

## 5. INFORMATION ON THE EFB GROUP

### 5.1 Incorporation, Principal Activities and Group Structure

EFB was incorporated in Malaysia on 15 May 1991 under the Act as a private limited company under the name of Tat Wee Industries (M) Sdn Bhd with a registration number of 217120-W. The company changed its name to Evergreen Fibreboard Sdn Bhd on 8 December 1992. Subsequently, the Company changed its status from a private limited company to a public company on 14 April 2004 and assumed its current name. The principal activities of EFB are manufacturing of MDF, knocked-down wooden furniture and doors.

The subsidiary and associated companies of EFB and their principal activities are as follows:

| Name                        | Company Registration Number | Date And Place of Incorporation | Authorised Capital RM*     | Issued & Paid-Up Share Capital RM* | Effective Equity Interest % | Principal Activities                |
|-----------------------------|-----------------------------|---------------------------------|----------------------------|------------------------------------|-----------------------------|-------------------------------------|
| <b>Subsidiary Companies</b> |                             |                                 |                            |                                    |                             |                                     |
| ATP                         | 567960-T                    | 4 January 2002, Malaysia        | 10,000,000                 | 8,000,000                          | 100.0                       | Manufacturing of particleboard      |
| EMP                         | 320623-U                    | 21 October 1994, Malaysia       | 5,000,000                  | 2,000,000                          | 100.0                       | Dormant                             |
| EDP                         | 184661-A                    | 22 July 1989, Malaysia          | 25,000,000                 | 10,300,004                         | 100.0                       | Dormant                             |
| SFC                         | 0107554700961               | 16 January 2004, Thailand       | Thai Baht**<br>367,000,000 | Thai Baht**<br>367,000,000         | 75.0^                       | Manufacture of MDF                  |
| RISB#                       | 191543-V                    | 30 December 1989, Malaysia      | 10,000                     | 500                                | 99.99                       | Dormant                             |
| <b>Associate Company</b>    |                             |                                 |                            |                                    |                             |                                     |
| DTI                         | 32799-M                     | 10 May 1977<br>Malaysia         | 2,000,000                  | 600,000                            | 44.67                       | Lamination of fancy plywood and MDF |

**Notes:**

\* Unless otherwise stated

\*\* Denotes the registered share capital of SFC which comprises ordinary and preference shares

^ Based on the issued and paid-up ordinary shares of SFC

# This subsidiary is in the process of being wound-up

As at the date of this Prospectus, EFB has no other associated or subsidiary companies other than as disclosed herein.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### 5.2 Share Capital

The authorised share capital of EFB is RM300,000,000 comprising 1,200,000,000 ordinary shares of RM0.25 each. The issued and paid-up share capital of EFB would be RM120,000,000 comprising 480,000,000 ordinary shares of RM0.25 each after the Public Issue. Details of the changes in the issued and paid-up share capital of the Company since its incorporation are as follows:

| Date of Allotment / Share Split | No. of Ordinary Shares Allotted | Par Value RM | Consideration       | Cumulative Issued and Paid-Up Share Capital RM |
|---------------------------------|---------------------------------|--------------|---------------------|------------------------------------------------|
| 20/05/1991                      | 4                               | 1.00         | Subscriber's Shares | 4                                              |
| 4/05/1992                       | 175,946                         | 1.00         | Cash                | 175,950                                        |
| 3/07/1992                       | 12,214,140                      | 1.00         | Cash                | 12,390,090                                     |
| 22/07/1992                      | 1,392,311                       | 1.00         | Cash                | 13,782,401                                     |
| 19/08/1992                      | 250,000                         | 1.00         | Cash                | 14,032,401                                     |
| 20/01/1993                      | 5,939,799                       | 1.00         | Cash                | 19,972,200                                     |
| 20/01/1993                      | 27,800                          | 1.00         | Other than cash     | 20,000,000                                     |
| 13/05/1996                      | 9,645,000                       | 1.00         | Bonus Issue         | 29,645,000                                     |
| 27/12/1999                      | 355,000                         | 1.00         | Bonus Issue         | 30,000,000                                     |
| 21/09/2001                      | 5,072,511                       | 1.00         | Other than cash     | 35,072,511                                     |
| 29/10/2003                      | 190,000                         | 1.00         | Other than cash     | 35,262,511                                     |
| 31/10/2003                      | 1,184,560                       | 1.00         | Other than cash     | 36,447,071                                     |
| 19/11/2004                      | 145,788,284                     | 0.25         | Share Split         | 36,447,071                                     |
| 2/12/2004                       | 240,551,716                     | 0.25         | Bonus Issue         | 96,585,000                                     |

### 5.3 Listing Scheme

In conjunction with the objective of seeking a listing of and quotation for the EFB shares on the Main Board of the Bursa Securities, the Company has undertaken the following:

- **Share Split**

The Company had sub-divided its ordinary shares from one (1) existing ordinary share of RM1.00 each into four (4) new ordinary shares of RM0.25 each. The issued and paid-up share capital of EFB after the Share Split is RM36,447,071 comprising 145,788,284 ordinary shares of RM0.25 each. The Share Split was completed on 19 November 2004;

and

- **Bonus Issue**

The Company issued 240,551,716 new EFB Shares to the existing shareholders of EFB on the basis of approximately thirty-three (33) new EFB Shares for every twenty (20) EFB Shares held in EFB. The Bonus Issue was completed on 2 December 2004.

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

Together with the above, the Company is also undertaking the Public Issue and OFS (which are the subject of this prospectus) concurrently, as follows:

- **Public Issue**

The Company will make a Public Issue of 93,660,000 new ordinary shares of RM0.25 each at the issue price of RM1.14 per new ordinary share, as follows:

- (a) **The Malaysian Public**

24,000,000 Public Issue Shares, representing 5% of the enlarged issued and fully paid-up share capital of EFB, will be made available for application by Malaysian citizens, companies, societies, co-operatives and/or institutions (of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and/or institutions) to be allotted via ballot.

- (b) **Eligible Directors and Employees**

6,000,000 Public Issue Shares representing 1.25% of the enlarged issued and fully paid-up share capital of EFB, will be made available for application by the eligible Directors and employees of the EFB Group. Where any eligible Director and/or employee of the EFB Group do not take up the Public Issue Shares allocated herein, those shares will be made available for application by the Malaysian Public.

- (c) **Placees**

63,660,000 Public Issue Shares representing 13.26% of the issued and fully-paid share capital of EFB will be made available for application as follows:

- (i) 10,660,000 Public Issue Shares at an issue price of RM1.14 per EFB Share by way of placement to placees identified by the Placement Agent, of which 30% is set aside for Bumiputera investors; and
    - (ii) 53,000,000 Public Issue Shares by way of placement to Bumiputera parties approved by the MITI.

- **OFS**

The Offerors are undertaking the OFS at the Offer Price of RM1.14 per EFB Share as follows:

- (i) 41,500,000 OFS Shares representing 8.65% of the enlarged issued and fully paid-up share capital of EFB by way of placement to placees identified by the Sole Placement Agent; and
  - (ii) 71,500,000 OFS Shares representing 14.90% of the enlarged issued and fully paid-up share capital of EFB by way of placement to Bumiputera parties approved by the MITI.

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

The shareholding of the Offerors before and after the Public Issue and the OFS are as follows:

| Shareholders  | Existing as at 17 January 2005 |       |                            |       | After OFS and Public Issue |       |                            |       |
|---------------|--------------------------------|-------|----------------------------|-------|----------------------------|-------|----------------------------|-------|
|               | Direct                         |       | Indirect                   |       | Direct                     |       | Indirect                   |       |
|               | No. of EFB Shares              | %     | No. of EFB Shares          | %     | No. of EFB Shares          | %     | No. of EFB Shares          | %     |
| Kuo Wen Chi   | 34,685,972                     | 8.98  | 311,138,283 <sup>(1)</sup> | 80.53 | 17,685,972                 | 3.68  | 215,138,283 <sup>(1)</sup> | 44.82 |
| Kuo Jen Chang | 98,903,910                     | 25.60 | 246,920,345 <sup>(2)</sup> | 63.91 | 84,903,910                 | 17.69 | 147,920,345 <sup>(2)</sup> | 30.81 |
| Kuo Jen Chiu  | 89,746,761                     | 23.23 | 256,077,494 <sup>(2)</sup> | 66.28 | 72,746,761                 | 15.16 | 160,077,494 <sup>(2)</sup> | 33.34 |
| Kuo Huei Chen | 63,369,053                     | 16.40 | 282,455,202 <sup>(3)</sup> | 73.11 | 43,369,053                 | 9.03  | 189,455,202 <sup>(3)</sup> | 39.47 |
| Hsu Mei Lan   | 59,118,559                     | 15.30 | 286,705,696 <sup>(4)</sup> | 74.21 | 14,118,559                 | 2.94  | 218,705,696 <sup>(4)</sup> | 45.56 |

**Notes:**

- (1) Deemed interested by virtue of the shareholdings of his spouse and children in EFB pursuant to Section 6A of the Act
- (2) Deemed interested by virtue of the shareholdings of his parents and siblings in EFB pursuant to Section 6A of the Act
- (3) Deemed interested by virtue of the shareholdings of her parents and siblings in EFB pursuant to Section 6A of the Act
- (4) Deemed interested by virtue of the shareholdings of her spouse and children in EFB pursuant to Section 6A of the Act

The 113,000,000 EFB Shares to be offered by the Offerors pursuant to the OFS rank pari passu in all respects with the other existing issued and paid-up ordinary shares in EFB.

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

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**5.4 Business Overview of The EFB Group**

**5.4.1 History and Business Activities of the EFB Group**

The history of the EFB Group can be traced back to the incorporation of DTI in 1977 and subsequently the commencement of the DTI's operations in Pasir Gudang, Johor in 1978. The principal activities of the company were in the lamination of veneer over MDF.

To cater to the increasing demand for veneered MDF, EDP was established in Pasir Gudang, Johor in 1989 to focus on the manufacturing of veneered door panels/door skins utilising MDF. The manufacturing facility was equipped with the capacity of producing over 20,000 door panels/door skins per day.

In 1991, Evergreen Fibreboard Sdn Bhd was incorporated. The principal activity of the company was then the manufacture of MDF and downstream products such as knocked-down wooden furniture. The manufacturing facility, located in Parit Raja, Johor commenced production in 1993. In 1998, the Group started production of its knocked-down wooden furniture line. Subsequently, Evergreen Fibreboard Sdn Bhd converted to a public limited company, i.e. EFB in 2004.

In view of expanding its operations, the Group utilised its experience in MDF and ventured into the production of molded MDF door skin panels by establishing EMP in 1994.

As part of the Group's restructuring exercise, both EDP and EMP ceased operations when their business activities were acquired by EFB in 2001.

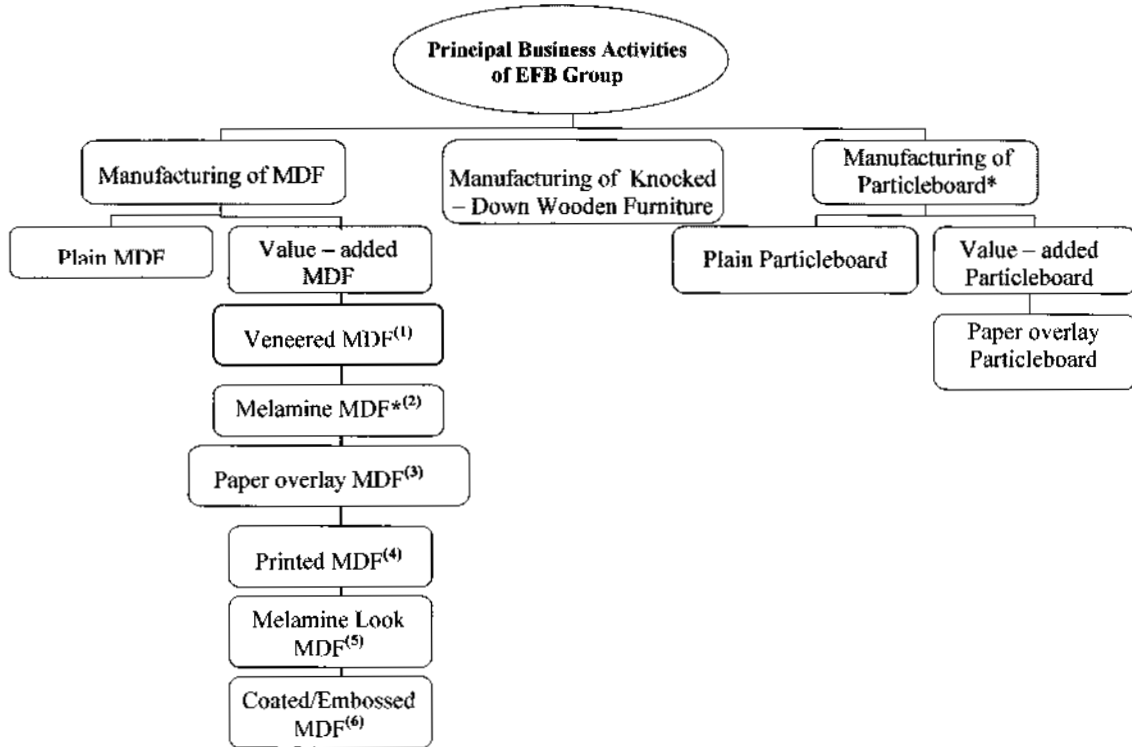
In 2002, the Group expanded into the manufacturing of other reconstituted wood-based panel board products such as particleboard through its subsidiary, ATP. The production of particleboard commenced in 2003.

On 26 February 2004, the Group subscribed for shares in SFC, a manufacturer of MDF based in Thailand, as part of a joint-venture. This was part of the Group's plans to expand its operations and markets to other parts of Asia.

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## 5. INFORMATION ON THE EFB GROUP (Cont'd)

A diagrammatic summary of the Group's business activities is depicted below:



**Notes:**

\* Manufacturing of particleboard and melamine MDF only commenced in 2003.

(1) Veneered MDF panels are laminated with veneer to provide the appearance of natural wood.

(2) Melamine MDF panels have a laminated melamine surface that provides wear and scratch resistance.

(3) Paper overlay MDF and particleboard panels are laminated with paper depicting decorative wood grain or colours. Paper overlay particleboard is currently used for internal purposes only, particularly in the manufacturing of knocked-down wooden furniture.

(4) Printed MDF are panels with a printed finish using a roller-coated application.

(5) Melamine-look MDF also uses the direct printing process but with a higher quality finish and a Melamine-like finish.

(6) Coated/embossed thin MDF panels are coated with resin, ultra-violet or moisture resistant coatings.

(Source: Extraction of Business Overview of EFB, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd)

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

For the year ended 31 December 2003 and for the ten (10)- month period ended 31 October 2004, revenue contribution by each company within the Group is as follows:

| Company            | Revenue Contribution for<br>Year Ended 31 December<br>2003 |            | Revenue Contribution for<br>Ten (10) month period<br>Ended 31 October 2004 |            |
|--------------------|------------------------------------------------------------|------------|----------------------------------------------------------------------------|------------|
|                    | RM '000                                                    | %          | RM '000                                                                    | %          |
| EFB                | 242,164                                                    | 96.6       | 216,858                                                                    | 68.9       |
| ATP                | 8,582                                                      | 3.4        | 30,762                                                                     | 9.8        |
| EMP <sup>(1)</sup> | -                                                          | -          | -                                                                          | -          |
| EDP <sup>(2)</sup> | -                                                          | -          | -                                                                          | -          |
| SFC <sup>(3)</sup> | -                                                          | -          | 66,960                                                                     | 21.3       |
| <b>TOTAL</b>       | <b>250,746</b>                                             | <b>100</b> | <b>314,580</b>                                                             | <b>100</b> |

### Notes:

Total revenue excludes inter-company transactions.

<sup>(1)</sup> EMP was acquired by EFB in 2001 where its operations were then transferred to EFB. EMP has since been dormant. Hence, no revenue has been recorded for EMP starting from 2001.

<sup>(2)</sup> EDP was acquired by EFB in 2001 where its operations were then transferred to EFB. EDP has since been dormant. Hence, no revenue has been recorded for EDP starting from 2001.

<sup>(3)</sup> SFC commenced operations only in 2004.

For the year ended 31 December 2003, the Group exported to, among others, China, Singapore, Japan, Taiwan, Vietnam, South Korea, United States, United Kingdom, Jordan, Hong Kong, Sri Lanka, South Africa, United Arab Emirates, Kuwait, Philippines, Saudi Arabia, Pakistan, Indonesia, Tanzania and Thailand. For the year ended 31 December 2003, the Group's revenue amounted to RM250.7 million. For the ten (10) month period ended 31 October 2004, the Group recorded a revenue of RM314.6 million.

The Group is constantly looking into areas for further expansion to address new opportunities in the wood industry.

### 5.4.2 Principal Products

The Group currently manufactures the following products:

- (a) Reconstituted wood-based panel boards:
  - (i) plain and value-added MDF; and
  - (ii) plain and value-added particleboard;
- (b) Downstream wood-based products – knocked – down wooden furniture.

MDF is a type of reconstituted wood-based panel board manufactured from wood fibres, rather than particles or veneers, to produce board or sheet products that are bonded together with resin under high heat and pressure.

Similarly particleboard, also referred to as chipboard, are panels composed of wood particles in the forms of chips or shavings, bonded together with resin and compressed into rigid sheets. Fine particles are usually laid at the surfaces of the panels to form dense layers, the less dense core is composed of coarse particles.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

Knocked-down wooden furniture refers to complete and finished furniture items that are unassembled for ease of transportation and storage.

A brief description of the Group's reconstituted wood-based panel board products and their respective applications is tabled below:

| Type of Product | Description                                                                                                                                                                                                                                | Application                                                                                                                                                                                |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 'Green Board'   | Plain MDF/ Particleboard board<br>- wood composites from wood fibres, glued together under high temperature and pressure to provide smooth, flat, uniform board structure<br>- makes finishing operations easier & higher finished quality | Furniture i.e. tables, cabinets, windows, doors, toys, frames<br>Exhibition stands, signages etc.<br>High Fidelity Equipment i.e speaker boxes moulding, wrapping, laminated flooring etc. |
| 'Ever-Ply'      | Veneered MDF – cut and sliced veneer from a wide range of timber species                                                                                                                                                                   | Furniture ('Green Board' above), high fidelity equipment, doors and paneling (in particular architectural panels due to its flexibility)                                                   |
| 'Ever-Mine'     | Melamine MDF – MDF panels overlaid with low pressure melamine that provides a prefinished hard surface that is ready-to-install, and is easy to maintain, high surface-resistance against stains and scratches                             | Furniture i.e. kitchen cupboards, partition walls, shelves, built-ins, shelving and for the construction industry for instance vertical application surfaces                               |
| 'Ever-Décor'    | Paper/ Overlay MDF – Glue is used to bond the MDF/ particleboards with light weight decorative paper of a variety of colours and wood -grains                                                                                              | Knocked-down wooden furniture i.e. colour box, bookcases & shelves, cabinet backing panels, drawer bottoms, TV racks, office furniture as well as door skins                               |
| 'Ever-Print'    | Direct Print MDF – roller coater application for printing direct onto the MDF surface. The technology allows a wide range of applications, such as backers, drawers, partitions and etc                                                    | Similar to Ever-Decor but with wider application such as backers, shelves, side or front panel for furniture industries; partitions, ceiling elements, interior panels for cars, etc       |
| 'Ever-ML'       | Melamine Look MDF – the extended process of Direct Printing to provide high quality surface as an alternative to original melamine MDF                                                                                                     | Furniture i.e. kitchen cabinets, cupboards, shelves, partitions, built-ins, paneling, etc.                                                                                                 |
| 'Ever-Prime'    | Coated / Embossed MDF – thin MDF, cut into door skin sizes are Prime Coated or Light/Deep Embossed with the usage of environmental friendly water-based primer/ surfacer that meets international standards                                | Door skins, drawers, interior furniture, general paneling, etc                                                                                                                             |



## 5. INFORMATION ON THE EFB GROUP (Cont'd)

The breakdown of the Group's turnover by products and services for the year ended 31 December 2003 and for the ten (10) month period ended 31 October 2004 are as follows:

| Business Activities                                 | Revenue Contribution for the Year Ended 31 December 2003 |              | Revenue Contribution for the Ten (10) month period Ended 31 October 2004 |              |
|-----------------------------------------------------|----------------------------------------------------------|--------------|--------------------------------------------------------------------------|--------------|
|                                                     | RM '000                                                  | %            | RM '000                                                                  | %            |
| Manufacturing of Plain MDF                          | 136,850                                                  | 54.6         | 189,552                                                                  | 60.2         |
| Manufacturing of Value-Added MDF                    |                                                          |              |                                                                          |              |
| - Coated/Embossed MDF                               | 12,641                                                   | 5.1          | 9,088                                                                    | 2.9          |
| - Paper Overlay MDF                                 | 9,019                                                    | 3.6          | 6,395                                                                    | 2.0          |
| - Veneered MDF                                      | 50,488                                                   | 20.1         | 49,894                                                                   | 15.9         |
| - Others <sup>(1)</sup>                             | 3,571                                                    | 1.4          | 3,694                                                                    | 1.2          |
| Total Manufacturing of Value-Added MDF              | 75,719                                                   | 30.2         | 69,071                                                                   | 22.0         |
| Manufacturing of Plain Particleboard <sup>(2)</sup> | 8,582                                                    | 3.4          | 30,731                                                                   | 9.8          |
| Manufacturing of knocked-down wooden furniture      | 24,116                                                   | 9.6          | 22,593                                                                   | 7.2          |
| Doors <sup>(3)</sup>                                | 40                                                       | *            | -                                                                        | -            |
| Others <sup>(4)</sup>                               | 5,439                                                    | 2.2          | 2,633                                                                    | 0.8          |
| <b>TOTAL</b>                                        | <b>250,746</b>                                           | <b>100.0</b> | <b>314,580</b>                                                           | <b>100.0</b> |

**Notes:**

\* Negligible

<sup>(1)</sup> Others include Printed MDF, Melamine-Look MDF and MDF Door Skins. Production of MDF Door Skins was discontinued in 2003. Sales of MDF Door Skins were mainly derived from leftover inventory.

<sup>(2)</sup> Value-added Particleboard is currently used internally (within the Group) for the manufacture of knocked-down wooden furniture, hence it is not included in the revenue breakdown.

<sup>(3)</sup> In 2003, production of doors was discontinued. Sales of doors were mainly derived from leftover inventory.

<sup>(4)</sup> Others include veneer sheets and lamination services.

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## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### 5.4.3 Supply of Raw Materials and Finished Products

Following are the raw materials used for the manufacturing operations of the Group for the year ended 31 December 2003:

| Raw Materials by Type                                                                | Value of Purchases | Percentage of Total Group Raw Materials Purchases* | Sources of Supply |     |               |     |
|--------------------------------------------------------------------------------------|--------------------|----------------------------------------------------|-------------------|-----|---------------|-----|
|                                                                                      |                    |                                                    | Local             |     | Import        |     |
|                                                                                      | RM'000             | %                                                  | RM'000            | %   | RM'000        | %   |
| UF glue                                                                              | 30,736             | 31.4                                               | 8,606             | 28  | 22,130        | 72  |
| Rubberwood logs                                                                      | 30,470             | 31.2                                               | 30,470            | 100 | -             | -   |
| Veneer logs                                                                          | 13,345             | 13.6                                               | -                 | -   | 13,345        | 100 |
| Veneer                                                                               | 4,893              | 5.0                                                | 636               | 13  | 4,257         | 87  |
| Paper Overlay                                                                        | 4,188              | 4.3                                                | 1,550             | 37  | 2,638         | 63  |
| Chipboard                                                                            | 2,792              | 2.9                                                | 2,792             | 100 | -             | -   |
| Emulsion Wax/Hardener                                                                | 2,578              | 2.6                                                | 2,578             | 100 | -             | -   |
| Edging/PVC/Foil                                                                      | 1,472              | 1.5                                                | 1,236             | 84  | 236           | 16  |
| Carton Boxes                                                                         | 1,305              | 1.3                                                | 1,305             | 100 | -             | -   |
| Others                                                                               | 6,026              | 6.2                                                | 5,966             | 99  | 60            | 1   |
| <b>Total</b>                                                                         | <b>97,805</b>      | <b>100.0</b>                                       | <b>55,139</b>     |     | <b>42,666</b> |     |
| <b>Total local purchases as a percentage of total group raw materials purchases</b>  |                    |                                                    | <b>56%</b>        |     |               |     |
| <b>Total import purchases as a percentage of total group raw materials purchases</b> |                    |                                                    | <b>44%</b>        |     |               |     |

Following are the raw materials used for the manufacturing operations of the Group for the ten (10) month period ended 31 October 2004:

| Raw Materials by Type                                                                | Value of Purchases | Percentage of Total Group Raw Materials Purchases* | Sources of Supply |     |               |      |
|--------------------------------------------------------------------------------------|--------------------|----------------------------------------------------|-------------------|-----|---------------|------|
|                                                                                      |                    |                                                    | Local             |     | Import        |      |
|                                                                                      | (RM'000)           | (%)                                                | (RM'000)          | %   | (RM'000)      | %    |
| Rubberwood logs                                                                      | 49,894             | 41.4                                               | 37,085            | 74  | 12,809        | 26** |
| UF glue                                                                              | 42,613             | 35.4                                               | 1,552             | 4   | 41,061        | 96   |
| Veneer logs                                                                          | 8,209              | 6.8                                                | 1,243             | 15  | 6,966         | 85   |
| Veneer                                                                               | 4,334              | 3.6                                                | 1,612             | 37  | 2,722         | 63   |
| Emulsion Wax/Hardener                                                                | 4,071              | 3.4                                                | 3,227             | 79  | 844           | 21   |
| Paper Overlay                                                                        | 3,006              | 2.5                                                | 1,187             | 39  | 1,819         | 61   |
| Carton Boxes                                                                         | 1,160              | 1.0                                                | 1,160             | 100 | -             | -    |
| Edging/PVC/Foil                                                                      | 866                | 0.7                                                | 672               | 78  | 194           | 22   |
| Chipboard                                                                            | 460                | 0.4                                                | 460               | 100 | -             | -    |
| Others                                                                               | 5,799              | 4.8                                                | 5,793             | 100 | 6             | -    |
| <b>Total</b>                                                                         | <b>120,412</b>     | <b>100.0</b>                                       | <b>53,991</b>     |     | <b>66,421</b> |      |
| <b>Total local purchases as a percentage of total group raw materials purchases</b>  |                    |                                                    | <b>45%</b>        |     |               |      |
| <b>Total import purchases as a percentage of total group raw materials purchases</b> |                    |                                                    | <b>55%</b>        |     |               |      |

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*Notes:*

*UF : Urea Formaldehyde*

*PVC: Poly(vinyl chloride)*

*\* : Based on raw materials excluding fuel, electricity and other consumables which amounted to RM97.805 million and RM120.412 million for the year ended 31 December 2003 and for the ten (10)- month period ended 31 October 2004, respectively.*

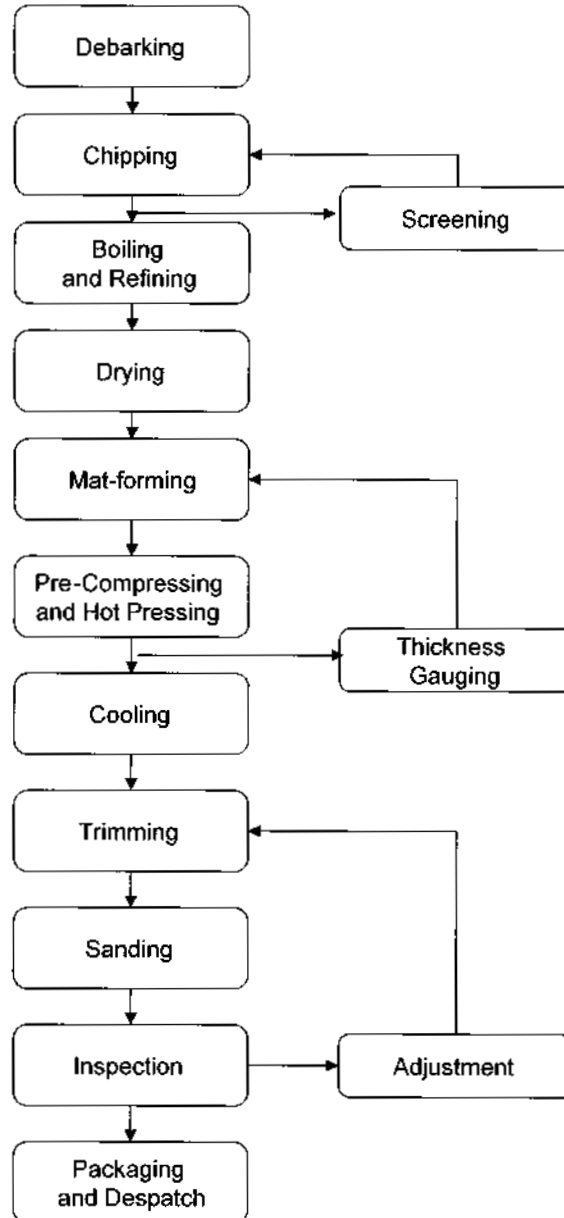
*\*\* : Rubberwood logs purchased for SFC's consumption sourced locally in Thailand.*

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## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### 5.4.4 Operation Process

The process flow for the manufacturing of MDF by the Group is depicted in the following diagram:



#### (i) *Debarking*

Rubberwood branches and logs are first fed into a debarker to strip the bark off the branches and logs and eliminate the rubber or latex beneath. The debarked rubber branches and logs are then sent for chipping to break the branches and logs into smaller wooden particles or chips.

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**(ii) Chipping**

The wooden chips are then screened and washed. In the screening process, oversized wooden chips, undesired grit, metal and other foreign particles are removed.

**(iii) Boiling and Refining**

After the screening and washing process, the wooden chips are sent for treatment in a pressurised boiler. Thereafter, the steamed wooden chips are ground to fibres in the refiner. Carefully formulated binders and additives such as resin and wax are mixed with the fibres, immediately after refining. Precise control and usage of binders and additives are critical as the adhesive cost constitutes a significant portion of the manufacturing costs.

**(iv) Drying**

During this process, the mixture is subjected to precise controlled blasts of hot air in order to obtain the required moisture content. Subsequently the dried mixture passes through a sifter to ensure a continuous flow of mixture to form a three-layered mat on the forming and press lines.

**(v) Mat-forming**

In mat-forming, the multi-layered mat is passed through the pre-compressor which squeezes out trapped air. The purpose of pre-compressing is to consolidate the mat and reduce its height. These processes are fully-automated to produce a fine and consistent surface with evenly distributed fibres and consistent density.

**(vi) Pre-Compressing and Hot Pressing/ Cooling/ Thickness Gauging**

The layered mat is then fed into a traybelt to undergo hot pressing to form boards based on the desired thickness. The high temperature in the pressing process cures the resin.

The boards are cut into specified panel sizes and gauges to ensure consistent board thicknesses are achieved. Any inconsistency in the board thickness is passed back to the mat-forming stage for re-adjustments. The accepted boards are then cooled on the cooling wheel.

**(vii) Trimming/ Adjustment**

In the final stage of the manufacturing process, boards are trimmed to final size and sanded to give a smooth finish.

An inspection after the standing stage is done at this point of the production line before the boards are sealed and packed into cartons. The rejects are sent for re-work at the trimming stage.

**(viii) Packaging and Despatch**

Once the packing process is completed, the finished goods are labelled for warehousing and storage before being despatched.

The equipment and machinery have gone through little change over the last few years as the machinery and technology employed by the Group have long life spans.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### 5.4.5 Approvals, Major Licenses, Permits and Status of Compliance

The Group has obtained licences and registrations to manufacture MDF and its related products and furniture and to export them abroad, with the key ones being from the MITI, Forest Department, Atomic Energy Licensing Board and the Malaysian Timber Industry Board ("MTIB").

For further information on the salient terms of the above licences including other licences, please refer to Section 7.2 of this Prospectus.

The wood industry is highly regulated. As such, the Group places high dependence on these licences. Thus, revocation or non-renewal of licences would serve as a threat to organisations within the wood industry comprising the licensees, including the Group.

Clauses for revocation and non-renewal are set out by the relevant authorities, namely the MITI, Forestry Department, Atomic Energy Licensing Board and MTIB. As long as the licensees within the wood industry comply with all requirements as well as exercise good corporate citizenship, their licences would not be unreasonably revoked or not renewed. As such, the threat from revocation or non-renewal is mitigated by strict compliance with the licensing terms and conditions. Historically, the Group has never experienced any instances where their licences were not renewed.

### 5.4.6 Patents, Trademarks and Franchises

The Group has no registered patents, trademarks, franchises or intellectual properties in relation to its products or processes.

### 5.4.7 Principal Markets and Market Share

In 2003, the market size based on production of MDF in Malaysia was estimated at 1.5 million cubic metres. As such, in 2003, the EFB Group's market share of MDF in Malaysia was approximately 16% based on its production of 246,391 cubic meters.

In 2003, based on production, the EFB Group ranked second among manufacturers within the MDF Industry in Malaysia.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this Prospectus).*

The breakdown of revenue by local and export markets for the year ended 31 December 2003 and for the ten (10) month period ended 31 October 2004 are as follows:

| Markets          | Revenue Contribution to the Group for the Year Ended 31 December 2003 |              | Revenue Contribution to the Group for the Ten (10) month period Ended 31 October 2004 |              |
|------------------|-----------------------------------------------------------------------|--------------|---------------------------------------------------------------------------------------|--------------|
|                  | RM'000                                                                | %            | RM'000                                                                                | %            |
| Malaysia         | 38,088                                                                | 15.2         | 55,950                                                                                | 17.8         |
| Outside Malaysia | 212,658                                                               | 84.8         | 258,630                                                                               | 82.2         |
| <b>Total</b>     | <b>250,746</b>                                                        | <b>100.0</b> | <b>314,580</b>                                                                        | <b>100.0</b> |

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

**Note:**

For the year ended 31 December 2003 and for the ten (10)- month period ended 31 October 2004, revenue of the Group of RM250.7 million and RM314.6 million, respectively, excludes inter-company transactions.

Exports primarily comprised plain and value-added MDF, particleboard and knocked-down wooden furniture. The products are marketed through the Group's wide and established network of customers comprising distributors, importers, wholesalers and retailers.

For the year ended 31 December 2003, exports contributed 84.8% of the EFB Group's total revenue. The Malaysian market contributed the remaining 15.2% of the Group's revenue.

For the ten (10)- month period ended 31 October 2004, exports contributed 82.2% of the Group's revenue, whilst the local market accounted for 17.8% of the Group's total revenue.

Some of the countries the Group exported to for the year ended 31 December 2003 and their respective contribution towards the revenue of the EFB Group are as follows:

| Country              | Percentage of EFB Group's revenue (%) |
|----------------------|---------------------------------------|
| China                | 22.5                                  |
| Singapore            | 12.8                                  |
| Japan                | 8.1                                   |
| Taiwan               | 7.0                                   |
| Vietnam              | 5.1                                   |
| Korea                | 3.5                                   |
| United States        | 3.5                                   |
| Jordan               | 3.2                                   |
| United Kingdom       | 2.2                                   |
| Hong Kong            | 2.2                                   |
| United Arab Emirates | 2.2                                   |
| Kuwait               | 2.1                                   |
| Philippines          | 1.6                                   |
| Saudi Arabia         | 1.3                                   |
| Others               | 7.7*                                  |

Some of the countries the Group exported to for the ten (10) month period ended 31 October 2004 and their respective contribution towards the revenue of the EFB Group are as follows:

| Country              | Percentage of EFB Group's revenue (%) |
|----------------------|---------------------------------------|
| China                | 19.9                                  |
| United States        | 9.8                                   |
| Vietnam              | 6.6                                   |
| Taiwan               | 5.0                                   |
| Kuwait               | 4.2                                   |
| Korea                | 4.2                                   |
| Japan                | 4.0                                   |
| Saudi Arabia         | 4.0                                   |
| Pakistan             | 3.8                                   |
| Jordan               | 3.5                                   |
| United Arab Emirates | 3.5                                   |
| Hong Kong            | 2.6                                   |
| Philippines          | 2.2                                   |
| United Kingdom       | 2.1                                   |
| Singapore            | 1.2                                   |
| Others               | 5.6**                                 |

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

### Notes:

\* *Others include countries that contributed, in total, less than 7.7% of total Group revenue for the year ended 31 December 2003. This includes Pakistan, Syria, India, Bahrain, Iran, Lebanon, Thailand, Mauritius, Canada, Belgium, Spain, Sri Lanka, Tanzania, Sudan, Mexico, Cambodia, Qatar, Portugal, Guadalupe, Australia, Bangladesh, Brunei, Chile, Oman and Turkey.*

\*\* *Others include countries that contributed, in total, less than 5.6% of total Group revenue for the year ended 31 October 2004. This includes Bahrain, Indonesia, India, Iran, Thailand, Belgium, Lebanon, Ireland, Spain, Mauritius, Australia, Oman, France, Sri Lanka, Greece, Canada, Bangladesh, Czech Republic, Latvia, Brunei, Switzerland and Cambodia.*

The EFB Group is relatively dependent on the China market. This is reflected by the fact that for the year ended 31 December 2003 and ten (10)- month period ended 31 October 2004, China contributed 22.5% and 19.9% of total Group's revenue respectively.

However, the EFB Group services a wide spread of customers within China. For the year ended 31 December 2003 and ten (10)- month period ended 31 October 2004, the Group's China market comprised 82 and 70 customers respectively. In addition to China however, the EFB Group has an extensive coverage of market that extends to 38 countries including Malaysia for the ten (10)- month period ended 31 October 2004. The coverage of different markets helps the Group to minimise the dependency on any one particular country or groups of countries.

### 5.4.8 Competition

#### (a) Competitors

Operators in the reconstituted wood-based panel board industry (including the manufacturing of MDF) face normal competitive conditions. As with most free enterprise environments, competition is based on quality of products and services, cost competitiveness, prompt delivery schedules, manufacturing capabilities as well as customer convenience. Generally, competition among operators in the manufacturing of MDF is **moderate to high**. This is substantiated by the following factors:

#### (i) Factors that Moderate Competition

As at November 2003, there were approximately 10 manufacturers of MDF in Malaysia. The small number of operators in this industry moderates the competitive intensity. This is primarily due to the high barriers to entry into the industry in terms of capital set-up requirements.

MDF has diverse applications whereby they are more superior in terms of ease of working with the material, cost competitiveness, and the ability to add value to the material especially through the lamination of a top sheet. As such, its versatility creates preference over other competing alternatives.

Manufacturers are in a competitive position if they can meet the following:

- conform to international quality standards including meeting acceptable international standards for formaldehyde emission;
- meet the requirements and specifications of customers;



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

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- and  
ability to satisfy large volume orders.

This will somewhat moderate the competitive intensity for such manufacturers.

**(ii) Factors that Increase Competition**

As MDF are primarily export-oriented, Malaysia faces significant competition from overseas countries. Overseas competition increases the competitive intensity for operators in the industry.

MDF competes with other types of wood-based materials, for example high density fibreboard, wood cement board, oriented strand board, laminated board, particle board and sawn timber. MDF also competes with other non-wood based materials, for example plastics, metals and glass. All these alternatives increase the competitive pressure for MDF manufacturers.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this Prospectus)*

**(b) Barriers to Entry**

Barriers to entry into the reconstituted wood-based panel board industry are moderate to high. This is mainly substantiated by the relatively few number of manufacturers in the industry. As at November 2003, operators in the reconstituted wood-based panel board industry in Malaysia comprised the following:

- 10 MDF manufacturers;
- 7 particleboard manufacturers; and
- 6 wood cement board manufacturers.

The main barriers to entry into the reconstituted wood-based panel board industry are:

**(i) Government policies**

Apart from the manufacturing licence and other wood-based industry and export licences, there are no other specific Government regulations and policies governing the entry of manufacturers of reconstituted wood-based panel board.

A manufacturing licence is only required by companies with 75 or more employees or companies with a share capital of RM2.5 million or more.

**(ii) Capital set-up costs**

Capital set-up costs for the manufacture of reconstituted wood-based panel boards are high.

- Setting-up a small-sized MDF manufacturing plant would cost between RM60 million and RM70 million (excluding

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

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land and building). At this level of entry, the capital investment is for one basic, full line of MDF production, which will generate an annual output of 60,000 cubic metres of MDF.

- Setting-up a medium-sized MDF manufacturing plant would cost between RM120 million and RM150 million (excluding land and building). At this level of entry, the capital investment is for one full line of MDF production which will generate an annual output of 100,000 cubic metres of MDF.

Capital costs will escalate for larger operations. Smaller manufacturers will find it difficult to compete with larger manufacturers that have the advantage of economies of scale. In addition, larger manufacturers are also in a stronger position to meet the export market requirements for higher volume of production. Thus, the high capital set-up cost even for a small sized manufacturing plant will pose as a barrier to entry for new entrants.

**(iii) Technical skills and knowledge**

The level of technical skills and knowledge required in the manufacturing of reconstituted wood-based panel board is moderate to high. Technical skills and knowledge are required in the areas of research and development and production processes.

Manufacturers that continually conduct research and development on existing products as well as new products or applications are in a stronger position to address opportunities and compete effectively in the global market.

Some examples of research and development are as follows:

- the ability to produce MDF that has a lower emission of formaldehyde compared to the current 10 to 30 milligrams of formaldehyde emission per 100 grams of dried fibre. This type of fibreboard will be targeted at countries including Japan and Europe;
- the usage of different types of recycled raw materials to produce MDF; and
- new applications such as high moisture resistance MDF.

Other areas of technical skills and knowledge is in the production process and some of these include the following:

- the control of temperature and the moisture level of resinated fibres to control the thickness of the finished fibreboard;

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

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- the control of the supply of raw materials is also critical to achieve consistency in the quality of the finished fibreboard. (e.g. the blending of chips, sawdust and wood shavings which must adhere to a ratio to ensure consistency in the panel quality. Sawdust and wood shavings is used as part of the supply of raw materials to help control moisture content and fibre size distribution); and
- optimising pressing operations through improvements in processes.

Manufacturers that have the technical skills are more likely to achieve the following:

- reduce their cost of production;
- attain higher product quality;
- attain higher productivity;
- better able to meet customers' specifications and requirements; and
- provide a wider range of products to help customers address areas of growth and opportunities.

As such, barriers to entry may be moderate at its most basic, but the ability to sustain the business would require higher levels of skills and expertise.

**(iv) Track record**

Track record also forms one of the barriers to entry for new entrants. It is unlikely that a new entrant without any track record will be able to compete effectively in the global market for reconstituted wood-based panel boards.

It will take some time for a new entrant to establish itself in the market before customers are willing to take them on as a supplier. As such, track record would pose barriers to entry for new entrants, who would find it difficult to gain immediate access into the market.

**(c) Barriers to Exit**

Barriers to exit for the manufacturing of reconstituted wood-based panel boards are high. This is because of the relatively small number of manufacturers within the reconstituted wood-based panel board industry. The machines and production lines used can be sold only to a limited number of operators within the industry.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this Prospectus)*

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

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**(d) Competitive Advantage**

The competitive advantages of the Group are as follows:

**i) Product Quality**

The EFB Group can attest to its product quality through the following:

- the EFB Group's manufacturing operations adheres to ISO 9001 quality management systems;
- the standards of quality of the Group's MDF and Particleboard can meet the requirements of export markets and overseas customers; and
- the formaldehyde content of its MDF complies with international limit specified by British and European standards.

Consistent high product quality is a significant competitive advantage that will create high customer satisfaction to ensure continuing business patronage.

**ii) Diverse Market Coverage**

The EFB Group has an extensive coverage of the market that extends to 38 countries including Malaysia for the ten (10) month period ended 31 October 2004. The coverage of different markets helps the Group to minimize the dependency on any one particular country or groups of countries.

**iii) Large Customer Base**

Based on the ten (10) month period ended 31 October 2004, the EFB Group has a large customer base comprising approximately 459 local and overseas customers. During the same period, the top 10 customers of the EFB Group accounted for RM92.9 million of its sales, representing approximately 29.6% of the Group's turnover while the remainder 70.4% is spread across approximately 449 customers.

This provides the EFB Group with the ability to sell its products to a ready customer- base.

**iv) Market Reputation and Established Track Record**

With approximately 27 years of experience in the wood-based industry which started with the commencement of operations of DTI, the EFB Group has successfully established a reputable track record associated with quality and reliability. As such, the Group can leverage on its track record to win potential customers, providing them with the assurance and confidence of the quality of its products and the reliability of its services.

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

### v) **Research and Development Capabilities**

The EFB Group is constantly undertaking research and development to improve on its products to better meet customer needs and identify areas of opportunities. This requires the ability to keep abreast of developments in the new value-added products for example high moisture resistant (“HMR”) panels that are suitable for applications such as external doors, flooring, window frames, kitchens, amongst others. More importantly the Group also has the capabilities to continually improve on manufacturing processes for example usage of alternative raw materials, new technologies and new types of glue to meet the requirements of the market and customers.

In addition, the Group also undertakes various types of mechanical and physical property testing of final products to ensure that it meets the properties that are specified by customers.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this Prospectus)*

### 5.4.9 **Quality Control Procedures**

Since the beginning of its operations, the Group placed significant emphasis on quality. Stringent quality controls are implemented in each and every area of its operations. This is reflected by the fact that EFB was accredited with the ISO 9001:2000 certified by SGS United Kingdom Limited. The Group has an experienced quality assurance team to monitor its production processes in accordance with ISO quality management systems.

Some of the quality tests undertaken by the Group include:

#### (a) **Mechanical Property Testing**

- Modulus of Rupture to determine the bending strength;
- Internal bonding testing to determine the resistance to tension perpendicular;
- Screw holding to determine the resistance of panel products to axial withdrawal of screws;
- Surface soundness test to assess the surface soundness of uncoated panel products.

#### (b) **Physical Property Testing**

- Thickness swelling testing to determine the level of swelling of panel products under water immersion;
- Water absorption testing to determine the level of absorption of panel products under water immersion;
- Moisture content testing to determine the moisture content of panel products;
- Density testing to determine the level of panel products density;
- Surface absorption testing to determine the surface absorption of the panel;
- Formaldehyde emission testing to determine the quantity of formaldehyde emitted from panel products.

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

As at 17 January 2005, there were 83 personnel in the Quality Assurance team within the Group focusing on ensuring the standard of product quality meets the expectations of customers. In addition, the Group also complies with industry standards which further reinforces the Group's ability to meet with the needs and expectations of its customers:

- (a) EFB has obtained **Chain-of-Custody ("CoC")** certified under the Quality Forest Management (Qualifor) Programme by SGS South Africa. The programme is accredited by the Forest Stewardship Council ("FSC").
- (b) The formaldehyde content of EFB's MDF meets with the required international standards. This is the result of a test undertaken by an independent laboratory, i.e. Furniture Industry Research Association ("FIRA") International Limited on the formaldehyde content of MDF.

### 5.4.10 Research and Development

#### (a) Group policy and objectives

Research and development plays an important role for the Group, particularly to create and sustain competitive advantages through the following:

- (i) continuous improvement in product quality to ensure customer satisfaction;
- (ii) increase operational effectiveness, efficiency and productivity to minimise costs;
- (iii) continuously enhancing existing products to better meet the needs of customers; and
- (iv) develop new products to address areas of growth and opportunities.

#### *Selection of Raw Materials*

The EFB Group also undertakes R&D in using other wood species for its manufacturing activities. For the production of MDF and Particleboard, the Group uses mainly rubberwood logs of small-diameter and rubberwood branches, which are unsuitable for wood furniture manufacturing.

Some of the objectives for R&D in this area are:

- to reduce its costs; and
- to create higher value-added products to reduce impact of competitive pressure from other manufacturers, especially those in lower cost producing countries, thus enhancing its competitive advantages.

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

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**(b) Relevant technologies for production**

**(i) Resin Blending**

Binders, which are either Urea Formaldehyde or Phenol Formaldehyde resins, are mixed with additives to form glue or adhesives for the binding of wood particles.

In blending resin-wood mixture, precise control of quantity in the mixture is necessary, as greater resin content would result in a stronger, more water resistant product. However, the resin is heavier and, more importantly more costly than the wood-component, so it is desirable to minimise the quantity of resin used.

The Group uses UF-based glue for the production of MDF and particleboard. The Group has successfully formulated additives with minimal formaldehyde emissions during the blending of resin with wood particles. As a result, the Group intends to actively develop MDF with E1 standard, which complies with the European emission standard.

Under the provisions of the Harmonised European Standard prEN 13986, the formaldehyde release from wood-based panels used in internal applications is classified as either Class E1 or Class E2. The limit value of emission is as follows:

- E1  $\leq$  0.124 milligrams per cubic metre air; and
- E2  $\geq$  0.124 milligrams per cubic metre air.

**(ii) Particleboard Production System**

In the manufacturing of particleboard, the Group employs modern, automated chip washing, two-stage chip and flake screening, as well as fine flake sifting process to enhance the surfaces and overall quality of the particleboard.

The use of automated chip washing allows efficient removal of dirt, sand and stones.

The two-stage chip and flake screening ensures efficient checking and quality control of contaminant removal from chip washing. Contaminant removal is important for improving the appearance, runnability and printability of particleboard.

Fine flakes sifting process further enhances the smoothness and desirable weight of the flakes for the ease of board formation.

**(iii) Furniture Manufacturing**

The Group also undertakes research for the manufacturing of knocked-down wooden furniture as part of the earlier development of downstream activities.

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

The Group's specialty in knocked-down wooden furniture lies in its combination of thin MDF with thick particleboard as core frames. This method of production has substantially reduced the weight of the furniture compared to solid wood furniture and reduces material cost and wood content of the products.

### (iv) Automation, Equipment and Machinery

To achieve greater economies of scale and to service a sizeable market, manufacturers like the Group, rely significantly on specialised equipment, machineries and automation. As such, the Group has made significant investments in equipment and machineries such as:

- Pallman Refiner & Bison Mende press system for thin MDF and particleboard production;
- Andritz Refiner & Dieffenbacher press system with steam injection for thin and thick MDF and particleboard production;
- Kikukawa and Kitagawa furniture and veneer production lines from Japan;
- melamine and print lines; and
- splicing machines to produce fine veneer joints.

### (c) Facilities and Personnel

The Group has in-house facilities that allow them to undertake R&D, develop prototypes, and test products. Some of the mechanical and physical testing undertaken in the Group's testing laboratory on reconstituted wood panels includes the following:

- |                              |                      |
|------------------------------|----------------------|
| - density;                   | - moisture content;  |
| - thickness tolerance;       | - emission level;    |
| - dimension tolerance;       | - surface finishing; |
| - viscosity control;         | - resin absorption;  |
| - internal bonding strength; | - stain resistance;  |
| - screw holding;             | - porous resistance. |

As part of its research and development for furniture, the Group also has facilities for the design and development of furniture prototypes. The Group's R&D activities are undertaken by personnel with extensive experience and expertise in product design, detailing, development and prototyping. They are supported by the Group's production line supervisors on areas such as manufacturing and marketing.

The Group has 83 personnel in its R&D team as at 17 January 2005, and they are also members of the Quality Assurance team.



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


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**(d) Development of New Products**

The Group is continuously involved in R&D of new products to cater to the diverse needs and requirements of its customers. Some of the products that have successfully undergone R&D and are currently in full production include the following:

- (i) **MDF:**
  - plain MDF;
  - paper overlay MDF;
  - direct print MDF;
  - melamine laminated MDF;
  - veneered MDF;
  - coated MDF; and
  - embossed MDF;
- (ii) **Knocked-down wooden furniture:**
  - shelves;
  - television cabinets;
  - display cabinets;
  - television racks;
  - shoe racks; and
  - book cases;
- (iii) **Doors:**
  - veneer doors;
  - sketch face doors;
  - pre-finish doors; and
  - moulded doors;
- (iv) **Particleboard:**
  - plain particleboard; and
  - paper overlay particleboard.

**(e) On-Going Research And Development****(i) Product Quality and Customisation**

The EFB Group is constantly undertaking R&D on improving the product quality of its existing product range, aimed at meeting the discerning needs and preferences of customers.

The areas of R&D are focused on:

- improvement on the grades and surfaces of MDF and particleboard;
- development of new value-added MDF and particleboard; and
- improvement on binder and blending formulation for MDF and particleboard productions.

In addition, the EFB Group also offers product customisation in thickness, finishing, size, lamination, colour and weather resistance.

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

The Group usually tests out different formulations and additives with a small sample run before full production takes place. Quality control is evident at every stage of the manufacturing where in-house product testing and development for strength, surface quality and moisture content are undertaken in detail.

### (ii) **Improving Manufacturing Processes**

The Group continuously focuses on process improvement, particularly in enhancing its manufacturing processes. This is critical as it has a direct impact on manufacturing efficiency, effectiveness, productivity and product quality.

As such, the Group undertakes R&D through:

- selection of process flow best practices;
- research in new technologies and machineries in improving the effectiveness, efficiencies, productivity and quality in the manufacturing processes;
- continuous evaluation and improvement of existing processes and procedures to optimise workflow;
- process re-engineering to increase efficiencies in the production process; and
- incorporation of quality control processes.

### (f) **Proposed Future Research And Development**

EFB Group proposes to undertake R&D to extend its current range of products by developing the following new products:

#### (i) **MDF with E1 grade**

The Group intends to carry out R&D activities on manufacturing MDF to continually improve E1 standard. It intends to launch E1 Grade of MDF by end of 2005.

Areas of R&D to be undertaken by the Group together with the resin supplier to produce these products, include:

- formulating the desirable ratios of resin and adhesives to achieve the required bonding strength with wood particles and reduce the level of formaldehyde emission in manufacturing MDF;
- product testing and laboratory analysis of chemical emission from wood panels under the following factors:
  - binder type;
  - temperature humidity;
  - panel thickness; and
  - percentage of chemical concentration;

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

- in-depth study on the resin blending formulation that reduces the level of formaldehyde emission when mixed with wood particles for MDF production; and
- Internal and independent testing of product for compliance with Class E1 standard within the Harmonised European Standard prEN 13986. On 22 October 2001, a sample of 15mm MDF manufactured by EFB Group has been tested for the following contents and standards through Furniture Industry Research Association (FIRA) International Limited:
  - (a) total extractable formaldehyde content, using the duplicate determinations method described in BS EN 120:1992; and
  - (b) the formaldehyde content was within the limit specified in BS EN 622-1:1997, for a Class A MDF, i.e the average Perforator Value for at least 3 boards is not greater than 9 miligrams/100 grams of board after correction to a moisture content of 6.5%.

### (ii) New Furniture Design

In line with the Group's expansion into downstream activities, the Group plans to undertake R&D in new knocked-down wooden furniture designs. Currently, the Group manufactures the following range of knocked-down wooden furniture:

- shelves;
- television cabinets;
- display cabinets;
- television racks;
- shoe racks; and
- book cases.

The Group intends to manufacture new furniture design within the existing range of knocked-down wooden furniture as well as a new range of knocked-down wooden furniture, where the Group is focusing on the following R&D:

- development of prototypes;
- managing quality of the products; and
- verifying environmental claims namely the use of sustainable plantation wood as the raw material for furniture production, and monitoring of product quality compliance with industry standards.

The new design is expected to be launched by the end of 2006.

**5. INFORMATION ON THE EFB GROUP (Cont'd)****(iii) High Moisture Resistant MDF**

The Group intends to carry out research and development activities to develop high moisture resistant (HMR) MDF. This will enable the Group to widen the applications of its MDF products to include those that are exposed to higher levels of moisture including external doors, bathrooms, kitchen and window frames. The Group intends to launch HMR MDF by end of 2005.

**(g) Research And Development Expenditure**

The amount of R&D expenditure of the Group for the previous year was expensed off in the cost of production. Details are as follows:

|                                | FYE 2001<br>(RM) | FYE 2002<br>(RM) | FYE 2003<br>(RM) | FPE* 2004<br>(RM) |
|--------------------------------|------------------|------------------|------------------|-------------------|
| <b>Capital Expenditure</b>     |                  |                  |                  |                   |
| Purchase of testing equipment  | 90,455           | 75,176           | 222,706          | 10,404            |
| <b>Operational expenditure</b> |                  |                  |                  |                   |
| Personnel salaries/wages       | 26,700           | 27,550           | 29,000           | 845,794           |
| Test materials                 | 42,922           | 40,521           | 46,007           | 57,968            |
| <b>TOTAL</b>                   | <b>160,077</b>   | <b>143,247</b>   | <b>297,713</b>   | <b>914,166</b>    |

*Note:*

\* FPE – Ten (10) month period ended 31 October 2004

**5.4.11 Interruptions in Business For the Past Twelve (12) Months**

There has been no interruption in the business which had a significant effect on the operations of the Group during the past twelve (12) months prior to the date of this Prospectus.

**5.4.12 Employees As At 17 January 2005**

The EFB Group is committed in providing its personnel with the opportunity for training and career advancement, as it believes that people are the Group's most valuable assets. It has grown from a 350-person operation in 1993 to its current total staff strength of 2,076 (excluding DTI).

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## 5. INFORMATION ON THE EFB GROUP (Cont'd)

The EFB Group currently has the following number of employees:

| Category                  | Malaysian    | No of years service | Non Malaysian | Total        |
|---------------------------|--------------|---------------------|---------------|--------------|
| Management/ Professional  | 48           | 8 – 12              | 19            | 67           |
| Technical and Supervisory | 218          | 6 – 8               | 85            | 303          |
| Clerical                  | 86           | 3 – 5               | 29            | 115          |
| Skilled Workers           | 213          | 5 – 8               | 106           | 319          |
| Semi-skilled Workers      | 620          | 3 – 5               | 428           | 1,048        |
| General Workers           | 159          | 2 – 4               | 65            | 224          |
| <b>TOTAL</b>              | <b>1,344</b> |                     | <b>732</b>    | <b>2,076</b> |

Most of the members of the management team have been with the EFB Group since the establishment of the Group's business, and have gained experience in and understanding of the industry in which the Group operates.

EFB Group's employees are not members of any trade unions, and to date no industrial disputes have transpired throughout the Group's twelve years of operations. The average number of years of service of its key employees is about nine to twelve years.

### 5.4.13 People-Development Programme

The Group had conducted various training programmes to enhance its employees skills and knowledge. Tabled below are some of the major programmes conducted for the employees of the Group:

| No | Type of Programme                                                                                                                                                                      | Objective of programme                                                                                                                     |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Communication English Programme                                                                                                                                                        | To enhance the Group's employees' communication skills.                                                                                    |
| 2. | Understanding of ISO 9001:2000 Standards                                                                                                                                               | To create awareness amongst all employees of the Group's quality management system.                                                        |
| 3. | Occupational Safety and Health ("OSH")                                                                                                                                                 | To provide awareness of the OSH requirements and to prevent workplace hazards.                                                             |
| 4. | Forklift Safety & Certificate Programme                                                                                                                                                | To train certain employees of the Group on the handling of forklifts within the premises of the Group.                                     |
| 5. | - Malaysian Customs Import & Export Procedures;<br>- Pengesahan Penyeritaan Kursus Pengurusan Berkesan Caruman KWSP; and<br>- Malaysian Customs Import & Export Procedures & Sales Tax | To obtain current updates of the Malaysian Government's legislative requirements which are essential to the Group's day-to-day operations. |
| 6. | Fire Prevention Management                                                                                                                                                             | To obtain better knowledge on fire prevention in the workplace.                                                                            |
| 7. | Quality Control Tools and Quality Improvement                                                                                                                                          | To emphasise employees contribution towards the Group's efforts to improve the quality of Group's products.                                |

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

As management believes that knowledge is a fundamental element in improving operational efficiency, the employees of the Group attend various other courses such as computer courses, leadership programmes and other technical courses.

### 5.4.14 Key Achievement/Milestones/Awards

#### (a) Sustainable Forest Management and Forest Certification

On 3 February 2003, EFB was issued the CoC which was certified under the Quality Forest Management (Qualifor) Programme by SGS South Africa. The programme is accredited by the FSC. The CoC certification for EFB will expire on 26 December 2007.

#### (b) ISO 9001:2000

EFB obtained the ISO 9001:2000 certification on 21 October 2002.

#### (c) Other achievements

The tested sample reflects the Group's capability in producing low emission MDF using Urea Formaldehyde (UF)-based resins of low formaldehyde content. The level of UF emission complies with the level of emission required under BS EN622-1:1997 standards for a Class A MDF.

### 5.4.15 Marketing Strategies and Distribution Network

#### (i) Marketing Strategy

The sales and marketing team of the EFB Group utilises the following marketing strategies to sustain and expand the Group's business:

- positioning the Group as a one-stop shop manufacturer with a wide range of MDF, Particleboard and value-added products to meet the requirements and needs of customers;
- capitalising on the Group's continuous ability to provide the highest quality of products and services to establish its reliability as a supplier, thus creating long-term customer loyalty and dependency; and
- Expanding its market presence overseas and developing new business opportunities by working in close partnership with existing customers.

Some of the promotional and marketing activities undertaken by the Group include:

- proactive sales visit to potential customers;
- participation and attendance in various trade shows to cultivate new customers and foster relationship with existing customers; and
- free promotional samples, leaflets and brochures.

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

Since 2001, some of the trade shows that the Group has participated in include:

| Year                             | Name of Trade Show                                                                          | Country  |
|----------------------------------|---------------------------------------------------------------------------------------------|----------|
| Exhibited in 2002, 2003 and 2004 | Malaysia International Furniture Fair (MIFF) held in Putra World Trade Centre, Kuala Lumpur | Malaysia |
| Exhibited in 2000 and 2001       | Malaysian Furniture Export Exhibition (MAFEX) held in Mines, Kuala Lumpur                   | Malaysia |

As at 17 January 2005, the EFB Group has approximately 33 sales and marketing personnel in its sales and marketing division to focus on new business development.

**(ii) Distribution Network**

The distribution strategy of the Group is based on direct and indirect distribution. Currently, the Group utilises its own sales personnel to focus on local and major overseas markets and indirect channels such as agents to focus on various markets overseas.

The Group's direct distribution strategy involves sales to local and overseas customers comprising mainly retailers of the hypermarkets, furniture manufacturers including laminators, traders, distributors, and interior designers.

As at 17 January 2005, the Group has approximately 32 agents covering overseas countries.

The Group is not heavily dependent on any one particular agent for the distribution of its products, since revenue from the top agent accounted for 17.3% of the total Group revenue for the 10-month period ended 31 October 2004.

For the ten (10) month period ended 31 October 2004, revenue contributed by indirect distribution such as agents accounted for approximately 78.7% of the Group's total revenue. The remainder 21.3% is through direct distribution. The use of agents as an indirect distribution channel is a common practice for most industries for their export markets. This is based on the following rationale:

- it enables the Group to achieve a faster market entry overseas with the ability to cover a diversity of markets;
- the Group would be able to optimise on its sales and marketing resources to focus on larger markets; and
- this enables the Group to continue its focus and strengthen on its core competency of manufacturing.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### 5.4.16 Production/Operation Capacities and Output

#### (i) Property And Location

The manufacturing facilities of the EFB Group are located in Malaysia and Thailand, details of which are as follows:

| Company | Products Manufactured                                           | Location of Facilities                                                                        | Approximate Built-up Area (acres) |
|---------|-----------------------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------|
| EFB     | MDF, value-added MDF products and knocked-down wooden furniture | PLO 22 Parit Raja Industrial Estate<br>86400 Parit Raja, Batu Pahat,<br>Johor                 | 27.4                              |
|         | Value-added MDF products                                        | PLO 416 Jalan Suasa<br>Kawasan Perindustrian Pasir Gudang<br>81700 Pasir Gudang<br>Johor      | 5                                 |
| SFC     | MDF                                                             | 417/112-113 Kamchanavanich Rd<br>Tumbol Patong, Amphur Hatyai<br>Songkhla 90230<br>Thailand   | 45                                |
| ATP     | Particleboard                                                   | PLO 202 Segamat Industrial Area II<br>85000 Segamat<br>Johor                                  | 23                                |
| DTI     | Value-added MDF & plywood products                              | No 90 & 91, Jalan Gangsa Dua, Pasir<br>Gudang Industrial Park,<br>81700 Pasir Gudang<br>Johor | 1.52                              |

The Group's manufacturing operations include four manufacturing plants in Malaysia and one manufacturing plant in Thailand. The Thai plant housed under SFC, was acquired in February 2004 and commenced operations in March 2004 producing mainly MDF. In Malaysia, one manufacturing plant produces MDF, one plant manufactures particleboard, and the other two plants manufacture value-added products.

#### (ii) Operations Capacity

As at 31 December 2003, the production, capacity and utilisation of facilities for the EFB Group's major products are as follows:

| Types of products             | Annual Capacity                   | Production for FY 2003            | Utilisation (%) |
|-------------------------------|-----------------------------------|-----------------------------------|-----------------|
| MDF                           | 280,000 cubic metres <sup>^</sup> | 246,391 cubic metres <sup>^</sup> | 88              |
| Knocked-down wooden furniture | 1,200,000 sets                    | 862,223 sets <sup>*</sup>         | 72              |
| Particleboard                 | 144,000 cubic metres              | 38,526 cubic metres               | 27              |



## 5. INFORMATION ON THE EFB GROUP (Cont'd)

As at 31 October 2004, the production, capacity and utilisation of facilities for the EFB Group's major products are as follows:

| Types of products             | Annual Capacity                             | Estimated Production for FY 2004             | Utilisation (%) |
|-------------------------------|---------------------------------------------|----------------------------------------------|-----------------|
| MDF                           | Malaysia: 280,000 cubic metres <sup>^</sup> | Malaysia: 238,100 cubic metres <sup>@</sup>  | Malaysia: 85    |
|                               | Thailand: 162,000 cubic metres              | Thailand: 138,400 cubic metres <sup>^^</sup> | Thailand: 85    |
| Knocked-down wooden furniture | 1,800,000 sets                              | 1,183,900 sets <sup>* @</sup>                | 66              |
| Particleboard                 | 144,000 cubic metres                        | 93,400 cubic metres <sup>* @</sup>           | 65              |

**Notes:**

<sup>^</sup> The above production is based on two 12-hour shifts per day

<sup>\*</sup> Based on average of all the varying sizes, models and sets of knocked-down wooden furniture produced.

<sup>@</sup> Extrapolated based on 10 months actual production ended 31 October 2004

<sup>^^</sup> Extrapolated based on 7 months actual production ended 31 October 2004

Depending on the type of products, the EFB Group's production lines currently run on either two 12-hour shifts, 7 days a week or two 8-hour shifts, 6 days a week.

Prior to SFC becoming a subsidiary, the Group was running at 88.0% of its MDF production capacity. The acquisition of SFC's MDF operations have further supplemented and provided additional capacity to the Group's existing MDF production lines. This will enable the Group to cater for future expansion.

As at 31 October 2004, the Group is currently running at 85% of its capacity for its MDF production, in Malaysia and in Thailand.

### 5.5 Information on Subsidiary and Associated Companies

Information on the subsidiary and associate companies of EFB is set out below (save for RISB which is in the process of being voluntarily wound-up):

#### 5.5.1 ATP

##### (i) History and Business

ATP was incorporated in Malaysia on 4 January 2002 under the Act as a private limited company with a registration number of 567960-T.

ATP was established when the Group decided to expand its products to supplement the existing knocked-down wooden furniture which was at that time being purchased from external suppliers. The move was also to meet the increasing market demand both locally and overseas for particleboards.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### (ii) Share Capital

|                    | No. of Ordinary Shares | Par Value RM | Amount RM  |
|--------------------|------------------------|--------------|------------|
| Authorised         | 10,000,000             | 1.00         | 10,000,000 |
| Issued and Paid-up | 8,000,000              | 1.00         | 8,000,000  |

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

| Date of Allotment | No. of Ordinary Shares Allotted | Par Value RM | Consideration       | Cumulative Issued and Paid-Up Share Capital RM |
|-------------------|---------------------------------|--------------|---------------------|------------------------------------------------|
| 04/01/2002        | 2                               | 1.00         | Subscriber's Shares | 2                                              |
| 28/03/2002        | 2,999,998                       | 1.00         | Cash                | 3,000,000                                      |
| 01/10/2002        | 5,000,000                       | 1.00         | Other than cash     | 8,000,000                                      |

### (iii) Principal Activities

The principal activity of ATP is the manufacturing of particleboards.

### (iv) Directors and Substantial Shareholders

ATP is a 100%-owned subsidiary of EFB. The Directors of ATP and their respective shareholdings are set out below:-

| Name                        | Direct        |   | Indirect                 |       |
|-----------------------------|---------------|---|--------------------------|-------|
|                             | No. of shares | % | No. of shares            | %     |
| Lim Seok Kuan               | -             | - | 8,000,000 <sup>(1)</sup> | 100.0 |
| Kuo Jen Chang               | -             | - | 8,000,000 <sup>(2)</sup> | 100.0 |
| Kuo Jen Chiu                | -             | - | 8,000,000 <sup>(2)</sup> | 100.0 |
| Chuah Liang Hee             | -             | - | -                        | -     |
| Mary Henerietta Lim Kim Neo | -             | - | -                        | -     |

**Notes:**

- (1) Deemed interested by virtue of her husband's substantial shareholding in EFB
- (2) Deemed interested by virtue of their substantial shareholding in EFB

**5. INFORMATION ON THE EFB GROUP (Cont'd)****(v) Employees**

As at 17 January 2005, ATP has a total of 234 employees as tabled below:

| Categories                                                                                        | No. Of Employees | Range of Years In Service <sup>^</sup> |
|---------------------------------------------------------------------------------------------------|------------------|----------------------------------------|
| Managerial and Professional                                                                       | 8                | 8 – 10                                 |
| Technical and Supervisory                                                                         | 40               | 6 – 8                                  |
| Clerical and related occupations (e.g. clerks, typist, stenographers, personal secretaries, etc.) | 19               | 1 – 2                                  |
| General                                                                                           | 167              | 1 – 2                                  |
| <b>Total</b>                                                                                      | <b>234</b>       |                                        |

*Note:*

<sup>^</sup> Including years of service in the EFB Group

**(vi) Subsidiary and Associated Companies**

As at the date of this Prospectus, ATP does not have any subsidiary or associated companies.

**5.5.2 EMP****(i) History and Business**

EMP was incorporated in Malaysia on 21 October 1994 under the Act as a private limited company with a registration number of 320623-U. EMP produced doorskin out of MDF for the export market.

**(ii) Share Capital**

|                    | No. of Ordinary Shares | Par Value RM | Amount RM |
|--------------------|------------------------|--------------|-----------|
| Authorised         | 5,000,000              | 1.00         | 5,000,000 |
| Issued and Paid-up | 2,000,000              | 1.00         | 2,000,000 |

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

| Date of Allotment | No. of Ordinary Shares Allotted | Par Value RM | Consideration       | Cumulative Issued and Paid-Up Share Capital RM |
|-------------------|---------------------------------|--------------|---------------------|------------------------------------------------|
| 21/10/1994        | 2                               | 1.00         | Subscriber's Shares | 2                                              |
| 26/01/1995        | 1,249,998                       | 1.00         | Cash                | 1,250,000                                      |
| 17/10/1997        | 750,000                         | 1.00         | Cash                | 2,000,000                                      |

**(iii) Principal Activities**

The intended principal activity of EMP was manufacturing of molded door skin panels. The company has ceased its operations and is dormant.

**5. INFORMATION ON THE EFB GROUP (Cont'd)****(iv) Directors and Substantial Shareholders**

EMP is a 100%-owned subsidiary of EFB. The Directors of EMP and their respective shareholdings are set out below:

| Name                        | ← Direct →    |   | ← Indirect →             |       |
|-----------------------------|---------------|---|--------------------------|-------|
|                             | No. of shares | % | No. of shares            | %     |
| Kuo Jen Chang               | -             | - | 2,000,000 <sup>(1)</sup> | 100.0 |
| Kuo Jen Chiu                | -             | - | 2,000,000 <sup>(1)</sup> | 100.0 |
| Mohd Alkaf bin Mohd Kahar   | -             | - | -                        | -     |
| Mary Henerietta Lim Kim Neo | -             | - | -                        | -     |

*Note:*

(1) Deemed interested by virtue of their substantial shareholding in EFB

**(v) Employees**

As EMP is currently dormant, the company does not have any employees as at 17 January 2005.

**(vi) Subsidiary and Associated Companies**

As at the date of this Prospectus, EMP does not have any subsidiary or associated companies.

**5.5.3 SFC****(i) History and Business**

SFC was incorporated in Thailand on 16 January 2004 as a private limited company with a registration number of 0107554700961.

**(ii) Share Capital**

|            | No. of Shares* | Par Value Thai Baht | Amount Thai Baht |
|------------|----------------|---------------------|------------------|
| Registered | 3,670,000      | 100                 | 367,000,000      |

*Note:*

\* - Includes ordinary shares and preference shares

**(a) Ordinary Shares**

|                    | No. of Ordinary Shares | Par Value Thai Baht | Amount Thai Baht |
|--------------------|------------------------|---------------------|------------------|
| Issued and paid-up | 3,303,000              | 100                 | 330,300,000      |

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

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

| Date of Allotment | No. of Ordinary Shares Allotted | Par Value Thai Baht | Consideration       | Cumulative Issued and Paid-Up Share Capital Thai Baht |
|-------------------|---------------------------------|---------------------|---------------------|-------------------------------------------------------|
| 16/01/2004        | 1,000                           | 100                 | Subscriber's Shares | 100,000                                               |
| 26/02/2004        | 3,302,000                       | 100                 | Cash                | 330,300,000                                           |

**(b) Preference Shares**

|                    | No. of Preference Shares | Par Value Thai Baht | Amount Thai Baht |
|--------------------|--------------------------|---------------------|------------------|
| Issued and Paid-up | 367,000                  | 100                 | 36,700,000       |

The changes in the issued and paid-up preference shares of SFC since its incorporation are as follows:

| Date of Allotment | No. of Preference Shares Allotted | Par Value Thai Baht | Consideration | Cumulative Issued and Paid-Up Share Capital Thai Baht |
|-------------------|-----------------------------------|---------------------|---------------|-------------------------------------------------------|
| 26/02/2004        | 367,000                           | 100                 | Cash          | 36,700,000                                            |

The actual value of the preference shares is 278.48 Thai Bahts per preference share, which translates the total value of the preference shares to 102,202,160 Thai Bahts. The dividends attached to the preference share is 8.354% per annum for the period of five (5) years. Preference shareholders are entitled to one (1) vote per preference share held, which is similar to the ordinary shareholders.

The preference shares in SFC issued to STA MDF Co. Ltd ("SMC") and STA Furniture Group Co. Ltd ("SFGC") have the following rights:-

- (i) every one of the preference shares may be converted to ordinary shares in SFC;
- (ii) SMC and SFGC are entitled to sell their preference shares to MP Particle Board Co. Ltd and EFB within one year from 26 February 2004 by notice in writing and upon such notice, MP Particle Board Co. Ltd and EFB are entitled to purchase the preference shares at 278.48 Thai Bahts plus premium of 8.354% per annum of the par value; and
- (iii) MP Particle Board Co. Ltd and EFB are entitled to buy the preference shares from SMC and SFGC at any time starting from 26 February 2004 but before 26 February 2009 at 278.48 Thai Bahts plus premium of 8.354% per annum of the par value.

**5. INFORMATION ON THE EFB GROUP (Cont'd)****(iii) Principal Activities**

The principal activity of SFC is the manufacturing of MDF.

**(iv) Directors and Substantial Shareholders**

The Directors of SFC and their respective shareholdings are set out below:-

| Name                  | ← Direct →     |   | ← Indirect →             |       |
|-----------------------|----------------|---|--------------------------|-------|
|                       | No. of shares  | % | No. of shares            | %     |
| Kuo Jen Chang         | 1 <sup>^</sup> | # | 2,477,249 <sup>(1)</sup> | 75.0* |
| Kuo Jen Chiu          | 1 <sup>^</sup> | # | 2,477,249 <sup>(1)</sup> | 75.0* |
| Kuo Hwei Chen         | -              | - | 2,477,250 <sup>(1)</sup> | 75.0* |
| Chieng Heng Nang      | -              | - | -                        | -     |
| Amporn Kanjanakumnerd | 1              | # | 825,749 <sup>(2)</sup>   | 25.0* |
| Isara Wongkusonkij    | -              | - | -                        | -     |
| Saharat Phenkul       | -              | - | -                        | -     |

**Notes:**

(1) Deemed interested by virtue of their substantial shareholding in EFB

(2) Deemed interested by virtue of his substantial shareholding in MP Particle Board Company Limited

\* Based on the number of ordinary shares issued

# Negligible

<sup>^</sup> Shares are held in trust for EFB

The substantial shareholders of SFC's ordinary shares and their shareholdings are set out below:

| Name                              | ← Direct →    |       | ← Indirect →  |   |
|-----------------------------------|---------------|-------|---------------|---|
|                                   | No. of shares | %     | No. of shares | % |
| EFB                               | 2,477,248     | 75.0* | -             | - |
| MP Particle Board Company Limited | 825,749       | 25.0* | -             | - |

**Note:**

\* Based on the number of ordinary shares issued

The substantial shareholder of SFC's preference shares and its shareholdings are set out below:

| Name | ← Direct →    |      | ← Indirect →  |   |
|------|---------------|------|---------------|---|
|      | No. of shares | %    | No. of shares | % |
| SMC  | 362,446       | 98.8 | -             | - |

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**5. INFORMATION ON THE EFB GROUP (Cont'd)****(v) Employees**

As at 17 January 2005, SFC has a total of 331 employees as tabled below:

| Categories                                                                                        | No. Of Employees | Range of Years In Service <sup>^</sup> |
|---------------------------------------------------------------------------------------------------|------------------|----------------------------------------|
| Managerial and Professional                                                                       | 17               | 6 – 8                                  |
| Technical and Supervisory                                                                         | 81               | 4 – 6                                  |
| Clerical and related occupations (e.g. clerks, typist, stenographers, personal secretaries, etc.) | 29               | 3 – 5                                  |
| General                                                                                           | 204              | 2 – 3                                  |
| <b>Total</b>                                                                                      | <b>331</b>       |                                        |

*Note:*

<sup>^</sup> Including years served in the company from which SFC's assets were acquired.

**(vi) Subsidiary and Associated Companies**

As at the date of this Prospectus, SFC does not have any subsidiary or associated companies.

**5.5.4 EDP****(i) History and Business**

EDP was incorporated in Malaysia on 22 July 1989 as a private limited company with a registration number of 184661-A.

**(ii) Share Capital**

|                    | No. of Ordinary Shares | Par Value RM | Amount RM  |
|--------------------|------------------------|--------------|------------|
| Authorised         | 25,000,000             | 1.00         | 25,000,000 |
| Issued and Paid-up | 10,300,004             | 1.00         | 10,300,004 |

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## 5. INFORMATION ON THE EFB GROUP (Cont'd)

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

| Date of Allotment | No. of Ordinary Shares Allotted | Par Value RM | Consideration       | Cumulative Issued and Paid-Up Share Capital RM |
|-------------------|---------------------------------|--------------|---------------------|------------------------------------------------|
| 22/07/1989        | 4                               | 1.00         | Subscriber's Shares | 4                                              |
| 23/12/1989        | 900,000                         | 1.00         | Cash                | 900,004                                        |
| 5/04/1990         | 100,000                         | 1.00         | Cash                | 1,000,004                                      |
| 30/06/1990        | 1,400,000                       | 1.00         | Cash                | 2,400,004                                      |
| 15/12/1990        | 1,600,000                       | 1.00         | Cash                | 4,000,004                                      |
| 28/02/1991        | 1,000,000                       | 1.00         | Cash                | 5,000,004                                      |
| 30/10/1991        | 910,392                         | 1.00         | Cash                | 5,910,396                                      |
| 27/05/1992        | 869,608                         | 1.00         | Cash                | 6,780,004                                      |
| 29/09/1992        | 20,000                          | 1.00         | Cash                | 6,800,004                                      |
| 30/09/1997        | 3,500,000                       | 1.00         | Other than cash     | 10,300,004                                     |

### (iii) Principal Activities

EDP is currently dormant.

### (iv) Directors and Substantial Shareholders

EDP is a 100%-owned subsidiary of EFB. The Directors of EDP and their respective shareholdings are set out below:-

| Name                        | ← Direct →    |   | ← Indirect →              |       |
|-----------------------------|---------------|---|---------------------------|-------|
|                             | No. of shares | % | No. of shares             | %     |
| Kuo Wen Chi                 | -             | - | 10,300,004 <sup>(1)</sup> | 100.0 |
| Kuo Jen Chang               | -             | - | 10,300,004 <sup>(1)</sup> | 100.0 |
| Kuo Huei Chen               | -             | - | 10,300,004 <sup>(1)</sup> | 100.0 |
| Kuo Jen Chiu                | -             | - | 10,300,004 <sup>(1)</sup> | 100.0 |
| Kau Chee Hing               | -             | - | -                         | -     |
| Mary Henerietta Lim Kim Neo | -             | - | -                         | -     |
| Kuo Jen Hui                 | -             | - | 10,300,004 <sup>(2)</sup> | 100.0 |

#### Notes:

(1) Deemed interested by virtue of their substantial shareholding in EFB

(2) Deemed interested by virtue of his siblings' substantial shareholding in EFB

### (v) Employees

As EDP is currently dormant, the company does not have any employees as at 17 January 2005.

### (vi) Subsidiary and Associated Companies

As at the date of this Prospectus, EDP does not have any subsidiary or associated companies.



## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### 5.5.5 DTI

#### (i) History and Business

DTI was incorporated in Malaysia on 10 May 1977 as a private limited company with a registration number of 32799-M.

#### (ii) Share Capital

|                    | No. of Ordinary Shares | Par Value RM | Amount RM |
|--------------------|------------------------|--------------|-----------|
| Authorised         | 2,000,000              | 1.00         | 2,000,000 |
| Issued and Paid-up | 600,000                | 1.00         | 600,000   |

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

| Date of Allotment | No. of Ordinary Shares Allotted | Par Value RM | Consideration       | Cumulative Issued and Paid-Up Share Capital RM |
|-------------------|---------------------------------|--------------|---------------------|------------------------------------------------|
| 10/05/1977        | 2                               | 1.00         | Subscriber's Shares | 2                                              |
| 18/08/1978        | 299,998                         | 1.00         | Cash                | 300,000                                        |
| 10/06/1989        | 300,000                         | 1.00         | Cash                | 600,000                                        |

#### (iii) Principal Activities

DTI is principally engaged in fancy plywood and MDF lamination process.

#### (iv) Directors and Substantial Shareholders

The Directors of DTI and their respective shareholdings are set out below:

| Name              | ← Direct →    |     | ← Indirect →           |       |
|-------------------|---------------|-----|------------------------|-------|
|                   | No. of shares | %   | No. of shares          | %     |
| Kuo Wen Chi       | -             | -   | 518,800 <sup>(1)</sup> | 86.47 |
| Kuo Jen Chang     | -             | -   | 518,800 <sup>(1)</sup> | 86.47 |
| Kuo Jen Chiu      | -             | -   | 518,800 <sup>(1)</sup> | 86.47 |
| Kuo Jen Hui       | -             | -   | -                      | -     |
| Chuan Chai Chen   | 30,000        | 5.0 | -                      | -     |
| Mohammad bin Aman | -             | -   | 30,000 <sup>(2)</sup>  | 5.0   |

**Notes:**

(1) Deemed interested by virtue of their substantial shareholding in EFB and in ETP

(2) Deemed interested by virtue of his relationship with the substantial shareholder of Daud Sdn Bhd, a substantial shareholder of DTI

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

The substantial shareholders of DTI and its shareholdings are set out below:

| Name            | Direct        |       | Indirect      |   |
|-----------------|---------------|-------|---------------|---|
|                 | No. of shares | %     | No. of shares | % |
| EFB             | 268,000       | 44.67 | -             | - |
| ETP             | 250,800       | 41.80 | -             | - |
| Daud Sdn Bhd    | 30,000        | 5.00  | -             | - |
| Chuan Chai Chen | 30,000        | 5.00  | -             | - |

**(v) Employees**

As at 17 January 2005, DTI has a total of 123 employees as tabled below:

| Categories                                                                                        | No. Of Employees | Range of Years In Service |
|---------------------------------------------------------------------------------------------------|------------------|---------------------------|
| Managerial and Professional                                                                       | 6                | 6 – 26                    |
| Technical and Supervisory                                                                         | 9                | 1 – 19                    |
| Clerical and related occupations (e.g. clerks, typist, stenographers, personal secretaries, etc.) | 5                | 1 – 4                     |
| General                                                                                           | 103              | 5 - 10                    |
| <b>Total</b>                                                                                      | <b>123</b>       |                           |

**(vi) Subsidiary and Associated Companies**

As at the date of this Prospectus, DTI does not have any subsidiary or associated companies.

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

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**5.6 Industry Overview****5.6.1 Overview Of The Reconstituted Wood-based Panel Board Industry In Malaysia****Background Information**

The growth in downstream processing activities has contributed to the increase in the importance of intermediate supporting industries such as the reconstituted wood-based panel board sector. Reconstituted wood-based panel board are products made from recycled wood fibres or particles that are bonded together with resin under high heat and pressure to form a flat dense sheet. The result is a strong wood panel that does not bend or warp. The two most common are medium density fibreboard ("MDF") and particleboard. MDF is a smooth surfaced panel made with fine wood fibres whilst particleboard is made using coarser sawdust.

The reconstituted wood-based panel board sector falls under the total umbrella of the wood-based industry. The reconstituted wood-based panel board industry plays an important supporting role in the growth and development of the wood-based industry in Malaysia. This is substantiated by the following observations:

- Malaysia is a major exporter of reconstituted wood-based panel board products to the world market whereby in 2003, the export value of MDF fibreboard alone reached RM978.6 million, making Malaysia the world's third largest exporter of MDF.
- Reconstituted wood-based panel board is regarded as a promoted activity, which is encouraged and supported by Government incentives such as Pioneer Status. This is in line with the Government's efforts for a focused and selective approach in the development of the wood-based industry in ensuring that limited resources are utilised in the manufacture of high value-added products.
- Reconstituted wood-based panel boards are regarded as value-added products. This involves the conversion or recycling of low-grade wood based materials for example residue from wood mills, tree branches and chip waste to produce quality panel products.
- Providing variety in secondary products such as the different types of reconstituted wood-based panel boards to increase the choice of working materials for end-product manufacturers.
- Undertaking manufacturing of semi-finished products such as furniture components to increase efficiency in mass-production for end-product manufacturers as well as enabling furniture manufacturers to focus on their core competencies.
- As the reconstituted wood-based panel board industry is largely derived from plantation timber and residues produced by wood mills to produce fibre, it will provide a viable alternative in view of the growing shortage of tropical hardwood.

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

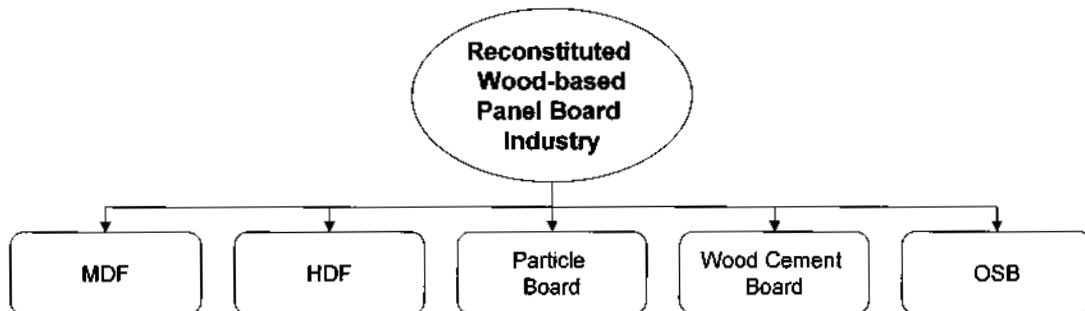
Reconstituted wood-based panel boards are also growing in usage and applications. Some of the diverse applications of reconstituted wood-based panel boards include the following:

- building materials such as floor decking, wall lining, roof decking, wall cladding, doors;
- profiling such as architraves, skirtings, cornices, windows frames, door frames;
- furniture and furniture parts including office and household furniture, tables, shelving;
- decorative products such as kitchen bench tops and cabinets;
- household products such as toys, baby cots, picture frames;
- paneling and partitioning; and
- flooring.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

### Industry Structure

The reconstituted wood-based panel board industry is structured into the following sub-sectors:



*MDF - Medium Density Fibreboard*

*HDF - High Density Fibreboard*

*OSB - Oriented Strand Board*

The reconstituted wood-based panel board industry comprises the following major product categories:

- MDF;
- HDF;
- Particle Board;
- Wood Cement Board; and
- OSB.

Reconstituted wood-based panel boards are products mainly made from wood reduced to particles, which range from large flakes to fibres, and bonded under heat and pressure with adhesives to produce flat, dense sheets.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

The reconstituted wood-based panel board is also sometimes referred to as composite board. Details of the major product categories of the reconstituted wood-based panel board industry are as follows:

- **MDF and HDF** are composite boards or panels that are made of wood fibres. These composite boards can be routed, moulded, finished and laminated, making the boards the ideal raw material bases for mouldings and other types of internal joinery.

MDF is mainly used in the furniture industry and are largely interior products, which are not suitable for outdoor use. Some of the applications of MDF include kitchen bench tops, kitchen cabinets, shelves, flush doors, television cabinets, mouldings, cupboards, drawers, office furniture, game boards, picture frames and pedestals for tables amongst others. The thicker MDF is used for millwork applications including door frames, window frames, casings and turnings, amongst others.

HDF is used for heavy-duty purposes and is widely used for flooring. The manufacturing process of HDF involves significant pressure and temperature to compress the particles into a flat board which are higher in density compared to MDF.

- **Particleboard** is also referred to as chipboard. These boards are panels composed of wood particles in the form of chips or shavings, bonded together with resin and compressed into rigid sheets. Fine particles are usually laid at the surfaces of the panels to form dense layers, the less dense core comprised of coarse particles.

Some of the applications of particleboard include furniture, kitchen cabinets, floor underlay, shelves, television casings, partitions and ceilings.

- **Wood Cement Boards** are panels manufactured from wood strands bonded with cement. These panels are largely used as building materials for a wide range of applications including exterior and interior wall partitioning, flooring and underlay, roofing, permanent shuttering for concrete forming systems and sound barriers.
- **OSB** are panels made with layers of precision-manufactured wood strands, flakes or wafers sliced from small diameter, round wood logs that are aligned or oriented. All these are formed into panels and pressed with an exterior-type binder under heat and pressure. OSBs derive its strength from uninterrupted wood fibres, interwoven long strand or wafers, and the degree of orientation of surface layers strands.

OSB is used for structural sheathing for walls and roof, flooring, packaging and advertising display. The panels are highly resilient to impact and are therefore suitable for lining of buildings such as indoor sports halls. OSB is used to replace plywood in most applications.

The Group is primarily a manufacturer of MDF and downstream wood-based products such as knocked-down wooden furniture. As part of the Group's product extension plans, the Group started the manufacturing of particleboard in 2003.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

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

### Demand and Supply Conditions

#### (a) Supply

According to the Department of Statistics, the production of MDF is categorised under the 'Plywood, Hardboard and Particleboard Mills' sector. As there is no specific data available on the local production of MDF, data on plywood, hardboard and particleboard mills is used to provide an indication of performance in the reconstituted wood-based panel board industry. Sales value of plywood, hardboard and particleboard mills declined at an average annual rate of 0.3% from 1999 to 2003. However, in 2003, sales value increased by 4.6% to RM6.3 billion over the previous year.

Between 1999 and 2003, sales value of particleboards grew at an average annual rate of 3.7%. However in 2003, sales value decreased by 6.9% compared to 2002. In 2003, sales value of particleboard reached RM785.1 million. Between 1999 and 2003, production quantity of particleboard grew at an average annual rate of 3.9%. However, in 2003, production quantity of particleboard decreased by 18.5% as compared to the previous year. In 2003, production quantity of particleboard reached 1.1 million cubic metres.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

#### (b) Demand

Demand for MDF and particleboards are dependent on the following markets:

- Local market demand; and
- Overseas in terms of export market demand.

However export market demand for MDF and particleboard predominates. Following are some of the export market trends for MDF and particleboard:

- Between 1999 and 2003, export value of MDF grew at an average annual rate of 7.3%. In 2003, export value of MDF increased by 12.9% compared to the previous year. In 2003, export value of MDF reached RM978.6 million.
- Between 1999 and 2003, export quantity of MDF grew at an average annual rate of 8.1%. In 2003, export quantity of MDF increased by 12.5% compared to 2002. In 2003, export quantity of MDF reached approximately 1.2 million cubic metres.
- Between 1999 and 2003, the export value of particleboard and similar board or wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances, declined at an average annual rate of 2.7%. However, in 2003 export value increased by 21.9% compared to 2002. In 2003, export value of this category reached RM139.2 million.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

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

### Industry Life-Cycle

Overall, the life-cycle of the reconstituted wood-based panel board industry in Malaysia is in its growth phase. This is based on the following observations:

#### (a) Local Production

- Sales value of plywood, hardboard and particleboard mills (including MDF) declined at an average annual rate of 0.3% from 1999 to 2003. However in 2003, sales value of plywood, hardboard and particleboard mills (including MDF) increased by 4.6% compared to 2002. In 2003, sales value of plywood, hardboard and particleboard mills (including MDF) reached RM6.3 billion.

Between January and September of 2004, sales value of Plywood, Hardboard and Particleboard Mills (including MDF) increased by 26.6% to reach RM5.8 billion compared to the same nine-month period in 2003.

- Between 1999 and 2003, sales value of particleboard grew at an average annual rate of 3.7%. However in 2003, sales value of particleboard decreased by 6.9% compared to 2002. In 2003, sales value of particleboard reached RM785.1 million.
- Between January and October of 2004, sales value of particleboard increased by 3.8% to RM684.8 million compared to the same ten-month period in 2003.
- Between 1999 and 2003, production quantity of particleboard grew at an average annual rate of 3.9%. However in 2003, production quantity of particleboard decreased by 18.5% compared to 2002. In 2003, production quantity of particleboard reached 1.1 million cubic metres.

Between January and October of 2004, production quantity of particleboard decreased by approximately 10.0% to 941,000 cubic metres compared to the same ten-month period in 2003.

#### (b) Exports

- Between 1999 and 2003, export value of MDF grew at an average annual rate of 7.3%. In 2003, export value of MDF increased by 12.9% compared to the previous year. In 2003, export value of MDF reached RM978.6 million.
- Between 1999 and 2003, export quantity of MDF grew at an average annual rate of 8.1%. In 2003, export quantity of MDF increased by 12.5% compared to 2002. In 2003, export quantity of MDF reached approximately 1.2 million cubic metres.
- Between 1999 and 2003, the export value of particleboard and similar board or wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances, declined at an average annual rate of 2.6%. However, in 2003, the export value of this category increased by 22.7% compared to 2002. In 2003, export value of products under this category reached RM139.2 million.

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

The growth phase of the life-cycle of the Reconstituted Wood-based Panel Board Industry will continue to be fuelled by the following trends and factors:

- There are approximately 2,000 furniture manufacturers in Malaysia and it is this large number of furniture operators in the country that will continue to stimulate demand and growth for Reconstituted Wood-based Panel Board. Furniture is one of the major user-industries for Reconstituted Wood-based Panel Board.
- MDF, which is categorised under the Reconstituted Wood-based Panel Board Industry, is a relatively newly developed sector in the timber industry whereby most of the mills in Malaysia was only established in the 1990s. This reaffirms an industry that is still in its growth and development phase.
- As the Reconstituted Wood Panel Boards serve many user-industry sectors with a proliferation of usage and applications, the growth in the performance of the user industry sectors will continue to generate demand for Reconstituted Wood-based Panel Board including MDF based products and applications.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

### 5.6.2 Future Growth for the Reconstituted Wood-based Panel Board Industry

The following are the areas of growth and opportunities for the reconstituted wood-based panel board industry.

#### (a) Product Innovation

Product innovations for reconstituted wood-based panel board would provide significant growth opportunities. Some of the innovations for MDF in particular include the following:

- Fire-retardant properties;
- Anti-fungal properties;
- Moisture-resistant properties;
- Surface-stain resistant properties;
- Scratch resistant surfaces;
- Corrosion resistant surfaces;
- Heat resistant surfaces; and
- Stable low formaldehyde glue.

Specialised MDF is created by adding synthetic resins and other additives to ordinary MDF to enhance its functional properties. Applications for moisture resistant MDF include shoe heels/soles or flooring baseboards and for other applications that are exposed to moisture. Hence, it is through the development of innovative products that will enable local manufacturers to gain new competitive advantages through product differentiation and an expanded product offering.

#### (b) Expansion into Overseas Markets

Countries, other than the dominant export markets, such as United Arab Emirates, Taiwan, Korea and Vietnam, present export opportunities for reconstituted wood-based panel board such as MDF. In 2003, export value of MDF amounted to RM978.6 million and some of the major export markets were China and Japan. Other countries include United Arab Emirates, Taiwan, Korea, Vietnam and many others. As such, operators that are able to expand into overseas markets are in a stronger position to diversify business risks and reduce dependency on the local market.



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

### (c) Use of Alternative Materials

There are other opportunities to use alternative materials as a source of supply of raw materials for the production of MDF. Some of the raw materials that are currently being considered include hemp, straw, palm tree waste, bamboo, rice husks and recycled materials such as wooden pallets. The industry is still developing in terms of exploring the use of raw materials that are cost effective, plentiful in supply to produce MDF that meets the international standards in quality.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

### 5.6.3 Government Legislation, Policies and Incentives

#### (a) Government Laws and Regulations

Application of a manufacturing licence under the Industrial Coordination Act, 1975 is mandatory for companies with shareholders' funds of RM2.5 million or above or engaging 75 or more full-time employees.

#### (b) Licensing of Wood-based Industry

All wood-based operations are required to obtain a number of licences, permits and approvals from the State as well as the Federal Government. As a Federal matter, the MTIB is the authority responsible for the issuance of licences on wood-based activities under the Wood-based Industries Enactment 1973 and Wood-based Industries Rules 1990. The registration of the following wood-based operations with the MTIB is mandatory under the Malaysia Timber Industry Board Enactment 1973 and Wood-based Industries Rules 1990:

- export of timber or carry on business as an exporter;
- carry on business as a jetty operator;
- carry on the business of grading timber; and
- carry on business as a supplier or timber processor, for the purpose of export trade.

Wood-based manufacturers are required to apply for a licence to site, construct, erect, establish, operate or maintain a wood-based operation. Such operations include:

- Sawmills, plywood mills, veneer mills and blockboard mills;
- Woodworking mills, furniture mills and wood moulding mills;
- Fibreboard mills, chipboard mills and pulp mills;
- Mobile sawmills; and
- Charcoal kilns.

At the state level, the main governing body is the forestry department of the respective states. As such, MDF and particleboard manufacturers located in Johor are governed by the Johor Wood-Based Industries Rules 1986 or the rules, which were lawfully fixed at the latest date by the Johor Forestry Department.

For exports of wood products, the MTIB is the statutory body responsible for the registration of exports of wood products.

*\* Chipboard is also sometimes referred to as particleboard*

For further details of the MTIB issued licenses, kindly refer to Section 7.2 of this Prospectus.

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

**(c) Atomic Energy Licensing**

The licensing of Atomic Energy is governed by the Atomic Energy Licensing Act 1984 (Act 304). The objective of the Act is to mainly provide for the regulation and control of atomic energy and for the establishment of standards on liability for nuclear damage.

For further details of the Atomic Energy Licensing Board issued licenses, kindly refer to Section 7.2 of this Prospectus.

**(d) Government Incentives**

The major incentives for companies investing in the manufacturing sector are the:

- Pioneer Status;
- Investment Tax Allowance; and
- Reinvestment Allowance.

Eligibility for either the Pioneer Status or Investment Tax Allowance will be determined according to the priorities termed as "promoted activities" or "promoted products". In addition, the level of value-added, technology and industrial linkages will also be taken into consideration.

In line with the Government's intention to promote the growth and development of the Wood-based Industry, the manufacture of the following wood and wood-based products are regarded as promoted activities eligible for Pioneer Status and Investment Tax Allowance:

- reconstituted wood-based panel boards or products;
- wooden solid or other specialised function doors or wooden solid windows;
- multi-ply parquet;
- wooden furniture or parts;
- insulation for cryogenic vessels; and
- all wooden products except sawn timber, veneer and plain plywood.

Eligible manufacturers producing for the export market may also apply for Drawback of Sales Tax on Materials Used in Manufacture. According to section 29 of the Sales Tax Act 1972, all duty-paid goods used as materials for the manufacture of other goods which are subsequently exported, are eligible for Drawback of the Sales Tax in full.

Other incentives available for eligible manufacturers include:

- Training Incentives such as the Human Resource Development Fund;
- Incentives for Research and Development;
- Tariff Related Incentives such as:
  - . Double Deduction for Promotion of Exports;
  - . Exemption from Import Duty and Sales Tax on Machinery and Equipment; and
  - . Exemption from Import Duty and Sales Tax on Spares and Consumables.

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## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### (e) Cess and Royalties

Export levies on timber and timber products imposed by the Government are aimed at ensuring an adequate supply of raw materials for the wood-based industry. As at November 2003, the cess rates on the export of wood and wood products in Peninsular Malaysia are as follows:

| Timber Products | Levy | Cess                |
|-----------------|------|---------------------|
| MDF             | n.a  | n.a                 |
| Particle Board  | n.a  | RM2 per cubic metre |

n.a = not applicable

### (f) Environmental Regulations

Some of the main environmental issues faced by companies involved in the manufacture of reconstituted wood-based panels include:

- Disposal of bulk waste comprising timber materials;
- Control of smoke emissions from the boiler;
- Wastewater from the boiler containing wood-based sludge.

The Department of Environment has specified that the installation of boiler for the heating of water or other liquid in premises must obtain prior written approval by the Director General of the Department of Environment.

The prescribed permissible limits of concentration of air impurities or smoke emission, resulting from burning wood for the boiler, is regulated under the Environmental Quality Act 1974 and Environmental Quality (Clean Air) Regulations 1978.

The disposal of any sludge from wastewater treatment system falls under the Environmental Quality (Scheduled Wastes) Regulations, 1989.

*(Source: Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vital Factor Consulting Sdn Bhd for inclusion in this prospectus.)*

### 5.6.4 Summary Of Outlook And Prospects Of The Industry

The outlook for the reconstituted wood-based panel board industry is dependent on the following:

#### (a) Local Production

- Sales value of plywood, hardboard and particleboard mills (including MDF) declined at an average annual rate of 0.3% from 1999 to 2003. However in 2003, sales value of plywood, hardboard and particleboard mills (including MDF) increased by 4.6% compared to 2002. In 2003, sales value of plywood, hardboard and particleboard mills (including MDF) reached RM6.3 billion.
- Between January and September of 2004, sales value of Plywood, Hardboard and Particleboard Mills (including MDF) increased by 26.6% to reach RM5.8 billion compared to the same nine-month period in 2003.
- Between 1999 and 2003, sales value of particleboard grew at an average annual rate of 3.7%. However in 2003, sales value of particleboard decreased by 6.9% compared to 2002. In 2003, sales value of particleboard reached RM785.1 million.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

Between January and October of 2004, sales value of particleboard increased by 3.8% to RM684.8 million compared to the same ten-month period in 2003.

- Between 1999 and 2003, production quantity of particleboard grew at an average annual rate of 3.9%. However in 2003, production quantity of particleboard decreased by 18.5% compared to 2002. In 2003, production quantity of particleboard reached 1.1 million cubic metres.

Between January and October of 2004, production quantity of particleboard decreased by approximately 10.0% to 941,000 cubic metres compared to the same ten-month period in 2003.

### (b) Exports

- Between 1999 and 2003, export value of MDF grew at an average annual rate of 7.3%. In 2003, export value of MDF increased by 12.9% compared to the previous year. In 2003, export value of MDF reached RM978.6 million.
- Between 1999 and 2003, export quantity of MDF grew at an average annual rate of 8.1%. In 2003, export quantity of MDF increased by 12.5% compared to 2002. In 2003, export quantity of MDF reached approximately 1.2 million cubic metres.
- Between 1999 and 2003, the export value of particleboard and similar board or wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances, declined at an average annual rate of 2.6%. However, in 2003 the export value increased by 22.7% compared to 2002. In 2003, export value of products under this category reached RM139.2 million.

### (c) End-User Industry Sectors

The performances of some of the end-user industries for MDF are as follows:

- Between 1999 and 2003, the sales value of furniture and fixtures grew at an average annual rate of 7.4%. In 2003, sales value increased by 10.1% to approximately RM4.0 billion;
- Between 1999 and 2003, the construction industry grew at an average annual rate of 1.6%. In 2003, the construction industry recorded growth of 2.1%;
- Between 1999 and 2003, the sales value of planing mills, window and door mills and joinery works declined at an average annual rate of 0.4%. However, in 2003, the sales value increased by 3.8% to RM1.1 billion over the previous year.

#### 5.6.5 Industry's Reliance On And Vulnerability To Imports

The industry is reliant on two major types of raw materials:

- rubberwood logs
- urea resin

The remaining raw materials are veneer logs and veneer, paper overlay, chipboard and emulsion wax/hardener.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

These two major raw materials are available locally. In Malaysia, the supply of rubberwood logs derived from rubber plantations is slowly declining. The areas that are planted with natural rubber declined at an average annual rate of 2.7% between 1999 and 2003 (*Note that 2003 are estimated figures*). However areas that are replanted with natural rubber increased at an average annual rate of 1.0% between 1999 and 2003 (*Note that 2003 are estimated figures*).

In 2003, areas that are planted with natural rubber reached 1.3 million hectares in Malaysia, after a decline of 2.4% over the previous year.

As the production of MDF can use a variety of raw materials such as wood off-cuts, shavings, sawdust in addition to wood fibres, manufacturers can essentially use any type of plantation logs as raw materials.

UF glue is used extensively in the manufacturing of MDF and particleboard for bonding of wood fibres. Malaysia is a local producer of urea resin with an approved capacity of around 600,000 tonnes per annum.

(Source: *Extraction of Assessment of the Reconstituted Wood-Based Panel Board Industry, updated 27 November 2004, prepared by Vival Factor Consulting Sdn Bhd for inclusion in this prospectus.*)

### 5.7 Major Customers

The list of major customers of the Group based on the year ended 31 December 2003 are as follows:

|    | Customer Name                                     | Country of Origin | Products/ Services Purchased                | % of EFB Group Turnover* | Length of Relationship (Years) |
|----|---------------------------------------------------|-------------------|---------------------------------------------|--------------------------|--------------------------------|
| 1  | ETP* <sup>#</sup>                                 | Singapore         | Veneered MDF, Coated MDF, Embossed MDF      | 12.3                     | 11                             |
| 2  | Ben Thann Material Company <sup>#</sup>           | Vietnam           | MDF                                         | 3.1                      | 4                              |
| 3  | Tonah Trading Co Sdn Bhd                          | Malaysia          | MDF                                         | 3.0                      | 10                             |
| 4  | Faithful Trading (Hong Kong) Limited <sup>#</sup> | China             | MDF                                         | 2.7                      | 10                             |
| 5  | Del Mar International <sup>#</sup>                | United States     | Coated MDF, Embossed MDF, Veneered MDF, MDF | 2.7                      | 11                             |
| 6  | Toppan Cosmo Inc.                                 | Japan             | Knocked-down wooden furniture               | 2.6                      | 5                              |
| 7  | Dragon World Industrial Ltd <sup>#</sup>          | China             | MDF                                         | 2.5                      | 9                              |
| 8  | Plaut International Ltd <sup>#</sup>              | United Kingdom    | Veneered MDF                                | 2.2                      | 9                              |
| 9  | Nitori Co Ltd                                     | Japan             | Knocked-down wooden furniture               | 2.2                      | 5                              |
| 10 | Roy's International Co Ltd <sup>#</sup>           | China             | MDF                                         | 2.0                      | 6                              |
|    | <b>TOTAL</b>                                      |                   |                                             | <b>35.3</b>              |                                |

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

*Notes:*

\* ETP acted as a trading transit point for some of the EFB Group's products, where the products are sent to Singapore before being forwarded to its final destination. ETP is not part of the EFB Group. However, all transactions with ETP has already ceased as of 1 January 2004 where EFB has since been shipping goods directly to the ex-customers of ETP either directly or via EFB's agent distributors. The cessation of transactions with ETP does not affect the Group's sales to the said customers.

# Indirect customers through agents

Turnover of EFB Group for the year ended 31 December 2003 amounted to RM250.7 million.

The Group has established a wide base of customers comprising 357 in total, including local and overseas.

For the year ended 31 December 2003, the top 10 customers of the EFB Group accounted for 35% of the Group's turnover. The remainder 65% is spread across approximately 347 customers.

The Group's top customer for the year ended 31 December 2003 is ETP in Singapore, which represented 12.3% of the Group's revenue. The next largest customer, Ben Thann Material Company in Vietnam and Tonah Trading Co Sdn Bhd accounted for 3.1% and 3.0% respectively of the Group's total revenue for the same period.

For the ten (10) month period ended 31 October 2004, the major customers of the Group are listed below:

|    | Customer Name                                       | Country of Origin | Products/ Services Purchased           | % of EFB Group Turnover | Length of Relationship (Years) |
|----|-----------------------------------------------------|-------------------|----------------------------------------|-------------------------|--------------------------------|
| 1  | Del Mar International <sup>#</sup>                  | United States     | Veneered MDF, Coated MDF, Embossed MDF | 9.72                    | 12                             |
| 2  | Ben Thanh Material Company <sup>#</sup>             | Vietnam           | MDF                                    | 3.77                    | 5                              |
| 3  | Tonah Trading Co Sdn Bhd                            | Malaysia          | MDF, Chipboard                         | 2.82                    | 11                             |
| 4  | Dragon World Industrial Ltd <sup>#</sup>            | China             | MDF, Chipboard                         | 2.69                    | 10                             |
| 5  | Plaut International Ltd <sup>#</sup>                | United Kingdom    | Veneered MDF                           | 2.06                    | 9                              |
| 6  | Roy's International Co Ltd <sup>#</sup>             | China             | MDF                                    | 1.87                    | 7                              |
| 7  | Bripanel Industries Sdn Bhd                         | Malaysia          | MDF, Chipboard                         | 1.75                    | 4                              |
| 8  | Samson International Enterprise Co Ltd <sup>#</sup> | China             | MDF                                    | 1.70                    | 7                              |
| 9  | Her-Ern Enterprise Co Ltd <sup>#</sup>              | China             | MDF, Chipboard                         | 1.62                    | 9                              |
| 10 | Faithful Trading (Hong Kong) Limited <sup>#</sup>   | China             | MDF                                    | 1.55                    | 11                             |
|    | <b>TOTAL</b>                                        |                   |                                        | <b>29.55</b>            |                                |

*Note:*

# Indirect customers through agents

The Group has established a wide base of customers comprising a total of 459 customers including local and overseas.

For the ten (10) month period ended 31 October 2004, the top 10 customers of the EFB Group accounted for approximately 29.6% of the Group's turnover. The remainder 70.4% is spread across approximately 449 customers.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

The Group's top customer, Del Mar International in United States of America represented 9.72% of the Group's revenue for the ten (10) month period ended 31 October 2004. The next largest customer, Ben Thanh Material Company in Vietnam and Tonah Trading Co Sdn Bhd of Malaysia accounted for 3.77% and 2.82% respectively of the Group's total revenue for the ten (10) month period ended 31 October 2004.

The Group is relatively dependent on its top 3 customers whereby the combined total of the top three customers of the Group accounted for 16.31% of the total turnover of the Group for the ten (10) month period ended 31 October 2004.

However the Group has enjoyed long-term relationships with these 3 customers and this serves as some form of mitigation:

- Del Mar International has been dealing with the Group for 12 years;
- Ben Thanh Material Company has been dealing with the Group for 5 years;
- Tonah Trading Co Sdn Bhd has been dealing with the Group for 11 years.

On the whole, 9 out of its top 10 customers have been dealing with the Group for 5 or more years, out of which 6 have been dealing with the Group for 9 or more years.

### 5.8 Major Suppliers

The Group's top ten (10) suppliers for the year ended 31 December 2003 which collectively accounted for 40.9% of the Group's total direct purchases / expenses are listed in the following table:

|    | Supplier Name                            | Main Products and Services Supplied | Percentage of Total EFB Group Direct Purchases / Expenses (%) | Length of Relationship (Years) |
|----|------------------------------------------|-------------------------------------|---------------------------------------------------------------|--------------------------------|
| 1  | Dynea (Singapore) Pte Ltd                | UF glue                             | 12.7                                                          | 10                             |
| 2  | Tenaga Nasional Berhad                   | Electricity                         | 10.3                                                          | 14                             |
| 3  | Norsechem Resins Sdn Bhd                 | UF glue                             | 3.3                                                           | 9                              |
| 4  | S.A. Bomaco N.V. (Belgium)               | Veneer Logs                         | 3.0                                                           | 10                             |
| 5  | Liang Yuen Kau                           | Rubberwood logs                     | 2.6                                                           | 2                              |
| 6  | Perniagaan Kayu Kayan Lian Fatt          | Rubberwood logs                     | 1.9                                                           | 10                             |
| 7  | Barwil Agencies Sdn Bhd                  | Ocean Freight Charges               | 1.9                                                           | 3                              |
| 8  | Dovechem Chemical Ind. (Kuantan) Sdn Bhd | UF glue                             | 1.9                                                           | 1                              |
| 9  | Maersk Malaysia Sdn Bhd                  | Ocean Freight Charges               | 1.7                                                           | 6                              |
| 10 | Kwee Tuh Holdings Sdn Bhd                | Rubberwood logs                     | 1.6                                                           | 3                              |
|    | <b>TOTAL</b>                             |                                     | <b>40.9 *</b>                                                 |                                |

Note:

- \* Based on the financial year ended 31 December 2003's total expenses that amounted to approximately RM174.6 million excluding depreciation, all remuneration to directors and employees, bank charges and interest.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

The Group's top ten (10) suppliers for the ten (10) month period ended 31 October 2004 which collectively accounted for 46.9% of the Group's total direct purchases / expenses are listed in the following table:

|    | Supplier Name                 | Main Products and Services Supplied | Percentage of Total EFB Group Direct Purchases / Expenses (%) | Length of Relationship (Years) |
|----|-------------------------------|-------------------------------------|---------------------------------------------------------------|--------------------------------|
| 1  | Dynea (Singapore) Pte Ltd     | UF glue                             | 14.8                                                          | 11                             |
| 2  | Tenaga Nasional Berhad        | Electricity                         | 7.0                                                           | 15                             |
| 3  | Dynea Krabi Co., Ltd          | UF Glue                             | 4.9                                                           | 1                              |
| 4  | Perniagaan Kerjaya            | Rubberwood Logs                     | 3.9                                                           | 2                              |
| 5  | Ban Lin Trading               | Rubberwood Logs                     | 3.5                                                           | 3                              |
| 6  | Hatyai Panel Co., Ltd         | Electricity                         | 3.1                                                           | 1                              |
| 7  | Starship Agencies Sdn Bhd     | Ocean Freight Charges               | 3.0                                                           | 3                              |
| 8  | Barwil Agencies Sdn Bhd       | Ocean Freight Charges               | 2.8                                                           | 4                              |
| 9  | Liang Yuen Kau                | Rubberwood Logs                     | 2.2                                                           | 3                              |
| 10 | MISC Haulage Services Sdn Bhd | Ocean Freight Charges               | 1.7                                                           | 10                             |
|    | <b>TOTAL</b>                  |                                     | <b>46.9 *</b>                                                 |                                |

*Note:*

\* Based on the ten (10) month period ended 31 October 2004, total group purchases/expenses amounted to approximately RM207.5 million excluding depreciation, all remuneration to directors and employees, bank charges and interest.

The Group's top supplier, Dynea (Singapore) Pte Ltd accounted for 14.8% of total direct purchases of the Group for the ten (10) month period ended 31 October 2004. This is mainly for the purchase of UF glue. Although the Group is relatively dependent on its top supplier, dependency is mitigated by the following factors:

- Dynea (Singapore) Pte Ltd has been dealing with the Group for approximately 11 years;
- The Group can rely on 3 other UF glue suppliers in the event of any interruptions from Dynea (Singapore) Pte Ltd. These 3 other suppliers include:
  - Norsechem Resins Sdn Bhd;
  - Dovechem Chemical Ind. (Kuantan) Sdn Bhd; and
  - Dynea Krabi Co., Ltd.
- Dynea (Singapore) Pte Ltd will outsource the supply of UF Glue from its other plants around the region in the event that its plant in Singapore is not able to meet the demand from EFB Group as stated in the manufacture supply agreement between the parties.

The second largest supplier is Tenaga Nasional Berhad which accounted for 7.0% of the Group' total direct purchases for the ten (10) month period ended 31 October 2004. The third largest supplier is Dynea Krabi Co., Ltd which accounted for 4.9% of the Group's total direct purchases.



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

The main raw materials for the manufacturing of MDF is rubberwood. However it must be noted that the production of MDF uses mainly branches and smaller diameter rubberwood logs which are deemed unsuitable for the solid wood furniture industry.

In the event of a shortage in the supply of rubberwood, the Group can use other alternative materials such as off-cuts and shavings in addition to other types of plantation wood for the production of MDF. Furthermore the Group is considering establishing chipping operations within ASEAN i.e. in one of the ASEAN countries that has ample supply of rubberwood.

The Group may, in the future, seek to acquire forestry concessions to extract rubberwood and/ or undertake reforestation after extraction. This will help to somewhat reduce the dependency on the suppliers of rubberwood.

**5.8.1 Financial Arrangements With Suppliers**

Save as disclosed in Section 8.1, the management of the Group is of the opinion that none of the shareholders and directors of the Group have any direct or indirect interests of dealing with the Group's suppliers. All suppliers were selected based on merits in terms of cost competitiveness, assurance of quality and ability to deliver on time.

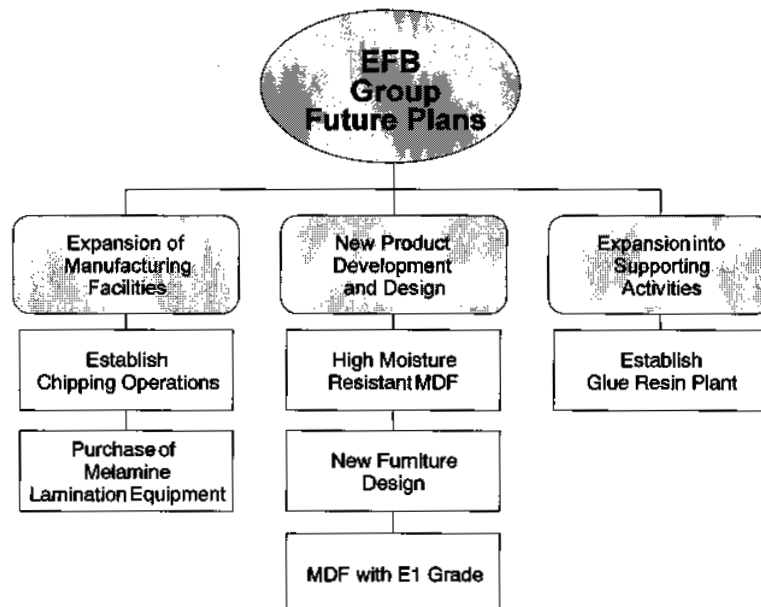
Financial arrangements with suppliers of the Group are as follow:

- Overseas suppliers are based on letter of credit and telegraph transfer upon delivery of goods; and
- Local suppliers are based on normal trading terms of 30 to 60 days credit upon delivery.

**5.9 Future Plans, Strategies and Prospects of the Company**

**5.9.1 Overview of Future Plans and Strategies**

The future plans of the Group are focused in three key areas as depicted in the figure below:



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


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**(a) Expansion Of Manufacturing Facilities****Establishment of Chipping Operations**

Part of the EFB Group's future plans is to establish chipping operations as part of the process to manufacture MDF and particleboard. This will help to supplement the supply of raw materials for the Group's manufacturing operations. The Group will undertake a feasibility study before embarking on the set-up of the chipping operations. Depending on the outcome of the feasibility study, the Group is expecting to embark on the chipping operations in 2006.

**Purchase of Melamine Lamination Equipment**

Part of the Group's expansion plan is to acquire additional melamine lamination lines for SFC. The EFB Group expects to make the purchase additional melamine lines by the end of 2005.

**(b) New Product Development And Design****High Moisture Resistant MDF**

The EFB Group intends to carry out research and development activities to develop high moisture resistant (HMR) MDF. This will enable the Group to widen the applications of its MDF products to include those that are exposed to higher levels of moisture including external doors, bathrooms, kitchen and window frames. The Group intends to launch HMR MDF by end of 2005.

**New Furniture Design**

In line with the Group's expansion into downstream activities, the Group plans to undertake research and development into new designs for its knocked-down line of wooden furniture. Currently, the EFB Group manufactures the following range of knocked-down wooden furniture targeting the *do-it-yourself* ("DIY") market:

- shelves;
- television cabinets;
- display cabinets;
- television racks;
- shoe racks;
- writing desk;
- chest of drawers; and
- book cases.

The expansion of new furniture design will take place by the end of 2006.

**MDF with E1 Grade**

The EFB Group intends to carry out R&D activities on manufacturing of MDF to continually improve on the E1 standard. It intends to launch E1 Grade of MDF by the end of 2005.

The development of MDF with E1 standard will incorporate the Group's in-house formulated binding agent with low formaldehyde emission.

Globally, MDF with E1 standard are in high demand in Japan and the European Union. The successful development of MDF with E1 standard will enable the EFB Group to further strengthen its exports in these markets. The EFB Group intends to commercialise its production of MDF with E1 Grade by the end of 2005.

## 5. INFORMATION ON THE EFB GROUP (Cont'd)

### (c) Expansion Into Supporting Activities

#### New Glue Resin Plant

Glue resin is one of the main raw materials used for the manufacturing of MDF and particleboard. The purchase of glue for the Group amounted to approximately RM30.7 million for the year ended 31 December 2003, whereas for the ten (10) month period ended 31 October 2004, purchase of glue amounted to RM42.6 million. With the increasing usage of this raw material, the Group intends to establish a glue resin plant through a joint-venture arrangement with existing glue resin producers to ensure continuous supply for its manufacturing operations. It is expected that the new plant will be established in Thailand by 2007.

### (d) Milestones and Resources

The following table indicates the timing for the implementation of the future plans of the EFB Group:

| Business Activities                                                                                                         | Year of Commencement |      |      |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------|------|------|
|                                                                                                                             | 2005                 | 2006 | 2007 |
| Expansion of manufacturing facilities<br>- Investment in chipping operations<br>- Purchase of melamine lamination equipment | √                    | √    |      |
| New Product Development and Design<br>- High moisture resistant MDF<br>- New furniture design<br>- MDF with E1 Grade        | √<br>√               | √    |      |
| Expansion into Supporting Activities<br>- Glue resin plant                                                                  |                      |      | √    |

### 5.9.2 Prospects of the EFB Group

According to management, the prospects of the EFB Group are favourable. This is substantiated by the fact that the Group is well positioned in the market. As the second largest manufacturer of MDF (based on production in 2003) in Malaysia, it is poised to address the opportunities and growth in the global demand for MDF and particleboard.

Demand for MDF products is expected to increase, driven by fundamentals such as rising demand and tight supply. MDF is a relatively newly developed sector in the timber industry whereby most of the mills in Malaysia were only established in the 1990s. This reaffirms an industry that is still in its growth and development phase. In addition, the growth in the performance of the user industry sectors will continue to generate demand for reconstituted wood-based panel boards including MDF based products and applications. This factor augurs well with the strategy of the EFB Group's future plans to further expand its operations to various new markets.

In addition, the Group has also expanded its production capacity through its new subsidiary in Thailand, SFC, which will enable the Group to address export market opportunities.