Value (Euro)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (Euro)
29 December 1998	500	6.01	Subscribers' shares	3,005

(c) Subsidiaries And Associated Companies

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), TIDP does not have any subsidiaries or associated companies.

(d) Substantial Shareholders

Substantial Shareholders	<-----Direct----->		<-----Indirect----->	
	No. Of Ordinary Shares	%	No. Of Ordinary shares	%
Ekowood	400	80.00	-	-
Nortimex, SL	100	20.00	-	-

5.5.5 Information On TPI

(a) History And Business

TPI was incorporated in California, the USA under the laws of California as a private limited company on 3 May 2000 under the present name. TPI is principally involved in the sales of engineered solid hardwood flooring.

(b) Share Capital

Its present authorised and issued and fully paid-up share capital are as follows:

Type	No. Of Ordinary Shares	Par Value (USD)	Total (USD)
Authorised	1,000,000	1.00	1,000,000
Issued and paid-up	1,000	1.00	1,000

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

Changes in the issued and paid-up share capital of TPI since its incorporation are as follows:

Date Of Allotment	No. Of Shares	Par Value (USD)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (USD)
3 May 2000	1,000	1.00	Subscribers' shares	1,000

(c) Subsidiaries And Associated Companies

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), TPI does not have any subsidiaries or associated companies.

(d) Substantial Shareholders

TPI is a wholly-owned subsidiary of TPSB.

5.5.6 Information On TPSA

(a) History And Business

TPSA was incorporated in Luxembourg under the laws of Luxembourg as a private limited company on 21 June 2000 under the present name. TPSA is principally involved in the importation and distribution of engineered solid hardwood flooring.

(b) Share Capital

Its present authorised and issued and fully paid-up share capital are as follows:

Type	No. Of Ordinary Shares	Par Value (Euro)	Total (Euro)
Authorised	310	100.00	31,000
Issued and paid-up	310	100.00	31,000

Changes in the issued and paid-up share capital of TPSA since its incorporation are as follows:

Date Of Allotment	No. Of Shares	Par Value (Euro)	Type Of Issue	Cumulative Issued And Paid-Up Share Capital (Euro)
21 June 2000	310	100	Subscribers' shares	31,000

(c) Subsidiaries And Associated Companies

As at 17 September 2004 (being the last practicable date prior to the printing of this Prospectus), TPSA does not have any subsidiaries or associated companies.

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

(d) Substantial Shareholders

Substantial Shareholders	< -----Direct ----- >		< -----Indirect----- >	
	No. Of Ordinary Shares	%	No. Of Ordinary shares	%
TPSB	217	70.00	-	-
Raymond Hilbert	93	30.00	-	-

5.6 INDUSTRY OVERVIEW

This section is extracted from the Independent Market Research Report dated 17 September 2004 prepared by Infocredit D&B (Malaysia) Sdn Bhd for inclusion in this Prospectus.

5.6.1 Industry Background In Malaysia

Floor coverings are defined as carpets, wood floorings, vinyls, ceramic floor tiles and other floor coverings.

The market for floor coverings made primarily from wood is segmented into the following categories:

- Engineered solid hardwood flooring
- Laminated wood flooring
- Solid wood flooring

Engineered solid hardwood flooring, laminated wood flooring and solid wood flooring can be briefly defined as follows:

- Engineered solid hardwood flooring – assembled using several layers of solid wood pressed together with opposing grain direction (cross hatched)
- Laminated wood flooring – Assembled using medium density fibre (“MDF”), high density fibre (“HDF”) or other non-wood materials bonded with impregnated décor paper to form a single unit
- Solid wood flooring – Single piece of wood from top to bottom regardless of width or length

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

5.6.1.1 Characteristics of Engineered Solid Hardwood Flooring

Engineered solid hardwood flooring products are more resistant to higher moisture levels (average moisture content of between 5% and 11%) than solid wood flooring products. Edge configuration options include (i) a tongue and opposing groove, (ii) bevel edges and ends, (iii) bevel edges and non-bevelled ends, and (iv) a fully jointed or square edge, with or without face bevels.

Generally, engineered solid hardwood flooring products have the following advantage over conventional layer or solid wood flooring:

- Longer average lifespan of more than 30 years
- Allows wood flooring on any grade level
- Can be installed on wood sub-floors or dry concrete slabs
- Restricts movement of timber when humidity level changes as compared to conventional wood flooring
- Easy and fast to install
- Dimensionally more stable than conventional wood flooring
- Available in many different sizes, colours and styles
- Durable and high resistance against scratch and abrasion
- Does not cause allergies

5.6.1.2 Engineered Solid Hardwood Flooring Industry Lifecycle

Generally, engineered solid hardwood flooring products have no specific lifecycle as compared to other wood flooring products; as it has a multi-faceted stream of revenue from the construction, retail and housing in both local and international markets. Therefore, the players do not depend on any single market/country. Most of the engineered solid hardwood flooring manufacturers have established wide distribution networks including export markets, which allow stability in the product life cycle of the engineered solid hardwood flooring products, notwithstanding the change in consumer preferences.

The Malaysian exports of engineered solid hardwood flooring products has achieved more than RM308.1 million in 2003. Global demand for Malaysian wood flooring range is on the rise as buyers are becoming increasingly attracted to the quality and value of the products. Australia, China, Europe, Japan, Singapore, Taiwan and the USA ranked amongst the top countries absorbing wood flooring products from Malaysia.

The future growth of engineered solid hardwood flooring industry remained buoyant. The anticipated growth in the global economy and world flooring demand will contribute a more robust growth in the engineered solid hardwood flooring industry.

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

5.6.2 Industry Players And Competition

There are approximately 500 wood flooring manufacturers, including backyard operators operating in Malaysia. Generally, wood flooring manufacturers can be divided into three separate groups, namely:

- (i) manufacturer producing homogeneous products mainly for the local market;
- (ii) manufacturer producing a wider range of products serving the local and to a certain extent, the export markets; and
- (iii) manufacturer producing niche wood flooring products serving both the local and international markets, which are mainly the engineered solid hardwood flooring manufacturers.

Engineered solid hardwood flooring players compete based on design, innovation, experience and product quality, as they serve mainly the international markets, which are more demanding in product specifications.

Based on the Independent Market Research report dated 17 September 2004, there are an estimated 10 key players manufacturing engineered solid hardwood flooring products in Malaysia. Collectively, the other top players in Malaysia represent an estimated 46% of the total sales value of engineered solid hardwood flooring products in Malaysia.

In terms of market share ranking, Ekowood ranks 1st in 2002, with an estimated 14% of the total engineered solid hardwood flooring production in Malaysia. The other top players after Ekowood are Sharikat Malaysia Wood Industries Sdn Bhd, Sindora Bhd and Samling Flooring Sdn Bhd.

5.6.3 Government Legislations And Incentives

The Malaysian Government is continuously encouraging the growth of the wood flooring industry. There has been continuous support from the Government on investment incentives and facilities such as awarding pioneer status with fixed tax-exemption periods, subsidies in the form of tax relief for capital investment, re-investment allowances and manpower training.

Malaysia has set up its own certification system ("Malaysian Timber Certification Council" or "MTCC") and has worked with the Forest Stewardship Council ("FSC") to establish a new set of Malaysian Criteria and Indicators (MC&I) that are compatible with the FSC principles. The MTCC scheme worked on the International Tropical Timber Organisation ("ITTO")'s criteria and indicators. In its next phase, the MTCC will be switching from its present ITTO-based criteria to the new FSC-based MC&I. It does mean that Malaysia will be working to standards comparable to the FSC.

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

5.6.4 Supply And Demand Conditions

5.6.4.1 Malaysian Market

As mentioned earlier, there are about 500 wood flooring manufacturers, which consist of large companies as well as SME operators in Malaysia. The industry comprises a wide variety of wood flooring products that can be classified into Low, Medium and High categorisation, explained as follows:

High	High-end wood flooring players typically export most of their products.
Medium	Mid-end wood flooring players have a mix in production output and serve both the domestic and international (export) markets.
Low	Low-end players on the other hand are focused largely on the domestic market

Source: Infocredit

The majority of wood flooring end-users are residential public buildings ranging from urban residential properties to luxurious office buildings.

The increasing supply of condominiums, apartments, hotels, offices and retail space is expected to boost domestic demand for wood flooring products in Malaysia. The recovery of the country's economy indicates a growing demand from the domestic market. Besides the higher consumption from the residential sector, the trend for commercial buildings towards engineered solid hardwood flooring products has also increased.

One of the main reasons for the higher market acceptance of wood flooring products is that wood retains its natural beauty long after other floor covering have been replaced. Real estate practitioners agree that wood floors also enhance the resale value of the property. One of the common species that is being used in engineered solid hardwood flooring is oak, which besides its esthetic value is its durability. Other species such as ash, beech, cherry, maple, hickory and walnut is also known to have similar attributes, which is preferred by consumers due to its esthetic intrinsic value.

On the export front, the locally produced wood flooring has potential demand from overseas markets such as the USA, Europe, the Middle East and Japan. Currently, most high-end wood flooring makers were traced to Japan, Taiwan, Singapore and European countries, where they have already built reputable brand names worldwide. However, with the current aggressive R&D practice, it will not be long before Malaysia breakthrough international barriers. For instance, Ekowood, through its R&D practice has been able to penetrate traditional markets such as Europe and the USA.

5.6.4.2 The European And USA Market

In the mid-1990s, solid wood flooring was the dominant material for wood flooring in Europe and the USA, accounting for 70% of the market by value, but this situation has reversed in the last 5 years, with engineered solid hardwood flooring now accounting for an estimated 70% market share.

One of the major factors influencing the market for floor coverings is changing consumer preferences. This has had a significant impact on the performance of the carpet and wood flooring sectors since the mid-1990s.

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

The key influence has been the widespread media coverage of Do-It-Yourself (DIY) and home interest issues. Television programmes, such as 'changing rooms', have been particularly important in influencing consumer tastes, with wood flooring as a common theme in many of the 'makeover' schemes. Ease of installation and the ability to co-ordinate wood with most interior décor schemes have also contributed to the popularity of this trend, while wider availability in outlets such as IKEA, has supported its contemporary image.

There has also been a trend towards wood flooring in non-residential markets. For instance, health and education sectors are anticipating growth over the next 4 years, as the USA and European government have invested substantially in these sectors. Accordingly, expenditure on buildings and fittings will rise to overcome several decades of under funding, with higher specification floor coverings likely to benefit.

5.6.5 Substitute Products

Based on the Independent Market Research Report dated 17 September 2004, engineered solid hardwood flooring has found its own niche market and become a trendsetter with higher demand than its substitutes.

Although there are various types of wood flooring manufactured from a wide range of materials introduced and promoted in the market, they do not compete in the same target market. Notwithstanding other types of flooring products other than wood based, such as carpet, vinyl and tiles could post a potential threat as a substitute to engineered solid hardwood flooring.

5.6.6 Vulnerability To Import

Imported wood flooring products represents only 1% of total supply in Malaysia, which is deemed insignificant. These imported wood flooring products cater only to the high-end niche market, with preference towards imported wood species or special laminated floorboards. The imported wood flooring products cater only to a small group of end-users who are willing to fork out high premium pricing for species usually not available locally. As such, many foreign players target other traditional markets such as Europe or the USA where the acceptability and consumer spending power is higher for floor coverings.

5.6.7 Prospect

In summary, the prospect of engineered solid hardwood flooring industry remains buoyant. The anticipated growth in the global economy and world wood flooring demand will contribute to a more robust growth in the engineered solid hardwood flooring industry. In the last five years, demand for engineered solid hardwood flooring accounted for an estimated 70% of the market value for wood flooring in Europe and the USA. Meanwhile, the local wood flooring market has also gained healthy market acceptance.

In the Malaysian market, engineered solid hardwood flooring is expected to grow at approximately 47% per annum.

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

5.7 Major Customers

For the financial year ended 31 December 2003, the top 10 major customers of the Group are as follows:

Customers Name	Countries	% of Group Turnover 2003	Years Of Relationship
Shaw Industries Inc	USA	9	1
Lionvest Trading (UK) Pte Ltd	UK	9	8
GP Embelton and Co Pty Ltd	Australia	4	8
Vepal A/S	Italy	4	4
True Grid Flooring Distributors Pty Ltd	Australia	4	1
RMK Limited	Ireland	3	7
Dietrich GmbH	Germany	3	1
Takenaka Corporation	Japan	2	2
Maderpark 2000 SL	Spain	2	3
Long Floor Supply Inc	USA	1	1
Total		41	

5.8 Major Suppliers

For the financial year ended 31 December 2003, the top 10 major suppliers of the Group are as follows:

Suppliers Name	Countries	% of Group Purchases 2003	Years Of Relationship
Baillie Lumber	USA	21	6
Glory Hardware Enterprise	Malaysia	10	1
Basis Timbers Resources Sdn Bhd	Malaysia	6	3
Kalso Tollisuus OY	Finland	6	7
Friedrich Klumpp GmbH & Co	Germany	6	8
Casanti Timber A/S	Denmark	5	8
Casco Adhesives (M) Sdn Bhd	Malaysia	4	8
Timber Team International A/S	Denmark	4	2
Hans Merensky Holdings Pty Ltd	USA	4	2
Fagadan Hardwood A/S	Denmark	3	5
Total		69	

The Group is not dependent on any single customer or supplier. Over the years, the Group has built up a large clientele and supplier base. Hence, the Group has minimised the risk of being dependent on certain customers and suppliers.

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

5.9 Future Plans, Strategies And Prospects Of The Ekowood Group

The Group's objective is to be recognised world wide as the manufacturer of world class engineered solid hardwood flooring. Ekowood has remained focused on its core businesses as a manufacturer of engineered solid hardwood flooring rather than diversifying to other non-core businesses. Today, the Ekowood brand name is synonymous with timber flooring.

Ekowood's continuous innovation and focus on its core business has enabled the Group to remain profitable even during the Asian financial crisis between 1997-1998. Ekowood's business grew during the economic downturn due to several factors:

- (a) Strong export market;
- (b) Continuous innovative ideas enable it to meet customers' expectation; and
- (c) Keen emphasis on optimisation of the raw materials and reduction of wastages.

The Group's focus on consumer market research will enable the Group to respond quickly to any changes in consumer tastes. While its investments in new technology machinery and information systems will alleviate the dependence of labour and increase production efficiency, its 91% export based revenue (being the average revenue for the past 3 years from 2001 to 2003) has also worked as added insurance.

Ekowood trades with countries around the globe that includes the UK and Ireland, Greece, other European countries, the USA, China, Hong Kong, Japan, the Middle East, Australia and New Zealand.

In line with the positive movement of the global economy, it is envisaged that the demand for hardwood timber flooring will also increase.

The Company will also keep looking out for new opportunities to expand their revenue base through new product development, strategic alliances with international players and diversified investments. Overall, it will be the Group's strong commitment to innovation, developing their people and productivity/efficiency improvements that will back them in facing the challenges ahead. With this winning formula in place, Ekowood is poised to enjoy the rewards of a bright and prosperous future.

At the same time, the Company intends to continue its ongoing programme of cost rationalisation with a view to increasing profitability. The Company is also undertaking a group-wide productivity drive in order to optimise its processes and inculcate a culture of excellence amongst its employees.

The future prospect of the Company is bright in light of the increase in global demand for hardwood timber flooring. The global engineered solid hardwood flooring market is projected to grow strongly. The recent trend augurs well for Ekowood.

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