

12. SUMMARY OF INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT



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Creating Winning Business Solutions

2 February 2005

The Board of Directors
Evergreen Fibreboard Berhad
PLO 22, Parit Raja Industrial Estate
86400 Parit Raya
Batu Pahat
Johor
Malaysia

Dear Sirs/Madam

Assessment of the Reconstituted Wood-based Panel Board Industry

The following is a summary of the Independent Assessment of the Reconstituted Wood-based Panel Board Industry in Malaysia prepared by Vital Factor Consulting Sdn Bhd for inclusion in the Prospectus of Evergreen Fibreboard Berhad (herein together with all its subsidiaries will be referred to as Evergreen Group) in relation to its proposed listing on the Main Board of the Bursa Malaysia Securities Berhad.

1. Background of Evergreen Group

- The principal activities of Evergreen Group are as follows:
 - Manufacturing of Plain and Value-added Medium Density Fibreboard (MDF);
 - Manufacturing of Plain and Value-added Particleboard;
 - Manufacturing of Knocked-down Wooden Furniture.
- For the financial year ended 31 December 2003, the Group's revenue amounted to RM250.7 million.

2. Overview of the Reconstituted Wood-Based Panel Board Industry

- Reconstituted Wood-based Panel Board sector falls under the total umbrella of the Wood-Based Industry.
- 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 alone reached RM978.6 million, making Malaysia the world's third largest exporter of MDF (*Source: Malaysian Timber Industry Board and Malaysian Industrial Development Authority*).
 - 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.

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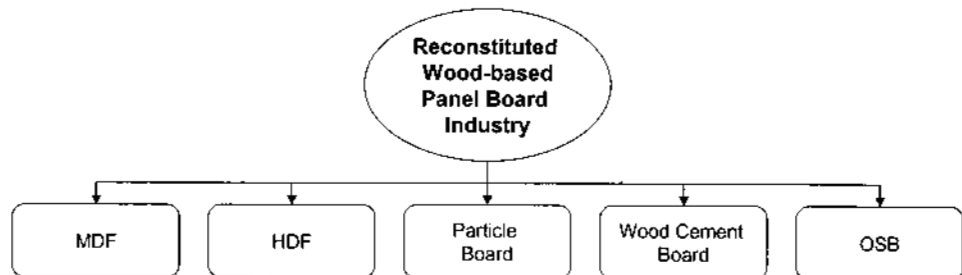
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- Reconstituted Wood-based Panel Board is regarded as value-added products. This involves the conversion or recycling of low-grade wood based materials for example residue from wood mills, tree branches and chip waste to produce quality panel products.
- Providing variety in secondary products such as the different types of Reconstituted Wood-based Panel Board 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.
- Reconstituted Wood-based Panel Board is also growing in usage and applications. Some of the diverse applications of Reconstituted Wood-based Panel Board 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;
 - panelling and partitioning;
 - flooring.

3. 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

Figure 1 Industry Segmentation

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- The Reconstituted Wood-based Panel Board Industry comprises the following major product categories:

- Medium Density Fibreboard (MDF);
- High Density Fibreboard (HDF);
- Particle Board;
- Wood Cement Board;
- Oriented Strand Board (OSB).

- **Reconstituted Wood-based Panel Board** 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.

Reconstituted Wood-based Panel Board is also sometimes referred to as composite board.

- **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, 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, pedestals for tables and many others. The thicker MDF is used for millwork applications including door frames, window frames, casings and turnings, and others.

HDF is used for heavy-duty purposes and are 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.

- **Particle Board** 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, ceilings and many others.

- **Wood Cement Board** 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.

- **Oriented Strand Board** 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. Oriented Strand Boards derive their strength from uninterrupted wood fibres, interwoven long strand or wafers, and the degree of orientation of surface layers strands.

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Oriented Strand Boards are 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. Oriented Strand Boards are used to replace plywood in most applications.

4. Vertical Structure of the Reconstituted Wood-based Panel Board Industry

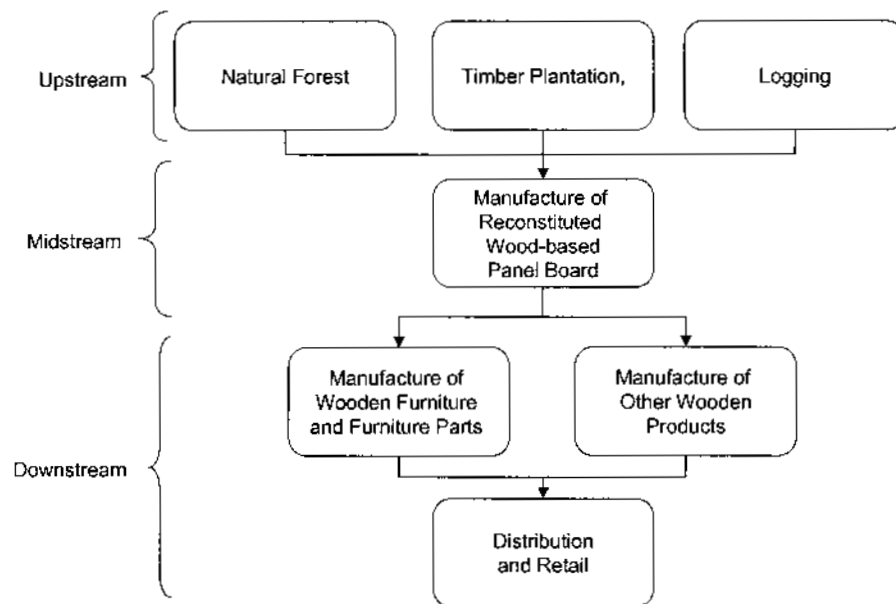


Figure 2 Vertical Structure of the Reconstituted Wood-based Panel Board Industry

- The manufacture of Reconstituted Wood-based Panel Board can also be segmented into:
 - upstream;
 - midstream;
 - downstream.

Upstream

- The upstream activities of the Reconstituted Wood-based Panel Board Industry essentially comprise natural forest, timber plantation and timber logging.
- The primary raw materials used in the manufacture of Reconstituted Wood-based Panel Board include the following:
 - residue of branches from timber plantation and natural forest;
 - coarse industrial green in the forms of slabs, edgings, off-cuts, peeler cores and veneer rejects;
 - fine industrial waste namely, planner mill shavings and sawdust;
 - wood chips from machining dry wood;
 - dry wood-based waste such as slabs, edgings and off-cuts from furniture manufacture.

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Midstream

- Midstream activities comprised the manufacturing of Reconstituted Wood-based Panel Board, including MDF.
- As at November 2003, there were approximately 10 MDF manufacturers.
- Most of these manufacturing plants are located in Peninsular Malaysia

Downstream

- Downstream activities include:
 - manufacture of finished furniture and furniture parts;
 - manufacture of other wooden products;
 - sales through distributors or retailers.
- In 2003, Malaysian Industrial Development Authority reported that there were more than 2,000 companies manufacturing furniture in Malaysia. (*Source: Malaysian Industrial Development Authority*).
- For the manufacture of other wood products, this includes joinery and moulding products, parquet flooring, picture frames, doors, crates, speaker boxes, kitchen cabinets, interior fit-outs and building materials such as wall panels and partitions.
- The common distribution channels for downstream products are mainly:
 - distributors;
 - wholesalers;
 - retailers.

5. Government Legislation, Policies and Incentives

- 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 (*Source: Malaysian Industrial Development Authority*).

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 Malaysian Timber Industry Board is the authority responsible for the issuance of licences on wood-based activities under Wood-based Industries Enactment 1973 and Wood-based Industries Rules 1990 (*Source: Ministry of Primary Industries*).

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- The registration of the following wood-based operations with the Malaysian Timber Industry Board 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;
 - 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;
 - Charcoal kilns.
- At the state level, the main governing body is the Forestry Department of the respective states.
- As such, MDF and Particle Board 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 Malaysian Timber Industry Board is the statutory body responsible for the issuance of export licences.

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.
- The regulations gazetted under the Atomic Energy Licensing Act 1984 (Act 304) include:
 - Radiation Protection (Licensing) Regulations 1986;
 - Radiation Protection (Transportation) Regulations 1986;
 - Radiation Protection (Basic Safety Standards) Regulations 1988.
- In line with Section 3 of the Atomic Energy Licensing Act 1984 (Act 304), the Atomic Energy Licensing Board (AELB) was established under the Prime Minister's Department on 1 February 1985. The AELB acts as the enforcement and licensing body for the implementation of the Act.
- On 27 October 1990, AELB was placed under the Ministry of Science, Technology and the Environment.
- Radiation and x-ray gauging activities requiring licence include:
 - bore hole logging;
 - thickness measurement;
 - density measurement;
 - level measurement;
 - moisture measurement;

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- tracer-flo/radiflo measurement;
- calibration sources;
- analysis;
- sterilization;
- quality assurance;
- research.

(Source: Atomic Energy Licensing Board)

Government Incentives

- The major incentives for companies investing in the manufacturing sector are the:
 - Pioneer Status;
 - Investment Tax Allowance;
 - 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;
 - 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;
 - Exemption from Import Duty and Sales Tax on Spares and Consumables.

(Source: Malaysian Industrial Development Authority)

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6. **Environmental Regulations**

- Some of the main environmental issues faced by companies involved in the manufacture of Reconstituted Wood-based Panel Board include:
 - Disposal of bulk waste comprising timber materials;
 - Control of chimney smoke emissions from burning wood for 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: Environmental Quality Act and Regulations)

7. **Supply and Supply Dependencies**

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 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. In 2003, sales value increased by 4.6% to RM6.3 billion over the previous year.

However, 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 period in 2003;

- Between 1999 and 2003, sales value of Particleboard grew at an average annual rate of 3.7%. In 2003, sales value decreased by 6.9% to RM785.1 million.

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

- Between 1999 and 2003, production quantity of Particleboard grew at an average annual rate of 3.9%. In 2003, production quantity decreased by 18.5% to 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 period in 2003.

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Supply Dependencies

- The major raw materials required for the manufacturing of MDF are primarily:
 - wood fibres;
 - urea resin.
- Other raw materials used include wax emulsion, hardener and other additives.
- Generally, the raw wood fibres used in the manufacturing of MDF can be of any type or species and in almost any mixture such as low grade wood species, branches, small diameter trees, hardwood, softwood, mill waste and forestry waste chips. As such, there is a high recovery rate of the raw materials.
- As Rubberwood logs constitute major raw materials for the production of MDF, the availability of rubber plantations and replantation areas is vital to the supply chain for the Reconstituted Wood-based Panel Industry.
- The supply of rubberwood logs is almost exclusively from rubber plantation and replantation areas in Malaysia. Import of rubberwood logs and processed rubberwood is minimal.
- Between 1999 and 2003, total acreage of rubber plantation decreased at an average annual rate of 2.7% (*Note: 2003 figures are estimates only*). Over the past five years, total acreage of rubber plantation declined from 1.5 million hectares in 1999 to an estimated 1.3 million hectares in 2003.
- The areas replanted with rubber in Malaysia increased at an average rate of 1.0% per annum from 1999 to 2003 (*Note: 2003 figures are estimates only*). Replanting increased from 1.30 million hectares in 1999 to 1.35 million hectares in 2003 (*Note: 2003 figures are estimates only*).
- In 2003, the areas that are replanted with rubber registered an increase of 1.5% over the previous year (*Note: 2003 figures are estimates only*).
- As the production of MDF primarily can use a variety of raw materials such as wood shavings, sawdust in addition to wood fibres, manufacturers can use any type of plantation logs as raw materials.
- The other major raw material used in the production of MDF is resin.
- Resin is used to bind the wood fibres together before undergoing heat and pressure to form a flat dense sheet.
- Malaysia is a local producer of urea with an approved capacity of 600,000 tonnes per annum.
- In addition to local sources, Malaysia also imports urea resin from countries including Singapore, Taiwan, Indonesia, Italy, Turkey, Sweden and others. In 2003, Malaysia imports approximately RM26.1 million of urea resin

(Source: Ministry of Primary Industries, Department of Statistics and Malaysia Industrial Development Authority).

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8. **Demand and Demand Dependencies**

Demand

- Demand for MDF and Particleboard is dependent on the following markets:
 - Local market demand;
 - 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, the export value increased by 21.9% to reach RM139.2 million.

(Source: Department of Statistics Malaysia)

Demand Dependencies

- Some of the major usage and applications of MDF and Particleboard include the following:
 - **building interiors** including architectural features such as columns and archways, partitions, wall and ceiling panelling, doors, base material for laminated and veneered wood products for flooring and wall panelling, and others;
 - **profiling, joinery and millwork applications** including furniture mouldings, joinery, skirting, architectural mouldings, decorative doors, pillars, architraves, window and door components such as frames, sills, stiles, rails, louver blades and panelling, flooring pieces, finger joints and veneer-wrapped mouldings, door stops, door jambs casings and others;
 - **household products** including picture frames, toys, game boards, cots, hi-fidelity speaker boxes, shoe heels, snooker tables and others;
 - **furniture and fixtures** including kitchen bench tops, kitchen cabinets, office and household furniture, shelves, computer stands, television casings, built-in furniture, dining sets, bedroom sets, backers of cupboards and drawers, display cabinets and others
 - **automotives** including interior parts of automotives.

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9. **Competitive Nature and Intensity**

- Operators in the Reconstituted Panels 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 Manufacture of MDF is **moderate to high**. This is substantiated by the following factors:

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 of 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;
 - . ability to satisfy large volume orders.
- This will somewhat moderate the competitive intensity for such manufacturers.

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 compete 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 material for example, plastic, metal and glass. All these alternatives increase the competitive pressure for MDF manufacturers.

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10. **Key Players In The Industry**

- The key players in the manufacturing of MDF in Malaysia include the following:
 - Merbok Hilir Berhad;
 - Evergreen Fibreboard Berhad;
 - Dongwha Fibreboard Sdn Bhd;
 - Hume Fibreboard Sdn Bhd;
 - Robin Resources (MDF) Sdn Bhd;
 - Guthrie MDF Sdn Bhd;
 - Daiken Sarawak Sdn Bhd;
 - Samling Fibre Board Sdn Bhd;
 - Segamat Panel Boards Sdn Bhd.

Note: Merbok Hilir Berhad includes Merbok MDF Sdn Bhd and Takeuchi MDF Sdn Bhd. Dongwha Fibreboard Sdn Bhd recently took over Golden Hope Fibreboard Sdn Bhd.

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

11. **Barriers to Entry**

- Barriers to entry into the Reconstituted Wood-based Panel Board Industry are **moderate to high**.
- This is mainly substantiated by that there are relatively few number of manufacturers in the industry. As at November 2003, operators in the Reconstituted Wood-based Panel Board Industry comprised the following:
 - 10 MDF manufacturers;
 - 7 particleboard manufacturers;
 - 6 wood cement board manufacturers.
- The main barriers to entry into the Reconstituted Wood-based Panel Board Industry are:
 - Government policies;
 - capital set-up costs;
 - technical skills;
 - track record.

Government Policies

- Apart from the normal 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

(Source: Malaysian Industrial Development Authority).

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Capital Set-up Costs

- Capital set-up cost for the manufacture of Reconstituted Wood Panel Boards is high.
- Following are the capital set-up requirements for a small and medium sized manufacturing plant:
 - setting-up a small sized MDF manufacturing plant would cost between RM60 million and RM70 million (excluding 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 per annum.

- 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 per annum.

(Source: Evergreen Group Berhad).

- Capital costs will start to 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 a 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.

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.
- The main technical skills and knowledge are required in the following areas:
 - research and development;
 - 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 is in the following:
 - 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.
 - new applications such as high moisture resistance MDF.

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- Other areas of technical skills and knowledge is in the production process and some of this includes the following:
 - the control of temperature and the moisture level of resinated fibres to control the thickness of the finished fibreboard;
 - the control of the supply of raw materials is also critical to achieve consistency in the quality of the finished fibreboard.

One such example is 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.

 - optimising pressing operation 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;
 - 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 ability to sustain the business would require a higher level of skills and expertise.

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 Board Industry.
- It will take some time for a new entrant to be established 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, which would find it difficult to gain immediate access into the market.

12. Industry Outlook

- The outlook for the Reconstituted Wood-based Panel Board Industry is dependent on the following:

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. In 2003, sales value increased by 4.6% to RM6.3 billion over the previous;

However, 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 period in 2003;

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- Between 1999 and 2003, sales value of Particleboard grew at an average annual rate of 3.7%. In 2003, sales value decreased by 6.9% to RM785.1 million;

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

- Between 1999 and 2003, production quantity of Particleboard grew at an average annual rate of 3.9%. In 2003, production quantity decreased by 18.5% to 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 period in 2003.

(Source: Department of Statistics Malaysia).

Exports

- Between 1999 and 2003, export value of Medium Density Fibreboard (MDF) grew at an average annual rate of 7.3%. In 2003, export value of MDF increased by 12.9% to reach 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%, amounting to 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% to reach RM139.2 million.

(Source: Malaysian Timber Industry Board and Department of Statistics Malaysia)

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

(Source: Bank Negara Malaysia and Department of Statistics Malaysia).

12. **SUMMARY OF INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**



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13. **Threats and Risk Analysis**

Availability of Rubberwood

- Rubberwood is the main raw materials for the manufacturing of MDF. However the production of MDF uses 'by-parts' of rubberwood namely the branches and smaller diameter rubberwood logs that cannot be used by the millers.
- Any decline in the supply of raw materials used may impact on the manufacturers of Reconstituted Wood-based Panel Board that use rubberwood.
- Between 1999 and 2003, total acreage of rubber plantation decreased at an average annual rate of 2.7% (*Note: 2003 figures are estimates only*).
- The planted area in Malaysia is dominated by smallholding sector. The income obtained by smallholders is relatively low resulting from low volume of rubberwood harvested and low latex price in the world market. This has reduced the investment undertaken by smallholders in rubber forest plantation.

(Source: Ministry of Primary Industries)

- In addition, the conversion of rubber plantations to oil palm plantations, housing and other commercial uses, has aggravated the declining supply of rubberwood.

Mitigating Factors

- Even though the average annual rate of total acreage of rubber plantation declined between 1999 and 2003, the areas that are replanted with rubber in Malaysia registered an average growth rate of 1.0% per annum during the same period (*Note: 2003 figures are estimates only*) (*Source: Ministry of Primary Industries*).
- In the event of a shortage in the supply of rubberwood, other alternative materials such as off-cuts, shaving and sawdust in addition to other types of plantation wood may be utilised for the production of MDF.

Threats of Substitute Products

- There are various different types of substitutes for Reconstituted Wood-based Panel Board Industry.
- Wood-based substitutes such as solid timber, bamboo, rattan and plywood, as well as non-wood substitutes such as vinyl, concrete, granite, marble and metals, compete with Reconstituted Wood-based Panel Board in terms of similar applications and end-user sectors.

12. **SUMMARY OF INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**



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Mitigating Factors

- Reconstituted Wood-based Panel Board including MDF is the new substitute product for solid wood, plywood and other wood based materials. Reconstituted Wood-based Panel Board such as MDF has many of the mechanical and physical characteristics of solid wood but without the natural faults.
- As such, although there are many substitute products for MDF, the major advantages of Reconstituted Wood-based Panel Board over many of these substitute products are as follows:
 - low cost, as the production of Reconstituted Wood-based Panel Board utilises wood waste, small-diameter logs and mature trees from wood processing mills;
 - more environmentally friendly as mainly plantation wood is utilised as raw materials compared with tropical hardwood-based alternatives;
 - highly versatile in applications.
- In fact, the following Reconstituted Wood-based Panel Board would represent a closer substitute and higher threat to other wood-based substitutes:
 - Chipboard and Particleboard provide some cost advantages over Plywood for similar applications;
 - MDF is fast becoming the material of choice for kitchen cabinets and cupboards due to its many superior qualities over Plywood, such as moldability;
 - Oriented Strand Board (OSB) has technical properties similar to plywood. OSB is a product developed in North America and has been produced and marketed as an alternative to softwood plywood. OSB can be used to replace plywood in most applications such as sheathing panels for walls, roofs and floors.

Timber Certification

- Certification of timber products is becoming increasingly important in Europe and North America. Wood-based producing markets that do not provide a credible certification system are likely to face bans on timber trade in the Europe and North American markets.
- In situations where markets constitute strong consumer preferences for certified products, certification is viewed as a powerful means of raising forest management performance. As relevant bodies such as the Forest Stewardship Council (FSC) and World Wildlife Fund (WWF) achieve the status of sole certification system, it will create a monopoly position in timber certification in Europe. Hence, the certified members will ultimately be committed to purchase and sell only certified timber products as well as setting their own targets and timetable for trading certified timber products.

12. **SUMMARY OF INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**



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Mitigating Factors

- In response to the requirement for certified or 'green' timber by major export markets, particularly European countries, Malaysia itself has come up with its own certification system to provide a credible alternative to the FSC certification system and to counter the effect of the system in Europe and North America.
- The Malaysian Timber Certification Council (MTCC) is the organisation that plans and operates a voluntary national timber certification scheme to provide assurance to buyers of Malaysian timber products that have been sourced from sustainably managed forests.
- The standards of the national timber certification being used by MTCC are in accordance with the Malaysian Criteria Indicators, Activities and Standards of Performance for Forest Management Certification. This is based on the standards used under the Malaysia-Netherlands cooperation programme in timber certification.
- MTCC also issues Chain-of-Custody (CoC) to local manufacturers and exporters who have interest in registering their wood-products. Between 14 December 2001 and 12 April 2002, 26 wood-based manufacturers and exporters have been awarded with CoC certification on various scope of wood-products manufacturing (Source: Malaysian Timber Certification Council).

Implementation of Asean Free Trade Area (AFTA)

- With the implementation of AFTA through Common Effective Preferential Tariff (CEPT), the reduction of import duties to 0% to 5% on a wide range of products may makes imports very competitive against locally manufactured products.
- CEPT is the mechanism by which tariffs on goods traded within the Asean region, which meet a 40% Asean content requirement, are subjected to a reduction of the above-mentioned range of tariff by 2003 (2006 for Vietnam, 2008 for Laos and Myanmar).
- Efforts to bring about greater trade liberalisation through WTO, the setting up of regional blocs and bilateral arrangements between countries require the Wood-based Industry to be vigilant on the market opportunities as well as achieve greater efficiency.

Mitigating Factors

- As Reconstituted Wood-based Panel Board is an export oriented industry, AFTA and WTO would have minimal impact on manufacturers. In fact, AFTA would provide opportunities for export-oriented Malaysian manufacturers of Reconstituted Wood-based Panel Board penetrate or address other Asian markets.
- In addition, fibreboard is subjected to import duties ranging from 5% to 15%, which is higher than the general AFTA CEPT rate. This offers some form of protection against imports of Fibreboard into Malaysia.
- In 2003, the major export markets of MDF were China and Japan (Source: Malaysian Timber Industry Board).

12. **SUMMARY OF INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**



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Fluctuation in Prices of Rubberwood Logs

- As rubberwood log is a commodity, the cost of sourcing this commodity as raw material for the production of MDF is subjected to fluctuations in prices. In some situations, increases in the price of raw materials are not easily passed onto the user. This could impact on the margin or alternatively, if the increase in cost is passed onto the user, the manufacturer may not be price competitive.
- Within a year, prices of rubberwood logs may also fluctuate due to seasonality whereby during the rainy season, the slowdown in felling activities may contribute to a shortage in supply.

Mitigating Factors

- As this raw material is a commodity and therefore subjected to price fluctuations, all manufacturers that use this material are equally affected.
- However between 1999 and 2003, prices of rubberwood logs only increased at an average rate of 3.9% per annum. Over the five-year period, prices of rubberwood logs have only increased from RM90 per cubic metre in 1999 to RM105 per cubic metre in 2003 (*Source: Malaysian Timber Industry Board*)
- As the production of MDF mainly uses the 'by-parts' of rubberwood, namely the branches, operators that manufacture MDF are not directly affected by the price fluctuations.

Exposure to Foreign Exchange Fluctuations

- The industry is also vulnerable to fluctuations in foreign exchange. This applies to the import of raw materials, semi-finished and finished products. Similarly operators that manufacture products for overseas markets will also be affected by foreign exchange fluctuations.
- An unfavourable foreign exchange movement against the Ringgit would impact on the operating cost and profitability of operators in the Reconstituted Wood-based Panel Board Industry.

Mitigating Factors

- The current pegging of the Ringgit to the United States' Dollar (USD) has helped significantly in stabilising the Ringgit against the USD. As most imports are quoted in USD, this has helped stabilise prices and enabled Reconstituted Wood-based Panel Board operators that import raw materials, semi-finished or finished products to better plan their business operations.
- However, Malaysia's current fixed currency regime may change at any time and may have a direct impact on operators.

12. **SUMMARY OF INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANTS' REPORT (Cont'd)**



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14. **Market Size and Share**

- In 2003, the market size based on production of MDF in Malaysia was estimated at **1.5 million cubic metres** (Source: Primary Market Research undertaken by Vital Factor Consulting Sdn Bhd).
- In 2003, Evergreen Fibreboard Berhad's **market share** of MDF in Malaysia was approximately **16%**.

15. **Market Ranking**

- Based on production, Evergreen Fibreboard Berhad ranked **second** among manufacturers within the MDF Industry in Malaysia in 2003.

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

Yours sincerely

Wong Wai Ling
Director
Vital Factor Consulting Sdn Bhd

13. **EXPERT REPORT ON POLICIES OF THAILAND**

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DATE 2 February 2005

The Board of Directors
Evergreen Fibreboard Berhad
PLO 22, Parit Raja Industrial Estate
86400 Parit Raja
Johor Darul Takzim

Dear Sirs/ Madam,

RE : LEGAL OVERVIEW REPORT ON THE THAI LAWS AND REGULATIONS

We have been instructed by Evergreen Fibreboard Berhad to prepare a legal overview report on the following salient features/ provisions under the Thai laws and regulations. This report is prepared for inclusion in the Prospectus of Evergreen Fibreboard Berhad in relation to its listing on the Main Board of the Bursa Malaysia Securities Berhad.

This report is subject to the following qualifications and disclaimers:

- (a) This report should be taken as an overview of the general legal terms of the Thai laws and regulations and should not be relied upon for any specific legal purposes.
- (b) After the date of this report, we assume no responsibility for any impact that subsequent changes or amendments of laws and regulations in Thailand may have on the accuracy, validity, consistency and/ or completeness of this report.

Any person wishing to have a detailed review of the Thai laws and regulations, or a detailed explanation on the comparability and/ or discrepancy of the Thai laws and regulations and that of Malaysia, is recommended to seek independent legal advice from experts of the Thailand jurisdiction.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

1. INCORPORATION OF A PRIVATE LIMITED COMPANY UNDER THE THAI LAWS

A private limited company is a company established under the Civil and Commercial Code of Thailand ("CCC") without offering any of its shares to the public. A private limited company's share capital is divided into equal shares with a designated par value. The par value shall not be less than Baht 5 per share. At least 25% of the par value of each share must be paid up and the liability of shareholders is limited to the amount unpaid. There must be no less than seven shareholders.

To establish a private limited company, all documents which must be filed with the Thai authorities (the Ministry of Commerce), and all information contained in them must be submitted in the Thai language.

Comments: SFC is incorporated and registered in Thailand, and hence, governed under the CCC.

A brief description of the steps to be taken in the incorporation of a Thai private limited company is set out below:

A. Reservation of Name of Company to be incorporated

The reservation can be made by a promoter submitting a form of Inspection and Reservation of Juristic Person's Name, containing the proposed names (not more than 5 names) in order of preference. The name reservation is valid for 30 days after the date of receiving the result of the inspection, but can be extended multiple times for a 30-day period each time. The first incorporation steps must take place within the name reservation period (or any extension thereof).

B. Promoters of a Thai Limited Company

At least 7 natural persons (i.e. promoters) are required to promote the incorporation of a Thai limited Company. They need not be Thai residents or citizens, but must be individuals.

C. Registration of Memorandum of Association

The Memorandum of Association is filed on an official form, and must contain the following information:

1. Name and Location of the company
2. Objectives for which the company is to be established

The objectives must be concise and precise.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

3. Registered Capital, Number of Shares and Par Value

The registered capital is the multiple of the number of shares by the par value of each share. The minimum value per share is Baht 5. There is no legal requirement of minimum capitalization except that there must be sufficient capital to accomplish the objectives of the company. Shares may be issued at higher than par (i.e. issuance with premium) if permitted in the Memorandum of Association. It is possible, in certain limited circumstances, to contribute for shares by way of services or properties (e.g. payment in kind), but extensive proof of value is required at the stages of the statutory meeting and the registration of company.

4. Name, Address, Occupation, Nationality, Age and Signature of each Promoter

The certified photocopies of each promoter's I.D. Card and Household Registration Certificate or Passport (if such promoter is not Thai) must be submitted as part of the application.

One promoter can be authorized to effect the registration of the Company and to act for the other promoters in dealing with the Registrar of Companies, including signing the application to register the Memorandum of Association. The signing of the application can be done in Thailand or overseas. If it is done in Thailand, the original of the authorized promoter's I.D. Card and Household Registration Certificate or passport (if he or she is not Thai) must be shown to the Registrar of Companies on the date of submission of the application. If it is done overseas, such signing must be notarized or authenticated by the relevant Thai Embassy or Consulate.

5. Number of Shares subscribed by each Promoter

Each promoter must subscribe at least one share.

The official fee for registration of Memorandum of Association of Baht 500 per Baht 100,000 of registered share capital must be paid (minimum fee of Baht 500; maximum fee of Baht 25,000).

D. Statutory Meeting

After the registration of the Memorandum of Association and payment of the fee, and after all the shares have been subscribed, the promoters must without delay hold a general meeting of subscribers, called the "Statutory Meeting."

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

The promoters must, at least 7 days before the day on which the Statutory Meeting is to be held, forward to each subscriber a "Statutory Report", duly certified by the promoters and containing all particulars of the business to be transacted at the Statutory Meeting. In practice, this Report is the Notice of Invitation for the Statutory Meeting.

The promoters must prepare a list of subscribers showing the names, descriptions and addresses of the subscribers and the number of shares subscribed by them, and present this list at the Statutory Meeting.

The following business is to be transacted at the Statutory Meeting.

1. Adoption of the Articles of Association
2. Ratification of the promoters' contracts and expenses
3. Fixing of Amount, if any, to be paid to promoters
4. Establishment of preference shares, if any, and nature and extent of preferential Rights
5. Fixing of number of shares to be allotted as fully or partly paid up other than in money, if any, and the amount to which they shall be considered as paid up
6. Appointment of the directors and the fixing of the authorized director(s)

Under Thai registration procedures, it is necessary to determine which directors or combination of directors are authorized to sign on the company's behalf in respect of transactions that will legally bind the company, and this information must be registered with the Registrar. This could be designated by a statement that any one, two or other number of directors can sign to bind the company, or by designating different named groups from which various combinations and numbers of directors must sign to bind the company for various different transactions.

Prior to full registration of the company as a legal entity, all of the directors to be elected at the Statutory Meeting are required to sign a form for director registration and to provide a certified copy of their passport or I.D. Card and household registration certificate (if Thai).

The law imposes no restriction on the minimum number of directors, nor on the directors' nationality or place of residence.

7. Appointment of Auditors and Fixing their Remuneration

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

There must be a statutory auditor, and his individual name and license number must be stipulated.

E. Subscribers Pay for Shares

After the Statutory Meeting has been held, the promoters must hand over the business to the directors. The directors must require all subscribers to pay money to the company for each share they subscribed, at the amount considered in the Statutory Meeting, before applying for registration of the company. The payments may be kept by a designated director or in a designated bank account.

F. Registration of Company

After payment for shares, and within three months after the Statutory Meeting, the authorized directors must sign the application and apply for registration of the company. The documents to be submitted for the application will include the Minutes of the Statutory Meeting and the approved Articles of Association. Evidence of registration or the so-called Certification Document is normally issued the day after payment of the official fee.

Upon approval of registration, the company is considered by Law to be a legal entity separate from its shareholders.

2. CONSTITUTIONAL DOCUMENTS

There are two basic constitutional documents required of a private limited company which are as follows:

A. Memorandum of Association

(See paragraph 1C above for details on the Memorandum of Association); and

B. Articles of Association

Articles of Association must contain the operational regulations, shareholders' rights, types of shares, rights attached to each type of shares, voting rights and company by-laws. Normally, proposed Articles of Association, which must conform with the provisions under the CCC are adopted by the shareholders at the Statutory Meeting. The Articles of Association are binding on the directors, shareholders and interested persons.

After registration of the company, the Memorandum of Association and Articles of Association can only be amended by a special resolution passed by the shareholders at a general meeting. A resolution is considered as a special resolution if passed at two successive general meetings of shareholders, and by three-quarters of the shareholders

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

present and voting (or via proxy) at the first general meeting, and two-thirds of the shareholders present and voting (or via proxy) at the second general meeting. The first and second meetings must be held between 14 days to 6 weeks apart, and proper notices must be served for the meetings.

3. SHARE CAPITAL

The registered capital is the multiple of the number of shares by the par value of each share. The minimum value per share is Baht 5. There is no legal requirement of minimum capitalization except that there must be sufficient capital to accomplish the objectives of the company. In practice, the lowest registered capital is Baht 35 (i.e. 7 shares held by 7 shareholders times Baht 5). Shares may be issued at higher than par if permitted in the Memorandum of Association. It is possible, in certain limited circumstances, to contribute for shares by way of services or properties, but extensive proof of value is required at the stages of the statutory meeting and the registration of company. The paid-up amount must be at least 25% of the par value of each share. All shares of a company must be issued outset. There is no authorized shares concept for a private limited company.

In respect of a private limited company, two types of shares can be issued to the shareholders.

The two types of shares are:

1. Ordinary Shares
2. Preferred Shares

A. Ordinary Shares

Ordinary shares are the most common form of shares issued. Generally, the shareholders of ordinary shares have the right to receive dividends and return of capital.

B. Preferred Shares

The Articles of Association may provide preferential rights to holders of preferred shares over the holders of ordinary shares. This preference normally pertains to the distribution of dividends or assets of the company after dissolution. Normally, a certain percentage per annum applies to par value for the preferential shareholders to receive dividends before ordinary shareholders. The Articles of Association may provide for cumulative dividends, out of which all unpaid dividends from previous years and from the current year must be paid to the holders of preferential shares before payment of dividends can be made to the holders of ordinary shares. The preferential rights to such shares cannot be altered.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

4. ALTERATION OF SHARE CAPITAL

A limited company may, by special resolution, alter the share capital of the company either increase of capital or reduction of capital.

A. Increase of Capital

Capital increase must be approved by a special resolution of shareholders. New shares to be issued in any share capital increase must be offered to the shareholders in proportion to the shares held by each of them. Any new shares not subscribed by shareholder may be sold only to other shareholders and/or the directors. An application to register a special resolution to increase the registered capital must be filed with the Registrar within 14 days after the second meeting whether or not all new shares in the increased portion of the share capital are fully subscribed to and paid for.

B. Capital Decrease

A company may decrease its share capital also by a special resolution. There are two alternatives to implement a share capital decrease, i.e., either by decreasing the par value of each share, or, by reducing the number of shares. A company's share capital may not be decreased to an amount, which is less than one quarter of the share capital amount. The decrease may not be made at one time more than seventy five percent of the registered capital. When a company proposes to decrease its share capital, it must publish seven times at least in a local newspaper and send to all creditors known to the company a notice of the proposed decrease, requiring them to present within three months from the date of the notice any objection they may have to the decrease. If there is an objection, the company may not proceed with the decrease unless it has satisfied the claim or given a security for it.

5. PURCHASE OF THE COMPANY OF ITS OWN SHARE

Under Thai law, a private limited company cannot own its own shares nor take them in pledge. In this respect, there is a Supreme Court decision that a purchase by a company of its own shares is deemed an illegal capital reduction.

6. DISTRIBUTIONS AND DIVIDENDS

A private limited company may pay the dividend to its shareholders only from the profits. The dividend declaration must be authorized by a general meeting of the shareholders. No dividend may be authorized if the company suffers a loss. The board of directors may declare interim dividends, if the company has enough profits. Every time when the dividend is declared, the company must allocate at least 5% of the profits after tax as a legal reserve until its legal reserve equals at least 10% of its registered capital. Dividends must be paid in cash to each share equally, unless there are different entitlements with

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

regard to the preferred shares. The dividends declared but have not been taken by the shareholders do not bear any interest.

7. CHARGES ON THE ASSETS OF THE COMPANY

The more common forms of security on the assets of the company, namely mortgage and pledge, are available in Thailand. Moreover, under the concept of freedom of contract, parties are free to create other arrangements, provided they do not rearrange the order of preferential rights or are illegal or contrary to public morals. However, only security arrangements recognized under Thai law (such as the mortgage or pledge) will qualify the lender as a secured creditor under the CCC or the Bankruptcy Act.

A. Mortgage

Mortgages may be taken on all immovable property and some movable property including ships or vessels of six tons or over, steam launches or motor boats of five tons or more, floating houses, beasts of burden, and machinery registered under the Machinery Registration Act.

To be valid the mortgage must be in writing in the Thai language, and registered with the appropriate authority. The mortgagor must be the owner of the mortgaged property and may mortgage his/her property for the performance of an obligation by another person. It must also state a sum certain or maximum value of the principle debt in Thai currency. A mortgage may only be enforced by court order, through either public auction or foreclosure.

A mortgage is extinguished:

- (1) by extinction of the obligation secured, otherwise than by prescription.
- (2) by release of the mortgage granted in writing to the mortgagor.
- (3) by the mortgagor being discharged.
- (4) by the mortgage being removed.
- (5) by auction sale of the mortgaged property by order of the Court as a result of enforcement or removal of mortgage.
- (6) by foreclosure of the mortgage.

B. Pledge

A pledge is created by delivery of movable property into the possession of the creditor or its agent. Both tangible and intangible property, such as rights, may be pledged if they are represented by instruments. Pledges need not be registered, but if the pledged property is shares, the pledge must be entered on the company's share register. Pledged negotiable instruments, such as bills of exchange, cheques, or promissory notes, cannot be set up against third parties unless the pledge is endorsed in writing on the instrument.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

A pledge is extinguished:

- (1) when the obligation secured is extinguished otherwise than by prescription; or
- (2) when the pledged property is returned to the possession of the pledgor.

Though the CCC does not have any specific provision on the charges on the assets of the company, a company may impose restriction on disposition of its assets via the Articles of Association (i.e. Mortgage or creation of any form of encumbrance over the company's assets needs approval from Board of Directors or shareholders' meeting).

8. APPOINTMENT OF DIRECTORS

A. Appointment and removal of Directors

The management of the company must be carried out jointly by the directors as a group called the "Board of Directors" unless the company has only one director.

Basically, the appointment and the removal of directors can be made only by general meetings of shareholders and according to the Articles of Association. Any vacancy among the members of the Board of Directors occurring otherwise than by rotation may be filled by the Board of Directors. Any person so appointed shall retain office only during such time as the director whom he replaced would have been entitled to retain the same.

The number of directors of the company will be determined by the general meeting. The initial directors are appointed at the statutory meeting, and the subsequent directors are appointed at general meetings of the shareholders.

Generally, the power of directors will be determined by the shareholders at a general meeting. The power of each director is equal unless otherwise provided by such meeting. All of the directors can jointly act through the resolution of the Board of Directors, in which case, they will jointly be liable on such act. The powers of the directors are stipulated in the Articles of Association.

B. Retirement and Resignation

Directorship will expire under the following circumstances:

1. At the first ordinary meeting after the registration of the company and at first ordinary meeting in every subsequent year, one-third of the directors, or, if their number is not multiple of three, then the number nearest to one-third must retire from office.
2. A director becomes bankrupt or incapacitated.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

3. Others; death, resignation, unqualified or termination.

In addition, a director may resign at anytime by informing his/her intention to the Board of Directors.

Comments: Based on the copies of Articles of Association of SFC as certified by the MOC on 26 February 2004, there is no such restriction on disposition of SFC's assets.

9. DUTIES OF DIRECTORS

Generally, the directors are the representatives of the company and not the employees of the company. A director will not be liable personally unless he acts outside the scope of his authority and the company does not ratify such act (which the company can do so only if the act falls within the actual scope of the business of the company as stated in company's Objectives in the Memorandum of Association), or the director enters into an agreement which shows his acceptance of personal liability, or the director does an act which is a criminal offence. Also, a director is not liable for any debt of the company unless his liability has been registered as unlimited.

The authority of the directors depend upon the regulations of the company. If there is no regulation, the directors must manage the business of the company in accordance with the dictates of the general meetings of shareholders or according to the provisions of the CCC. The directors have no liabilities for any act done according to the regulations, even though the general meeting disagrees with the propriety of such action. However, if the directors, acting in accordance with a resolution of a general meeting, carry out an act which is contrary to the regulations, the directors may be liable to the company for any damages which result from such performance, and may be sued by the company through a derivative action by the shareholders who dissented in voting on the resolution at the general meeting.

A. General Duties

Generally, a director of the company must honestly perform his duties and must use his best endeavors in carrying out his duties for the benefit of the company.

Therefore, the directors must manage the business of the company in a careful manner, and must use due care and caution, without negligence, in the performance of their duties.

B. Particular Duties

Under the CCC, the directors are jointly responsible for

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

- (1) ensuring that shareholders pay for their shares
- (2) the existence and regular keeping of books and documents prescribed by law
- (3) the proper distribution of dividends or interest as specified by law
- (4) the proper enforcement of resolutions of general meetings

C. Other Duties

As prescribed by the CCC, the directors of the company have duties, which extend beyond those mentioned in the foregoing paragraph. These other duties include calling general meetings, maintaining the balance sheet, and reporting the business of the company to the annual general meeting and sending a copy of the list of shareholders (and a list of persons who have ceased to be shareholders) to the Registrar of the appropriate registration office.

Please note that if any director of the company who does not perform his duties as required under the CCC shall be liable criminally under the Act on Offences Concerning Registered Partnerships, Limited Partnerships, Limited Companies, Associations and Foundations.

10. CONDUCT OF MEETINGS AND PROCEEDINGS OF THE COMPANY

A private limited company is managed by a director or directors ("Board") under the control of the general meeting of shareholders and according to the Memorandum of Association and Articles of Association of the company.

There are two types of Company Meetings

A. Shareholders' Meeting

1. General Meeting

A general meeting must be held within six months after the registration of the company in order to declare its business which has been carried out to the shareholders and shall be subsequently be held once at least in every twelve months.

2. Extraordinary Meeting

All other general meetings are called extraordinary meetings. Generally, extraordinary meetings may be held whenever there are urgent matters or special issues to be considered as specified in Articles of Association.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

Additionally, the CCC also stipulates that such meetings may be held whenever the directors think fit. An extraordinary meeting must be summoned by the directors if a requisition to that effect is made in writing by shareholders holding not less than one-fifth of the share of the company.

All shareholders have the right to participate in and vote at any general meeting. However, the voting right of a shareholder can be restricted by law and/or by the Articles of Association. A quorum must be present at each meeting. Unless otherwise provided in the Articles, a quorum is constituted by the presence of holders of 25% of the shares, in person or by proxy. Where a quorum is present, a majority may act to bind the company.

Generally, the resolution of the meeting requires to be passed by a majority of the votes. However, certain matters require to be passed by special resolution such as the increase and reduction of capital, the amalgamation of companies and the alteration of the Articles of Association or Memorandum (by-law) etc.

B. Directors' Meeting

If the company has more than one director, the company will be managed through the meeting of the directors and the resolution of such meeting or any questions arising at such meeting shall be decided by a majority of votes of the directors present. The directors may fix the quorum necessary for the transaction of business at their meetings and unless so fixed the quorum shall (when the number of directors exceeds three) be three.

Any individual director may at anytime summon a meeting of directors.

11. LOANS TO DIRECTORS

Under the CCC, there is no provision prohibiting a company from lending money to directors. Although the director who borrows the money from the company may also be a director who gives authorization to the loan, the loan is regarded as a loan to third parties. To avoid the directors being in a position of conflict of interest, loans by the company to directors should carry interest. The company as lender and the directors as borrowers have to generally comply with the CCC regarding the lending of money.

According to the CCC, to be valid and enforceable, a loan for a sum exceeding fifty Baht must be evidenced in writing signed by the borrower. Under the CCC, loan interest shall not exceed 15% per annum. When a higher rate is fixed by contract it shall be reduced to 15% per annum. If the loan is to bear interest but the rate is not agreed or fixed by a contract, the rate as mandated by law shall be 7.5% per annum.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

If a company intends to give loans to directors, its Articles of Association or Objectives (as stated in its Memorandum of Association) should not prohibit it from doing so.

Comments: Based on the copies of Memorandum and Articles of Association of SFC as certified by the MOC on 26 February 2004, there is no such prohibition.

12. SHAREHOLDERS RIGHTS AND OBLIGATIONS

A shareholder's name has to be registered in the register book of shareholders. The liability of a shareholders is limited to the amount unpaid on the shares held by him. Shareholders are not be liable for the company's obligations apart from the amount of unpaid on their shares. Shareholders have no rights to manage the business of the company directly but they have the right to participate in and vote at any general meeting.

The shareholders' rights and obligations are set out in the company's Memorandum of Association, Articles of Association and the provisions of CCC.

A. Shareholders Rights

1. The right to receive the dividends
2. Rights to control the operation of the company:
 - (1) The right to participate in and vote at any general meeting.
 - (2) The right to demand an inspection of minutes of all proceedings of shareholders and directors at any time during business hours.
 - (3) The right to claim for cancellation of any resolutions passed at irregularly held general meetings.
 - (4) The company has the right to claim against the directors for any injury done to the company by the directors. If the company refuses to claim against the directors, any of the shareholders has the right to do so.
3. Rights attached to shares:
 - (1) The right to distribute or transfer their shares in accordance with the provisions of the CCC and the Articles of Association.
 - (2) The right to receive the return of their paid-up capital upon the dissolution or winding-up the company.
 - (3) The right to subscribe for newly issued shares of the company pro rata to

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

their respective shareholdings.

4. Others e.g. the right to be auditor, the right to inspect the register books of shareholders.

B. Shareholders Obligations

Generally, the liabilities of shareholders are limited to the amounts unpaid on the shares held by them. Shareholders have no liabilities directly to the creditors of the company.

According to the CCC, the shareholders' obligations are as follows:

- (1) The shareholders shall pay to the company the amount of their shares in conformity with the prospectus and regulations.
- (2) A shareholders cannot avail himself of a set-off against the company with regard to his obligation to pay on his shares.

Please note that if any shareholder of the company who does not perform his duties as required under the CCC shall be liable criminally under the Act on Offences Concerning Registered Partnerships, Limited Partnerships, Limited Companies, Associations and Foundations.

13. PROTECTION OF THE MINORITIES

Generally, resolutions of the meetings (general meeting of shareholders and meeting of board of directors) are passed by majority vote. There are no provisions for the protection of the minority shareholders of a private limited company under Thai law. Therefore, resolutions passed by the majority can be strictly enforced. However, all shareholders have rights which may give them a certain degree of protection, such as the right to demand an inspection of minutes of the company, etc. Please refer to Clause 12 for more details.

14. FILING/KEEPING AND INSPECTION OF CORPORATE RECORDS

Minutes of all meetings and copies of resolutions must be kept at the registered office of the company. A shareholder register containing information about the shareholders must also be kept at the registered office. Books and accounts must be kept as required by the CCC, Revenue Code, and Accounting Act. Accounts may be kept in any foreign language but a Thai translation must be attached.

The directors must have a balance sheet prepared once every year. The balance sheet must be certified by the auditor of the company, approved by the shareholders at an Annual Ordinary Meeting, and filed with the Department of Business Development and

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

the Revenue Department within 5 months and 150 days respectively of the end of the fiscal year. There is a fine not exceeding Baht 60,000 and Baht 2,000 respectively for a failure to do so.

Furthermore, after the liquidation, the books, accounts and documents of the liquidated company shall be deposited at the Registrar's Office where they shall be kept for ten years after the end of the liquidation and all such books, accounts and documents shall be gratuitously open for inspection by any interested person. The corporate record may be inspected or made available to the public. Any interested person shall file an application for receiving the certified true copies of corporate record at Department of Business Development, Ministry of Commerce which may have contents such as certificate of registration, list of shareholders, Memorandum of Association or Articles of Association, registered capital, its objectives, seal, etc.

15. WINDING-UP PROCEDURE

Under Thai law, the winding-up procedure is called the liquidation of the Company. The following steps need to be taken for the liquidation.

A. Special Resolution

In order to dissolve a company, a special resolution is required according to the CCC. If the resolution does not specify the date of dissolution, the company is deemed to be dissolved on the date of passing the special resolution.

B. Appointment of Liquidator

Normally, the directors become the liquidators upon dissolution of a company unless provided otherwise by the regulations of the company. If no such persons are appointed liquidators, the Court will appoint a liquidator or liquidators, upon application by the Public Prosecutor or any other interested person.

In practice, any person can be appointed the liquidator by the special resolution, however, the liquidator should reside in Thailand as he needs to sign many papers and must work closely with the Company's accountant or legal advisor so that all the company's affairs can be cleared up right away.

C. Registration of Corporate Dissolution

The liquidator must register the dissolution with the Department of Commercial Registration, Ministry of Commerce, within 14 days after the date of dissolution. After the order has been given, the dissolution will be published in the Government Gazette.

D. Duties of the Liquidator

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

1. Within fourteen (14) days after the date of dissolution (the date of adoption of the special resolution) the liquidator must:
 - (1) Notify the public, in at least two successive advertisements in a local newspaper, that the company is dissolved and that its creditors must apply to the liquidator for payment, and
 - (2) Send a similar notice, as mentioned in (1), by registered letter to each creditor whose name appears in the books or documents of the company.
2. The liquidator must, as soon as possible, prepare a balance-sheet and have it examined and certified by the auditors, and must summon a general meeting. The business of this general meeting is:
 - (1) To confirm the liquidator or to appoint other liquidators in his stead, and
 - (2) To adopt the balance-sheet.
3. The liquidator must report his activities to the Registrar every three months. However, if the liquidation is complicated and continues over more than one year, the liquidator must summon a general meeting at the end of each year, reckoning as from the commencement of liquidation, and must report his activities at the meeting.
4. When all the debts have been paid off, the company's remaining property (if any) may be divided amongst the shareholders. Accounts of such division and return of the property shall be filed with the Registrar when applying for the liquidation registration.
5. As soon as the affairs of the company are fully liquidated, the liquidator must call a general meeting and give his account of the liquidation for approval.

E. Registration of Completed Liquidation

After the account of the liquidation has been approved, the liquidator must register the completion of liquidation within 14 days. Such registration is taken as being the end of the liquidation.

F. Tax Clearance

Within 15 days from the date of corporate dissolution (the date of adoption of the special resolution), the company shall notify the Area Revenue Office where the company has registered its business of the dissolution.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

16. JURISDICTION ARRANGEMENT BETWEEN MALAYSIA AND THAILAND PERTAINING TO THE ENFORCEMENT OF JUDGEMENT IN RESPECT OF CRIMINAL AND CIVIL ACTIONS

A. Recognition and Enforcement of Foreign Judgments

Thai law does not specifically provide for the direct enforcement or recognition of a foreign judgment in Thailand. Moreover, Thailand is not a party to any treaty or agreement by which a foreign Court judgment may be entitled to recognition and enforcement in Thailand. Consequently, a new trial based on the merits must be initiated in Thailand. However, foreign judgments and documentary evidence generated during a foreign litigation procedure, including settlement negotiations, may be admissible as evidence in Thailand.

Thailand and Malaysia do not have any agreement regarding reciprocal enforcement of judgment or the recognition and enforcement of foreign judgments.

B. Enforcement of Foreign Arbitral Awards

The enforcement procedure of a foreign arbitral award under the Thai Arbitration Act is identical to that utilized for the enforcement of domestic arbitration awards. However, to enforce a foreign arbitral award under the Geneva Convention 1927 and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958, the award must also satisfy the requirements of those Conventions.

According to the Arbitration Act, the arbitral award will bind all parties no matter where the award was made. Arbitral awards made pursuant to arbitration proceedings conducted abroad (outside Thailand) can be enforced in Thailand only if they are made pursuant to a treaty, convention or international agreement to which Thailand is a party, and shall have effect only as far as Thailand accedes to be bound.

At the present, Thailand and Malaysia have acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958). Thailand acceded to the New York Convention in 1959, and Malaysia in 1985. Therefore, arbitral awards made pursuant to arbitration proceedings conducted in Malaysia can be able to enforced in Thailand in accordance with such convention.

17. TAXATION

Overview of Thai Corporate Income Tax System and Basis of Regime of Taxation System in Thailand

- Companies and juristic partnerships registered under Thai law and foreign companies doing business in Thailand are subject to Thai corporate income tax.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

Under the Thai Revenue Code, corporate income tax is imposed on the basis of worldwide income which means that income sourced within or outside Thailand will be subject to corporate income tax at the same rate. However, for a branch office of foreign company doing business in Thailand, only income generated in Thailand by the branch office will be subject to Thai corporate income tax.

1. Rates

In general, corporate income tax is imposed at the rate of 30% on its net profits of the company. However, there are special rates available for certain entities, e.g. a small or medium sized companies with a registered capital of less than Baht 5 million will be eligible for 20% tax rate on its net profits for the first Baht 1 million and for 25% on its net profits for the net profits exceeding Baht 1 million but less than 3 million, a company listed in the Stock Exchange of Thailand prior to 6 September 2001 or within three years after such date may be entitled to 25% tax rate.

2. Determination of Net Profits

Corporate tax is usually imposed on the net profits of the business for the tax year. All types of income shall be included as taxable income for corporate income tax purposes whether it occurs regularly or only occasionally. Under the Revenue Code, the determination of profits shall be required to follow "accrual basis" whereby revenue arising in an accounting period, even if it is not received in that period, shall be included revenue of that accounting period and any expenses related to revenue, even if they have not paid in that accounting period, shall be included as expense of the same accounting period. However, in practice, the Revenue Department does not follow the accrual basis under the accounting principles strictly.

Bad debts are generally allowed to be written off if it follows the requirements set out under the Ministerial Regulation, e.g. the amount of bad debt exceeds Baht 500,000, it is required to take action at the court prior to the write-off.

Net loss is allowed to be carried forward for five consecutive years. However, there is no provision for the carry-back of losses.

The accounting period is a 12 months period upon selection by the company. However, once selected, this period must be used consistently unless permission granted by the Director-General of the Revenue Department.

3. Remittance of Profits Abroad

A profit remittance tax is levied at the rate of 10% of the amount to be remitted. Generally, such tax is applicable when a branch office of foreign company doing

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

business in Thailand remits the profits to its head office. The profit remittance tax is due at the 7th of the following month.

4. Dividend

Generally, dividends paid by a Thai company to its shareholders will be subject to the following tax implications:

- if the shareholder is Thai tax resident individual, such dividend will be subject to 10% withholding tax and the shareholder in this case has the right to choose whether the tax so withheld is final tax or he may include such dividend as part of his taxable income for personal income tax purpose; provided that the Thai tax resident individual will be entitled to dividend tax credit under the terms and conditions of the Revenue Code.
- if the shareholder is non Thai tax resident individual, such dividend will be subject to 10% withholding tax.
- if the shareholder is a Thai company, such dividend will generally be subject to 10% withholding tax unless the following conditions are met:
 - (i) it is a Thai company listed on the Stock Exchange of Thailand ("SET"); or
 - (ii) it holds shares in the paying company of at least 25% of the voting shares, and the paying company does not directly or indirectly hold shares in the recipient company.

Further, if the abovementioned Thai company holds such shares for at least three months before the declaration of dividend, and he continues to hold them for another three months thereafter, such dividend will be exempt from Thai corporate income tax. However, if the Thai company fails to meet the conditions in (i) or (ii) set out above, the Thai company is still entitled to 50% corporate income tax exemption if the Thai company holds the shares in the paying company at least three months before the declaration of dividend and another three months thereafter.

- If the shareholder is foreign company not doing business in Thailand, such dividend will be subject to a 10% withholding tax. Note that, in this case, the foreign shareholder is a qualified tax resident of the country having tax treaty with Thailand, it may be entitled to tax exemption or tax credit given under the double tax treaty.

Comments: Since Thailand and Malaysia executed a double tax treaty agreement ("DTA") in 1982, dividends paid by SFC shall be subject to Thai withholding tax. The rate of withholding and tax credit are as follows:

1. Natural person shareholders

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

Natural person shareholders of SFC are not qualified under the DTA. The Thai Revenue Code shall apply to them. Such dividends will be subject to 10% withholding tax. As such, the natural person shareholders will be entitled to tax credit given under the DTA.

2. Juristic person shareholder

Under the DTA, dividend paid by SFC to any Malaysian company may be taxed in Thailand but the tax so charged shall not exceed 15% of the gross amount of the dividend if the company paying the dividend engages in industrial undertakings.

As SFC's business is regarded as an industrial undertaking under the DTA, the rate of withholding will not exceed 15 % of the gross amount of dividend. However, since the withholding tax rate of the Thai Revenue Code is lower than the rate specified in the DTA, the Thai Revenue Code rate (10%) will apply.

Please note that as SFC is a promoted company under the Investment Promotion Act, SFC shall be entitled to enjoy tax privileges under the promotion certificate. The tax privileges prescribed under the existing promotion certificate of SFC No. 1216/or/2547, which was issued by the Board of Investment ("BOI") on 17 March 2004, are as follows:

- (i) exemption from corporate income tax (until 3 June 2006);*
- (ii) exemption from computation of dividends derived from a promoted activity as taxable income throughout the period the promoted person receives the exemption of corporate income tax;*
- (iii) a 50 per cent reduction of the normal rate of corporate income tax on the net profits derived from the investment for a period of 5 years from the expiry date of corporate income tax exemption; and*
- (iv) exemption from the import duty of raw materials used for export product.*

Therefore, during the corporate income tax exemption period, such dividends paid by SFC are not subject to Thai withholding tax.

5. Other Taxes Withheld on Account of Income

Apart from the dividend withholding tax above, the Revenue Code also requires the payer of certain types of income to a company carrying on business in Thailand to withhold additional sums on account of corporate income tax at source. The amount withheld can be credited against the corporate income tax of

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

the recipient company. The rates for such additional withholding requirements tend to be minimal, as shown below.

<u>Source of Income</u>	<u>Rate of Withholding (%)</u>
Proceeds from the export of certain agricultural products	0.75
Interest earned on bank deposits, bills, etc., by onshore and Thai companies	1.0
Lease or rental income from property	5.0
Independent contractor's wages and service fees	3.0
Prizes from a contest or lottery	5.0
Advertising fees	2.0

6. Administrative Arrangements: filing Returns and Payment

Corporate income tax is payable twice a year. The first installment is 50% of total tax, based on estimated net profits for the year. This is due within two months of the close of the first half of the particular company's accounting period.

An annual income tax return must be filed within 150 days of the close of the company's accounting period. Late payment of corporate income tax will be subject to a surcharge of 1.5% per month. In addition, a maximum penalty of twice the amount of tax due will be imposed if the annual income tax return is not duly filed. Where tax is to be paid on the basis of net profits, the return must be accompanied by an audited balance sheet and a profit and loss account. If taxes are to be paid on a gross receipts basis, then a statement of gross receipts must be filed along with the return.

18. EXCHANGE CONTROL AND REPATRIATION OF PROCEEDS

Thailand's foreign exchange control is regulated by the Exchange Control Act, B.E. 2485 (the "EC Act") and is administered by the Bank of Thailand ("BOT"). The main features of Thailand's current exchange control position include the regulation of the importation and exportation of funds, Baht transactions, foreign currency accounts, etc. The commercial banks established in Thailand can handle and authorize the exportation of funds by virtue of the BOT's designation of them as its authorized agents.

A. Importation

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

1. Importation of Baht Currency

There is no restriction or control on the importation of Baht currency. There is no limit on the amount of Baht which an individual entering into Thailand may bring into the country.

2. Importation of Foreign Currency

Remittances of foreign currencies into Thailand may be made freely for all purposes and in unlimited amounts. However, any person receiving foreign currencies must sell such foreign currencies to authorized banks, companies or persons¹ or deposit them in a foreigner currency deposit account within 7 days of the receiving date, according to the BOT's regulations.

According to the BOT's regulations, if the imported money is more than US\$ 20,000, the Foreign Exchange Transaction Form for an importation of funds is required to be filled in. Such Foreign Exchange Transaction Form can be prepared by a commercial bank.

B. Repatriation

1. Repatriation of Baht Currency

For repatriation of Baht currency the following transactions can be approved by an authorized juristic person² on behalf of the BOT.

- (1) Exporting or taking Baht currency out of Thailand to other countries by an authorized juristic person in an amount equivalent to or not exceeding the value of foreign currencies that a commercial bank in foreign countries remits or brings in for exchange.
- (2) Exporting or taking Baht currency out of Thailand and into the countries bordering Thailand (Burma, Laos, Cambodia, Malaysia) and Vietnam in an amount not exceeding Baht 500,000 per trip.

¹ "authorized bank" means a commercial bank which is authorized by the Finance Minister to transact business relating to foreign exchange.

"authorized company" means a limited company, (other than a bank) which is authorized by the Finance Minister to transact business relating to foreign exchange.

"authorized person" means a person who is authorized by the Finance Minister to buy, sell, lend and exchange foreign currencies and travelers cheques payable in foreign currency.

² "authorized juristic person" means authorized agent in accordance with the Notification of Ministry of Finance Re: Minister's Direction given to authorized agents dated 31 March 2004 (i.e. authorized bank, authorized company); and juristic person incorporated by specific laws and permitted to undertake business regarding foreign means of payment (i.e. The Industrial Finance Corporate of Thailand and Export-Import Bank of Thailand)."

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

- (3) Taking Baht currency out of Thailand to other countries apart from those mentioned in items (1) and (2) in an amount not exceeding Baht 50,000 per trip.

2. Repatriation of Foreign Currency

The purchase of foreign currency from an authorized juristic person for the following purposes does not require approval from the BOT. The authorized juristic person can approve the following transactions for and on behalf of the BOT.

- (1) For investment in an overseas business or to lend to an affiliated business overseas which is not a trading business of foreign securities for an amount that exceeds US\$ 5 million or equivalent according to the market rates a year but not more than US\$ 10 million or equivalent according to the market rates a year.
- (2) As overseas traveling expenses in other forms aside from banknotes, bank's certificate or coins for more than US\$ 20,000 or equivalent according to the market rates.
- (3) To buy shares of a company in the same group overseas as welfare to staff for no more than US\$ 100,000 or equivalent according to the market rates for each person annually.
- (4) To buy immovable properties as residence for no more than US\$ 500,000 or equivalent according to the market rates per person.
- (5) As donation for public purposes for no more than US\$ 100,000 or equivalent according to the market rates per person per year; authorized juristic persons must check details of the donation and ensure that it is an actual donation for public benefit.

Repatriation of foreign currencies as dividends and profits as well as loan repayments and interest payments thereon may now be made by submitting the supporting Foreign Exchange Transaction Form and evidence stipulated in the BOT's regulations to the authorized juristic person.

In the case of repatriation of dividends, evidence of dividends payment (such as the notice of dividends payment of the paying company) will be required.

In the case of repatriation of profits to head office, financial statement already audited and certified by the certified auditor, or if remitting an interim profit, an interim financial statement of which the accuracy has been certified by the company will be required.

13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

However if the exported money is more than US\$ 20,000, the Foreign Exchange Transaction Form for an exportation of funds is required to be fill in. Such Foreign Exchange Transaction Form can be prepared by the commercial bank.

19. ACCOUNTING RECORDS

Under the Accounting Act B.E. 2543 (the "AC Act") a registered partnership, private limited company, public limited company established under Thai law, a juristic person established under foreign law and carrying on business in Thailand, a joint venture under the Revenue Code and a place of regular business under the AC Act shall be required to prepare accounts, and shall cause accounts to be prepared for the operation of its business, pursuant to the details, rules and procedures stipulated in the AC Act.

A limited company shall commence preparation of accounts from the date such limited company is registered as a juristic person under the law. Generally, the limited company shall close its account every twelve months from the date of last closure of accounts, except where approval is granted by the Account Inspector-General or the Account Inspector to change the fiscal year, in which case the accounts may be closed before the completion of the twelve months' period.

For a limited company established under Thai law, the financial statement, including balance sheet shall be submitted to the Account Central Office, Department of Business Development within one month from the date of approval of such financial statement by the general meeting of shareholders. However, if the limited company is prevented by circumstances beyond its control from complying with the said time period, the Director-General may grant an extension of time or postponement as necessary in the circumstances. The financial statement must be audited and opinion given thereon by a certified public auditor.

Furthermore, a limited company shall also maintain the accounts and documents required for account entry for a period of not less than five years from the date of closure of the accounts. The accounts and documents required for account entry shall be maintained at the place of business or place regularly used for working unless the limited company receives permission from the relevant Inspector-General or the Account Inspector to maintain the accounting and documents required for account entry at another place. In the event that the company ceases to operate its business for any reasons without a liquidation, the accounts and documents required for account entry shall be delivered to the Account Inspector-General or the Account Inspector within 90 days from the date of cessation of business operation.

In making entries into the accounts, the bookkeeper shall make entries in Thai language. In the case of entry in a foreign language, it must be accompanied with a Thai language translation; or in the case of entry by accounting code, a code translation manual in Thai language must be made available and be written in ink, type, print or do by any other means to achieve the same result.

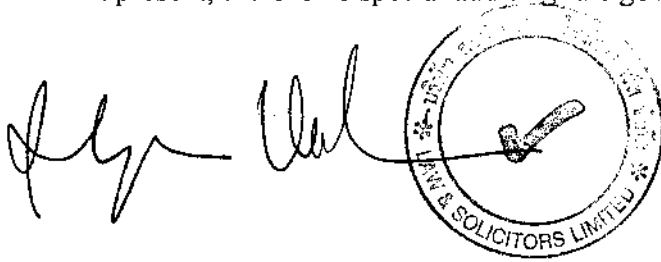
13. EXPERT REPORT ON POLICIES OF THAILAND (Cont'd)

Failure to comply with the AC Act will result in the company being subject to a fine or imprisonment or both in accordance with the penal provision of the AC Act. Under the AC Act, if a person who commits an offense is a juristic person, personal criminal liability will be extended to all directors or managers of such juristic person and the same penalties will be imposed on them as if the offense were personally committed by them, unless they can prove that the offense was committed by the juristic person without their knowledge and consent.

20. AUDITING REQUIREMENTS

Under Accounting Act B.E. 2543 (the "AC Act"), a limited company established under Thai law (either majority Thai owned or majority foreign owned) shall be required to prepare a balance sheet at least once in every twelve months, as of the end of the fiscal year of the company. The balance sheet must contain a summary of the assets and liabilities of the company and a profit and loss account for the fiscal year of the company. The Board of Directors shall have the balance sheet and profit and loss account examined and opinion given thereon by the certified auditor and submitted to a general meeting of shareholders for adoption within four months from the end of the fiscal year. After that, such balance sheet must be submitted to the Account Central Office, Department of Business Development within one month from the date the balance sheet was approved by the general meeting.

At present, there is no special auditing rule governing foreign owned Thai companies.

A handwritten signature in black ink is written over a circular stamp. The stamp contains the text "LAW & SOLICITORS LIMITED" around the perimeter and a checkmark in the center.

LAW & SOLICITORS

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14. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



Registered Office:

Suite 6.1A, Level 6,
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Jalan Kuning, Taman Pelangi
80400 Johor Bahru
Johor

2 February 2005

The Shareholders of
Evergreen Fibreboard Berhad (217120-W)

Dear Sir/Madam,

On behalf of the Directors of Evergreen Fibreboard Berhad ("EFB"), I report after due inquiry that during the period from 31 October 2004 (being the date to which the latest audited financial statements of EFB and its subsidiary and associated companies ("EFB Group") have been made up) to 2 February 2005 (being a date not earlier than fourteen days (14) before the issue of this Prospectus):

- (a) the business of EFB Group has, in the opinion of the Directors, been satisfactorily maintained;
- (b) in the opinion of the Directors, no circumstances have arisen subsequent to the last audited financial statements of the EFB Group which have materially affected the trading or the value of the assets of the EFB Group;
- (c) the current assets of the EFB Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) there are no contingent liabilities by reason of any guarantees or indemnities given by the EFB Group; and
- (e) there have been, since the last audited financial statements of EFB Group, no default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings in which the Directors are aware of; and
- (f) save as disclosed in the Accountants' Report and the Proforma Consolidated Balance Sheets in the Prospectus, there have been no material changes in the published reserves nor any unusual factors affecting materially the profit of the EFB Group since the last audited financial statements of EFB Group.

Yours faithfully

For and on behalf of the Board of Directors of
Evergreen Fibreboard Berhad (217120-W)

Kuo Jen Chang
Managing Director



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