

4. INFORMATION ON AIKBEE GROUP (Cont'd)

The financial record of ABSawmill based on its audited accounts for the past five (5) financial years ended 31 December 1999 and nine (9) months ended 30 September 2000 and unaudited accounts for the financial year ended 31 December 2000 are as follows:-

	Audited					9 months ended 30.9.2000 RM'000	Unaudited 12 months ended 31.12.2000 RM'000
	Financial Year Ended 31 December						
	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000		
Turnover	1,020	6,619	7,728	10,464	12,578	10,278	12,284
EBIDTA	756	1,868	1,821	1,795	1,748	1,443	2,192
Interest expense	(488)	(1,026)	(1,035)	(1,167)	(914)	(685)	(918)
Depreciation	(155)	(180)	(178)	(190)	(186)	(286)	(359)
Operating profit	113	662	608	438	648	472	915
Exceptional item	-	-	-	-	(72)	(42)	(42)
PBT	113	662	608	438	576	430	873
Taxation	(85)	(243)	(233)	(193)	(2)	(172)	(339)
PAT	28	419	375	245	574	258	534
Number of shares ('000)	605	605	605	605	605	605	605
Gross EPS (RM)	0.19	1.09	1.00	0.72	0.95	0.95*	1.44
Net EPS (RM)	0.05	0.69	0.62	0.40	0.95	0.57*	0.88
Gross dividend rate (%)	-	-	-	-	-	-	-
Net dividend rate (%)	-	-	-	-	-	-	-

Notes:-

* annualised

1. Turnover in 1996 rose due to its timber operations (logs extraction & trading) being resumed after temporarily suspended during 1994 and 1995. ABSawmill ventured into property investment in 1994 as part of streamlining the operations within Aikbee Group. The rise in turnover for 1998 and 1999 were due to its diversification into trading of sawn timbers.
2. The PBT for 1998 and 1999 were lower than that of 1997 as ABSawmill purchased its sawn timber from other manufacturers. Sales of sawn timber yielded margins of less than 5% for both years.
3. The PBT for 1999 and the financial period/year ended 30 September 2000 and 31 December 2000 were stated after charging exceptional items i.e. tax penalties in respect of taxation liabilities for prior years. Other than as stated, there were no extraordinary items and exceptional items in all the financial years.
4. The PBT for the financial year ended 31 December 2000 increased due to higher margin from sales of timber logs.

ABSawmill does not have any subsidiary or associate company.

(iii) **Information on ABSarawak**

ABSarawak was incorporated in Malaysia under the Companies Act, 1965 on 30 October 1991. It is principally involved in timber sawmilling and manufacturing of moulding timber. The company sources its logs supply via purchases from brokers and agents of log concessionaires. ABSarawak produces E2Es, E4Es, S2Ss, S4Ss and sawn timber. (E2Es, E4Es, S2S and S4Ss are some categories of timber usually used in the engineering industry, varying in terms of the surface of the timber, whether smoothed at the planes, or eased at the edges of the timber, details of which are set out in Section 4.5.2 herein.) The sawmill is located in Tanjung Manis, Sarawak with a dock of its own to facilitate the loading of products to ships using barges. Tanjung Manis has been identified by the Sarawak Timber Development Council as State Timber Development Zone.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

Share Capital

The authorised share capital of ABSarawak is RM5,000,000 comprising 5,000,000 ordinary shares of RM1.00 each. The issued and paid-up share capital of ABSarawak is RM3,000,000 comprising 3,000,000 Shares. The changes in issued and paid-up share capital of ABSarawak since incorporation are as follows:-

Date of allotment	No. of shares	Par value RM	Consideration	Total RM
30.10.1991	2	1.00	Cash	2
12.08.1994	999,998	1.00	Cash	1,000,000
21.07.1995	2,000,000	1.00	Cash	3,000,000

The financial record of ABSarawak based on its audited accounts for the past five (5) financial years ended 31 December 1999 and nine (9) months ended 30 September 2000 and unaudited accounts for the financial year ended 31 December 2000 are as follows:-

	Audited					9 months ended 30.9.2000 RM'000	Unaudited 12 months ended 31.12.2000 RM'000
	Financial Year Ended 31 December						
	1995 RM'000	1996 RM'000	1997 RM'000	1998 RM'000	1999 RM'000		
Turnover	5,223	21,889	22,003	24,762	27,321	20,886	30,202
EBIDTA	658	3,896	3,602	3,902	4,958	3,143	4,822
Interest expense	(162)	(1,168)	(1,422)	(1,992)	(1,249)	(825)	(1,170)
Depreciation	(422)	(602)	(620)	(620)	(572)	(501)	(669)
Operating profit	74	2,126	1,560	1,290	3,137	1,817	2,983
Exceptional item	-	-	-	-	(132)	-	(56)
PBT	74	2,126	1,560	1,290	3,005	1,817	2,927
Taxation	(53)	(663)	(406)	(417)	(78)	(675)	(997)
PAT	21	1,463	1,154	873	2,927	1,142	1,930
Number of shares ('000)	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Gross EPS (RM)	0.02	0.71	0.52	0.43	1.00	0.81*	0.98
Net EPS (RM)	0.01	0.49	0.38	0.29	0.98	0.51*	0.64
Gross dividend rate (%)	-	-	50	40	-	-	-
Net dividend rate (%)	-	-	36	29	-	-	-

Notes:-

* annualised

1. Turnover and PBT in 1996 were higher than in 1995 reflecting a full year's operation. ABSarawak commenced its business operations and its sawmill was fully commissioned only in September 1995. Hence, the financial results in 1995 arose from only four months of its operations.
2. PBT in 1997 decreased from 1996 due to lower gross profit margin contribution from the sales of sawn timber. The margins from sales of sawn timber normally fluctuated in line with the species of timber produced according to the market demand and supply.
3. PBT in 1998 was lower than 1997 due to higher cost of sales for purchased timbers. ABSarawak's production of sawn timber was affected by the delay in log supply during the monsoon seasons, La Nina.
4. Turnover in 1999 increased from 1998 in line with increased demand for moulding timber which represent 45% of total turnover for the year. The PBT in 1999 was higher due to improving margin from sales of sawn timber.
5. Turnover for financial year ended 31 December 2000 was higher than 1999 due to increased sales of timber logs. Despite the increase in turnover, PBT for the financial year ended 31 December 2000 was marginally lower than in 1999 due to approximately 2% decrease in the margin from sales of sawn timber and timber logs.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

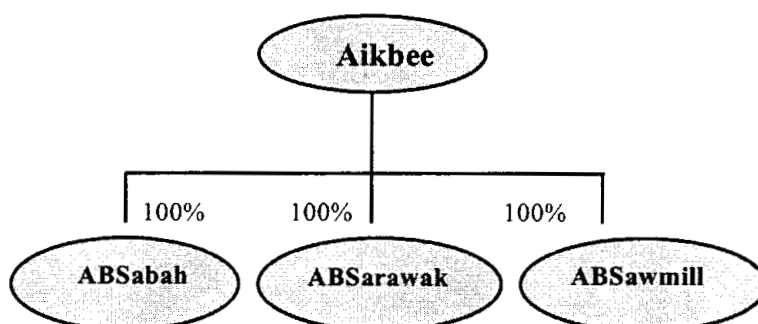
6. The PBT for financial year ended 31 December 1999 and 2000 were stated after charging exceptional item i.e. tax penalties of RM132,144 and RM56,272 respectively in respect of taxation liabilities for prior years. Other than as stated, there were no extraordinary items and exceptional items in all the financial years.

ABSarawak does not have any subsidiary or associate company.

4.5 Business Overview of Aikbee Group

The Aikbee Group is principally involved in the logging and/or sawmilling business in the states of Sabah, Sarawak, Wilayah Persekutuan and Pahang in Malaysia. It is also involved in the production of downstream products such as railway sleepers, truck bodies, truck bolsters, finger-joints, building materials, architrave, door and window frames, timber skirting and cornices, floor strips, finger joints and other wooden finished products. The Group is headed by one of the Promoters, Mr. Lim Yen Siew @ Tan Sit Seng .

The Group's corporate structure is set out below:-



ABSabah is principally involved in log extraction, sawmilling, downstream manufacturing activities and plantation management. ABSabah sources its logs from concessionaires, brokers and agents. It also has ten (10) logging contracts to perform logging on approximately 12,000 acres land until the year 2002 some of which are with companies controlled by the Directors and substantial shareholders of Aikbee (as set out in Section 4.5.18 of this Prospectus). Aikbee's future log consumption is estimated to be at an average of 113,000m³ per annum. On average, approximately 65% of Aikbee's total log requirements are fulfilled via the log supplies whilst 35% are fulfilled via log extraction. With Aikbee's ten (10) logging contracts to perform logging on approximately 12,000 acres of land until year 2002 and seven (7) contracts for log supplies up to 2003, this is estimated to meet the Group's entire timber requirements up to 2003.

It has set up a kiln-drying, timber tanalising and moulding plant, which commenced operations in October 1997. The company now manufactures downstream products such as finger joints, architrave, timber skirting, timber cornices, door and window frames and tanalised timber. The segmental analysis of turnover and profits by activities are set out in Part 5 of the Accountants' Report herein.

ABSarawak was incorporated on 30 October 1991 and commenced business in 1995 in Sarawak. The company purchases logs from the log concessionaires to produce sawn timber, railway sleepers, truck bodies and truck bolsters. The sawmill is strategically located in Tanjung Manis, identified by the Sarawak Timber Development Council as the State Timber Development Zone. It has a dock of its own by Sungai Rejang near South China Sea to transport goods for shipment with barges. ABSawmill is primarily involved in the business of logging. It sources its logs from Pahang and thereafter sells the logs to ABSabah for processing in a sawmill in Kepong. Since 1994, the company has been harvesting logs from the land held by various Bumiputera concession holders under short-term contracts. Its current logging agreement has a predetermined purchase price.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

Information on the Group's currently operating factories is set out below:-

Factory	Equipment	Location	Approximately Land & Build-up Area	Optimum Production Capacity	Actual Production Capacity
Sandakan, Sabah					
- Sawmill Factory	Breakdown saws @ 1 Band-saws @ 9 Pony saws @ 1	T.O.L. 08900282 District of Labuk/Sugut, Sabah	10 acres (22100 m ²)	4,500 m ³ /month	2,832 m ³ /month
- Moulding Plant	Single rip @ 1 Multi-rip @ 1 Finger joint @ 1 8-sides Planner @ 1 4-sides Planner @ 1 Jump saw @ 2 Cross cut @ 4 10 Chambers 1 Boiler	C.L. 085311413 District of Labuk/Sugut, Sabah	Land - 10 acres (14,140m ²)	1,416 m ³ /month	1,133 m ³ /month
-Tanalising Equipment	1 set	C.L. 085311413	(3,120 m ²)	850m ³ /month	496m ³ /month
Tanjong Manis Sarawak					
- Sawmill Factory	Band-saws - 8 + 2 Breakdown saws - 1 Pony saws - 2	Lot 67, Block 12 Buan Land DistrictTanjong Manis Timber Processing Zone - Sarikei	Land - 12.807 htrs (22,900 m ²)	4,248 m ³ /month	2,549 m ³ /month
Kuala Lumpur					
- Sawmill Factory	Breakdown saws - 1 Band-saws - 6	Lot 14200 Mukim Batu Kepong	Land - 9,064.92m ² (1,298m ²)	1,846 m ³ /month	1,204 m ³ /month

4.5.1 Development of the Group

The Group began modestly in 1960 with ABSawmill's incorporation. The sawmill operations of ABSawmill were initially situated in Jalan Klang Lama and three years later, it expanded with an additional sawmill in Jalan Kepong. There were approximately 150 workers and 4 band-saw lines in each sawmill in the 1960s.

Mr Lim Yen Siew @ Tan Sit Seng, one of the Promoters, joined ABSawmill in 1960, after two years' experience in a competitor sawmill. By 1964, his industrious dedication to the company was recognised by the main shareholder and he was made a shareholder of 12.5% equity of the company. Through experience and business acumen of the management team headed by Mr. Lim Yen Siew @ Tan Sit Seng, the company's profits grew steadily and in 1975, he was appointed as the Managing Director.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

In 1977, the sawmill operations expanded through commissioning of more equipment to meet the high demand for sawn timber.

Aikbee Timbers Sdn Bhd was set up on 29 December 1977 by Mr Lim Yen Siew and the management team of ABSawmill to expand into the current business of manufacturing and trading of sawn timber in the domestic market and to diversify into the preservation of timber to meet the requirements of the domestic and overseas market. Subsequently in 1982, Sabah's division was set up in full force with a view that the state is rich in resources in terms of availability of natural forestry and lower cost of production. In 1990, ABSabah was incorporated to undertake the Group's timber operations in Sabah.

On the retirement of the main shareholder in 1989, Mr. Lim Yen Siew @ Tan Sit Seng was offered full ownership of the ABSawmill which he accepted. Under his aggressive strategies, the company has undergone expansion and diversification.

In 1991, the Group incorporated ABSarawak and further expanded to Sarawak in view of competition and limitation of resources in Peninsular Malaysia. With large reserves of timber in Sarawak, the expansion programme was planned for modernisation and diversification to bring the Group into a higher level of growth. An industrial land located in Tanjung Manis with a land area of approximately 12.807 hectares was purchased from the State Government in 1994 and a sawmill plant with modern equipment and facilities was set up and fully operational by 1996.

The location in Tanjung Manis is strategic because it is located along Sungai Rejang, approximately 20 kilometres to the mouth of South China Sea. A dock of its own was built, enabling barges to collect timber products immediately from its log yards and transport the goods to ships for exports.

In 1992, the sawmill site along Jalan Klang Lama was closed down to centralise and rationalise operations in Peninsular Malaysia. Operations were then pooled to the sawmill in Jalan Kepong, which is more accessible through the Karak highway from Pahang. It is also strategically located near the Projek Lebuh raya Utara Selatan ("PLUS"), allowing convenient transportation of goods to Port Klang for exports.

In 1998, with the streamlining of activities, Aikbee Timbers Sdn Bhd transferred its timber business in Peninsular Malaysia to ABSabah. Aikbee Timbers Sdn Bhd is now principally involved in property development and investment holding activities and is a shareholder of Aikbee.

Although the initial core business of the Group was sawmilling, the Group has grown through diversification, horizontal and vertical integration to be one of the players with fully integrated facilities in the timber industry. The downstream growth into many value-adding areas such as kiln-drying, timber tanalising and finger jointing, has enhanced the Group's profit margins and form a vertical integration to sawmilling due to higher margins earned from such downstream activities, which range between 25% and 34%. The margins for upstream activities including but not limited to log extraction activities varies from 11% to 20%.

The plantation management and maintenance programmes diversify the Group's business to play a part in responsible forest management. Horizontal integration is created through the expansion into different states in Malaysia such as Sabah, Sarawak, Pahang and Wilayah Persekutuan through its three existing subsidiaries which will enhance access to the vast resources in Malaysia.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

4.5.2 Product Range and Markets

The products manufactured and sold by the Aikbee Group include items such as :-

PRODUCTS	DESCRIPTION
Surfaced four sides ("S4S")	Timber laminated and dressed by the use of moulders to give a smooth surface on all four sides of the wood, usually used for further downstream activities
Surfaced two sides ("S2S")	Timber laminated and smooth only on two sides, usually used for construction, renovation and further downstream activities
Eased four edges ("E4E")	Timber moulded and which has gone through an easing process at four edges
Eased two edges ("E2E")	Timber moulded and which has gone through an easing process at two edges
Truck bodies	Manufacturing of the carrier portion of a truck whereby the body only needs to be fitted onto the truck engine and wheels to form the finishing of a truck
Truck bolsters	Manufacturing of the sides of the truck bodies to be fit onto the truck bodies as the fencing of the body
Railway sleepers	Manufacturing of parts to form the railway tracks through incision, drilling and cross-cutting procedures
Finger joints	Process of joining short material to get longer lengths, and subsequently used as any other length of wood
Tanalised timber	Chemically treated timber to achieve better engineering conditions usually for outdoor use
Door frames	Moulding components with different profiles to form a connection between walls and doors
Window frames	Moulding components with different profiles to form a connection between walls and windows
Architrave	Manufacturing of timber components to be attached between the connection at the brick wall and door frame to beautify and minimise the gap in between
Timber skirting	Manufacturing of timber components with different profiles which are installed at the connection of brick and concrete walls
Timber cornices	Manufacturing of timber components to be affixed at the connection of timber partition and the ceiling brims
Floor strips	Manufacturing of timber to strips whereby the two ends are moulded to enable joints for flooring purposes
Parquet	Manufacturing of timber to smaller strips also for flooring purposes

4. INFORMATION ON AIKBEE GROUP (Cont'd)

The Aikbee Group's product range and the respective market segments can be generally summarised as follows:-

Products	Markets
S4S	Japan, Holland, China, Korea and Europe
S2S	Japan and Korea
E4E, E2E	Japan
Truck Bodies and Truck Bolsters	Japan and Korea
Railway Sleepers	Japan, Sudan, Middle East and Malaysia
Finger Joints	Japan and Taiwan
Door and Window Frames	Australia, Hong Kong and Malaysia
Timber Skirting, Timber Cornices and Architrave	China, Thailand and Malaysia
Floor Strips and Parquet	China, Europe and Malaysia

4.5.3 Production Facilities

To-date, Aikbee has three sawmills located respectively in Kuala Lumpur, Sabah and Sarawak. The Sabah plant is complemented with a kiln-drying plant, timber tanalising chambers and a timber downstream processing plant which produces engineering, construction and household product timber, making it an integrated timber complex.

Sawn Timber Facilities

Each sawmill is managed by a mill manager. Besides overseeing the daily functions, the mill manager is also responsible for the selection of the timber logs of different sizes to be cut to specified sizes. The species are selected based on the usage of the sawn timber. The mill manager's skills, experience and machines play a vital role in maximising the recovery rate of the timber used. Aikbee's mill managers each has an average of 15 years' experience in the timber industry with sound organisational and management skills. Quality control is emphasized across the production processes. Quality is further enhanced by careful selection and grading performed by mill assistants at each stage of production.

The blade servicing zone is segregated from the production zone by situating it above the production zone. This strategic location allows the saw doctor to easily sight and ensure prompt attendance to any problems arising from the saw blades. This will in return help to minimise wastage of inefficient production arising from saw defaults. The prompt attendance of the saw doctors also inevitably helps to cut down the frequency of changing saw blades.

Well-known species of timber such as Balau, Merbau, Meranti, Kempas and others are used in the production of sawn timber. Types used will vary according to the requirements specified by customers. Most output from the sawmills are utilised as main supply of raw materials to Aikbee's other downstream manufacturing operations. Currently, daily production is on one nine-hour shift basis.

ABSarawak was the Group's investment in high technology machinery to achieve better quality. Notably, efficiency improves as the machines offer a fully automated sawing process of the breakdown saws and pony saws. With the automation of the breakdown saw, the logs only need to be piled up along its loading zone. The machine will then sequentially roll each log to the start-up point of the production line for sawing with minimum assistance from the machine supervisor. Based on the pre-set sizes, the machinery will move the log to the exact position to be cut into smaller pieces. The breakdown saw will normally break the log down into quarters. This automation has lead to a smoother production process and better finished products, in terms of accuracy and measurement.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

Kiln-drying plant

The newly set up plant in Sabah also consists of ten pressurised kiln-drying chambers. The temperatures of the chambers are computerised and automated. Compared to the traditional process of air-drying wood, kiln-drying is preferred as it can achieve a more accurate and stable moisture level for sawn timber in a shorter duration which is essential for producing export-grade sawn timber. Kiln-drying is a necessary process for the manufacturing of all downstream products.

Timber Tanalising Equipment

Timber is tanalised to protect the wood from attacks by insects, wood-borers, chemical and water damage. Tanalised timber is suitable for outdoor use, for example telephone poles, roof beams and struts.

The timber tanalising equipment consists of a water tank, a chemical tank and a main pressurised chamber. The main chamber, made of stainless steel and iron, is where the timber is cured with chemicals under pressure. The chamber is approximately 45 feet long and 4½ feet wide in diameter. These chambers have a capacity of producing 15-20 tons of wood daily.

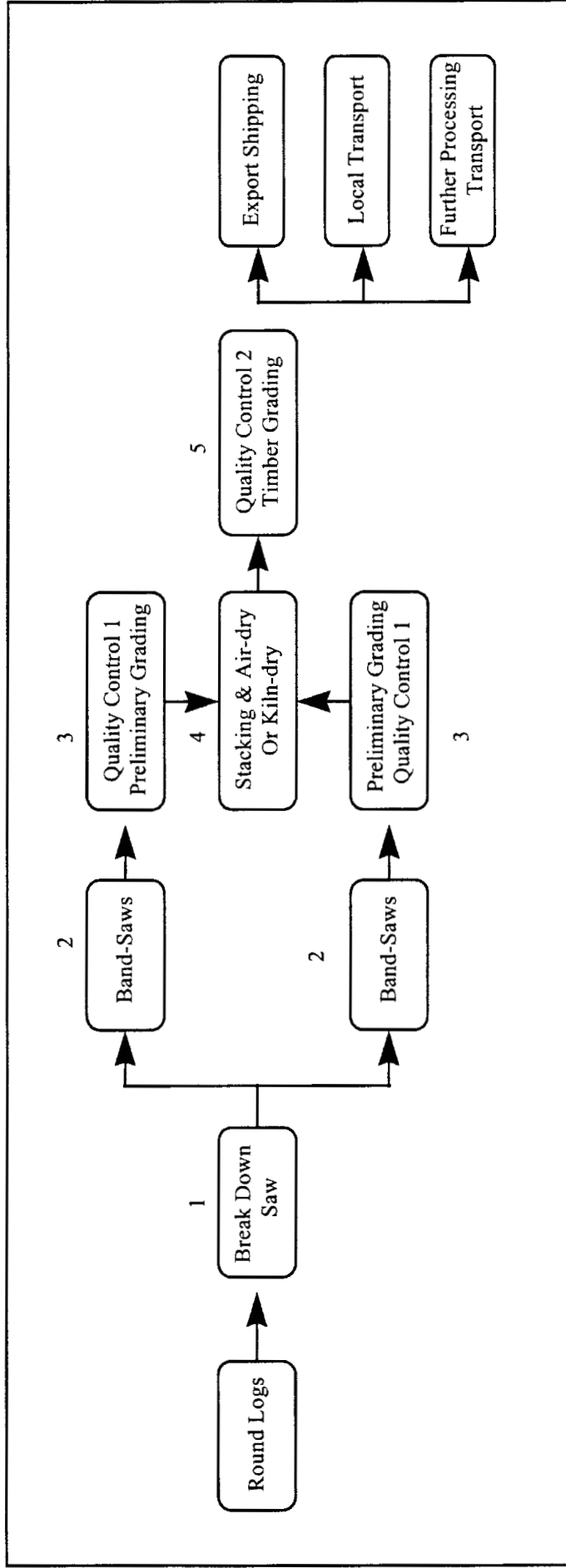
The table below summarised the major equipment in the Group:-

Equipment	ABSawmill	ABSabah	ABSarawak	Total
Breakdown Saw	1	1	1	3
Pony Saw	-	1	2	3
Band-saw	6	11	8	25
Kiln-Drying Chambers	-	10	-	10
Tanalising Equipment	-	1	-	1
4 Side 8 Spindle Moulding Machine	-	1	-	1
Finger Joint Machine	-	1	-	1
Multiple Rod Milling Machine	-	1	-	1
2 side planer	-	1	-	1
4 side 6 spindle	-	-	1	1
Sanding Machine	-	1	-	1
Tool & Knife Grindle	-	2	1	3
Conveyor Systems	1	1	1	3
Generator Sets	-	8	-	8
Breakdown Sharpener	1	1	1	3
Bandsaw Sharpener	6	4	3	13
Forklift	2	4	3	9
Log Grapple	3	4	4	11
Excavator	-	7	-	7
Four Side Planner	-	1	1	2
Crawler Crane	-	-	1	1
Lorry	-	13	-	13
Lorry Trailer	6	2	-	8
Jump Saw	-	1	1	2
Cross Cut Saw	-	5	2	7
Dump Truck	-	11	-	11
Bulldozer	4	7	9	20
Farm Tractor	-	14	-	14
Motor Grader	-	1	-	1
Water Truck	-	1	-	1

4. INFORMATION ON AIK BEE GROUP (Cont'd)

4.5.4 Production Process

PRODUCTION PROCESS: GENERAL PRODUCTION FOR SAWN TIMBER

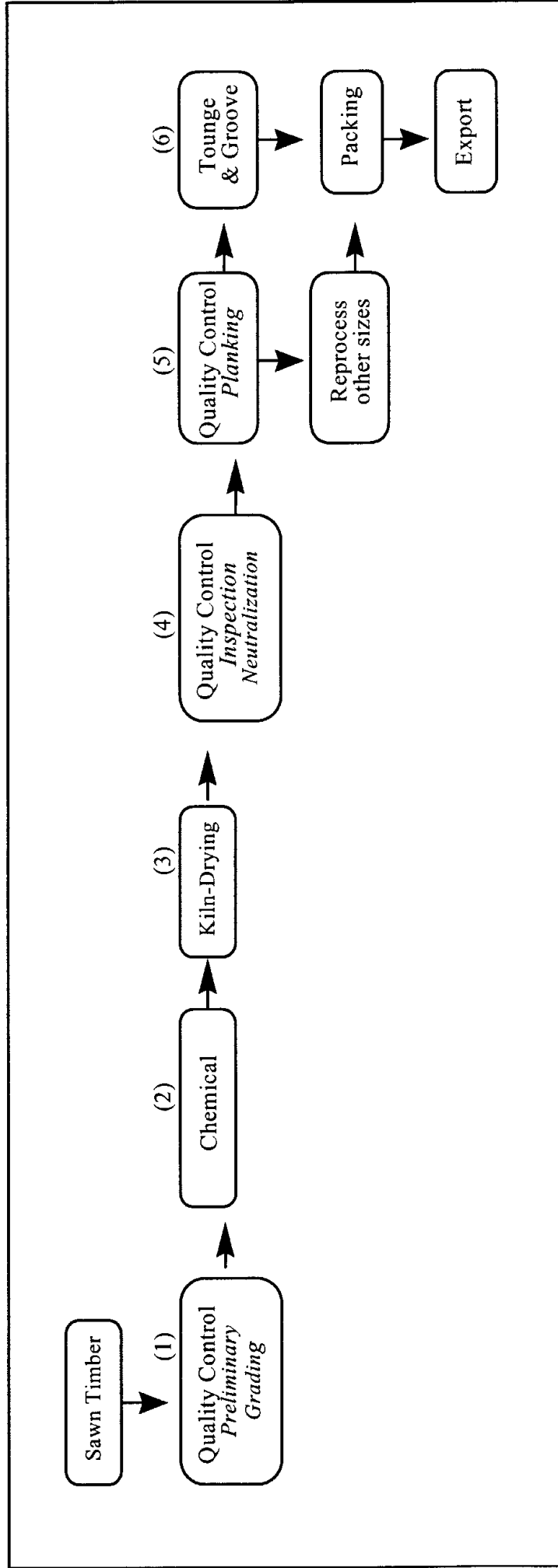


PROCESS

	EQUIPMENT	PURPOSE
1. Sawing	Breakdown Saw	To cut round logs into 3-5 quarter
2. Further sawing and moulding to required size	Band Saw	To cut the quarters into contract sizes
3. Preliminary Grading	Manual	To reject defects
4. Air-dry/Kiln-dry	Kiln-dry Chamber	To reduce moisture content in timbers
5. Timbers Grading	Manual	To sort out the grade of timbers according to buyer's requirement

4. INFORMATION ON AIK BEE GROUP (Cont'd)

PRODUCTION PROCESS : GENERAL PRODUCTION FOR MOULDING TIMBER



<u>PROCESS</u>	<u>EQUIPMENT</u>	<u>PURPOSE</u>
1. Preliminary Grading	Manual	To detect defects & reject sawn timbers which do not conform to requirement
2. Chemical dipping	ZOEC Borax Celbrite TC Borax Acid	To prevent borer's attack
3. Kiln-drying	Kiln chamber	To reduce moisture content in timbers
4. Inspection neutralization	Manual	To reject timbers that become defective during kiln-drying
5. Planing	Planing machine	To smoothen 4 sides to expose defects.
6. Tounge & Groove	4/8 sides planer	To create Tounge & Groove at each sides to timber planks

4. INFORMATION ON AIKBEE GROUP (Cont'd)

4.5.5 Manufacturing Process of Products***Logging and Timber Extraction***

ABSawmill and ABSabah undertake timber logging as a supporting activity to the Group's sawmilling and sawn timber manufacturing operations. ABSawmill contracts logging activities in Pahang under short-term leases whilst ABSabah enjoys long term logging leases from the concessions and land owned by companies in which certain Directors and substantial shareholders of the Aikbee Group own controlling interest. They also provide contractual logging services to other concession owners.

Logging is performed based on the seasonality of timber logs and fluctuation of timber prices. Sourcing logs through extraction is cheaper compared to purchasing logs. The Group thus sets its strategy to purchase logs when prices are competitive and to extract logs when prices are high. This enables the Group to preserve its logging leases from concession companies and log resources for a longer period.

Areas to be logged are identified through the species, age, width of trees, terrain and other characteristics of the forests. Trees with a diameter of less than 60cm are not allowed to be felled under Forestry Reserve Rules. Paths are cleared for access into the logging zone. Along the path, jetties are built for storing logs in the forests. Heavy duty equipment such as bulldozers, excavators and log grappers, are used to clear terrains and transport logs back to the jetties.

At the logging zone, chain saws of different lengths are used to fell the selected trees in the pre-determined directions. The direction of felling is vital and requires precision to avoid collision with other trees and to minimise damage to the logs.

Heavy duty lorries with attached winches are used to transport logs from the jetties to the log yards where trailers will then transport the logs to the designated sawmills. Logs are then required to be cessed at the nearest stamp duty stations for the certification of their origin, species and total tonnage.

Trailers are used to transport logs down to the sawmill and after processing, to the ports for export. The daily tonnage of logs transported into the sawmill ranges from 30-100 tonnes, depending on the distance and climate conditions.

Manufacturing of Sawn Timber

Logs are moved from the log yard to the storage area of the saw using log-grappers. At the mill, the logs are debarked and cut into workable lengths depending on the requirements of the orders. After debarking, logs are placed on the breakdown saw station. All orders are listed at the saw station. Supervisors will co-ordinate the cutting methodology taking into consideration all listed orders and the conditions of the logs to maximise recovery of logs. This stage is the first stage of quality control in the manufacturing process.

The logs which are cut then undergo further sawing through pony saws or band-saws, where edges and thickness are trimmed to the required finishes. Supervisors at each band-saw station are responsible for detecting variances in grades, defects and sizes. This is the second stage of quality control in the manufacturing process.

The sawn timber is then sent to an inspection yard where the timber goes through preliminary grading. Timber with major defects such as bore holes, excessive knots, compression failure and others are rejected. This is the third stage of quality control in the manufacturing process.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

For air-drying and seasoning, timbers are stacked in an orderly manner. A qualified grader will inspect and select the timber pieces that conform to the standard of Malaysian Grading Rules ("MGR"). Thereafter, all graded timber will be stenciled with the producers' license number, type of species, grade, quality, and other details as required by buyers and other authorities. A coating is applied to both ends of each timber to prevent splitting. Grading is necessary as the final stage of quality control to protect relevant parties in the event of dispute. Once graded, it is then stacked or bundled for export, or further value added processing.

S2S & S4S Timbers

The manufacture of S2S & S4S timber is carried out after the normal sawing process as described in the 'Manufacturing of Sawn Timber' above in section 4.5.4. The timber is stacked and seasoned, or alternatively, sent for kiln-drying (*please refer to section below on 'Kiln-Drying'*).

Upon completion of the kiln-drying process, the timber is placed in a planing machine to remove/smoothen the rough surfaces in accordance to the requirements by the client. The number of sides to be planed is determined by the number in the S2S or S4S order description. This will in turn depend on the usage, whether 4 sides or 2 sides should be exposed.

The finished timber is then bundled for further processing into other value-added products or for export.

E2E & E4E Timbers

Whilst the S2S & S4S timbers refer to the sides of the timber to be planed and smoothed, E2E and E4E refer to the edges of the timber to be eased. The angles at which the easing is done will depend on specifications and can range from a simple curve to oval or roundish. Most orders that specify the need for easing of edges would also require the timber to be smoothen first.

Air-Drying

Over a period of time, the cells of the timber lose their moisture content, reaching equilibrium with the environment. In equilibrium, the cell tissues of the timber become inorganic. Pieces of wood known as 'stickers' are placed in between each piece of timber to form air gaps to facilitate the drying process. This simple natural process of drying is known as air-drying and is widely used by many timber producers.

Kiln-Drying

Kiln-drying is the artificial process of air-drying which shortens the drying duration. This is achieved by compressing the timber through a few heating and cooling cycles in a chamber.

Equilibrium moisture level is achieved without damaging the structure and strength of the timber.

The process of kiln-drying is carried out in oven-liked structures called Dry Kilns. Kilns enable freshly cut green timber to be turned into dry, accurately dimensioned lumber within a relatively short period of time.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

Although called dry kilns, these timber dryers usually employ moisture in the form of steam jets or water spray. Moisture is added to maintain uniformed moisture content within the timber during the drying process. Because of its cell structure, wood tends to dry unevenly. Internal stress causes the timber to spoil via warping, checking or splitting.

Sawn timber is placed in the kiln either in lots or batches. Then, temperature is gradually increased over a number of days in line with the addition of water used in steam form. This process will dry the timber uniformly.

Heat is generally supplied by fin exchanger tubes installed inside the kiln. The tubes are heated by either low or high-pressure steam. Air is circulated around the timber by mechanically driven fans that ensure an even flow and distribution of heat.

Once the timber has reached the required moisture content, the timber is bundled for export or further value added product manufacturing. The seasoning of timber by controlled heating and drying is an important step in the process of transforming timber into useful material for either the construction industry, boat building, manufacture of furniture and certain sporting goods.

Tanalising

The timbers to be tanalised are stacked on a mobile crate. Then the crate is pushed into a pressurized chamber. Water and chemicals are mixed in the right proportions before being pumped into the pressurized chambers. The pressure is maintained for a period ranging from 3 hours to 8 hours depending on the species, moisture content and the chemical salt retention scales.

Certain timber, such as the Kempas and Tualang species (for durable usage) need to be chemically treated to achieve better engineering conditions. The durability of such treated timber increases by 20% to 50% against attacks from foreign agents such as chemicals, water and live borers. Timber piles, telephone and electricity poles are typical examples of chemically treated timber.

Truck Bodies

The quality of timber required for truck bodies is high. The product needs to be quarterly or semi-quarterly sawn, so that it is perpendicular to the direction of the saw. A technical method of cutting is used so that cupping, twisting and springing of timber at the wide face will be kept to the minimum.

Truck bodies also require a high degree of straightness throughout the whole length with smooth surfaces across all four sides. This necessitates extensive planning to minimise wastage.

Pony saws are required to cut the timber whilst maintaining straight lines and smooth surfaces. The rip saws are used to trim both edges to the required width.

4. INFORMATION ON AIKBEE GROUP (Cont'd)

Railway Sleepers

Railway sleepers are sawn using the basic principles of sawn timber. Timber for the manufacture of railway sleepers is cut within the tolerances laid down in the Malaysian Grading Rules for Sawn Timber 1984.

The selected timber is then incised and drilled prior to cross cutting. On completion of cross cutting, the timber is fitted with crimp rings or gang nailed.

To ensure that the timber will withstand exposure to varying weather conditions, the timber is impregnated with preservatives as specified by the requirements of clients in their orders. The timber is then stacked and ready for export.

Railway sleepers are highly in demand, especially in foreign countries where the seasonal climate does not permit concrete as a substitute for wood.

Finger-jointing

The process of joining timber strips to get longer lengths, known as finger-jointing, is an improvisation to reduce wastage and improve recovery rate. This is done by putting the material through a series of finger-like cutters, applying glue and subsequently assembling by pressing jagged joints together. By artificially connecting 2 to 3 different lengths of similar size, timber becomes full-length commercial timber strips, thus greatly enhancing the commercial value. The Group experienced responses from its clientele in the building and renovation industry indicating that finger joints could be stronger than the long solid wood, due to the strength built in the joints.

The finger-jointing process also enables the Aikbee Group to increase its recovery rate of utilisation of logs as the shorter-length timber can be further processed for sale.

Door Frames / Window Frames

Door and window frames are made by using moulds which are designed in accordance with customers' requirements. Variability is dependent on size, length and profiles. These frames are mainly used in the construction and renovation industry.

4.5.6 Competitive Advantages***Logistic coverage of three main regions in Malaysia***

Aikbee's subsidiaries are logistically situated in Peninsular Malaysia, Sabah and Sarawak to gain access to the vast resources of the country. Hence, the Group has greater flexibility in sourcing for raw materials and labour supply. As mentioned in Section 4.6(d) of this Prospectus, the timber industry in Malaysia is subject to various rules and regulations that are different for each regions. By having subsidiaries in each of the regions, the Aikbee Group reduces its susceptibility to any changes to such rules and regulations of each region.

Experience in the Timber Industry

Having been in the industry for more than four (4) decades, the majority of Aikbee's key employees are very experienced, averaging 15 years each. The senior management has an average of 19 years' experience.

4. INFORMATION ON AIKBBE GROUP (Cont'd)

Export Oriented

For the past three (3) financial years ended 31 December 1999 and nine (9) months period ended 30 September 2000, direct and indirect exports ranged from 89% to 93% of total turnover generated from timber sales. Aikbee expects that as it expands further downstream, more focus will be placed on exports. This is in line with the Government's policies to minimise the budget deficit and is expected to contribute positively to the country's balance of payments by promoting Malaysian-made timber products overseas. Further, Aikbee sources its raw materials locally and generates exports. They have positive effects on the foreign exchange trading, rendering Aikbee a net currency exchange earner of the country.

Responsible Plantation Management

The Group currently carries out replanting, plantation management and maintenance programmes after its logging activities. Albeit a profitable measure, these activities were taken by the Group to ensure responsible replanting of the areas logged. These activities have also contributed approximately 6% to 9% to the Group's turnover and 4.7% to 9.2% of the Group's operating profits for the past three (3) financial years ended 31 December 1999 and nine (9) months period ended 30 September 2000. (Segmental analysis of turnover and profits by activities are set out in Part 5 of the Accountants Report herein). Thus far, the Group has successfully replanted approximately 7,000 acres in Sabah, which arrangements were made with the concession companies in which the Directors and substantial shareholders own controlling interest. As the entire replanting activities are with related parties, the Group is now actively seeking new palm oil replanting contracts with external parties as a diversification plan. This can create opportunities for Aikbee in future to negotiate the leasing of concessions to include replanting, plantation management and maintenance programmes. (Details of the related-party transactions are set out in Section 4.11 of this Prospectus).

Vertical diversification

Aikbee's activities range from log harvesting, sawmilling, kiln-drying to downstream processing, producing finished products for end-users. The vertical diversification minimises the Group's dependence on suppliers of logs and on manufacturers for raw timber or semi-finished goods. Further, by venturing downstream as encouraged by the Government, the Group is able to achieve higher margins.

Extensive Customer Base

The many years of marketing by the Aikbee management has clinched clientele from all over the world including Japan, Korea, Philippines, Hong Kong, China, Taiwan, Thailand, England, United States of America, Italy, France, Germany, Sudan, Kuwait, Dubai, Lebanon, North Yemen, Singapore and Australia. For year 1997 to 2000, Aikbee's exports ranged between 89% to 93% of its turnover from timber products. Sales are both direct or through local and international agents such as Mulpha International Bhd, T.O.M. Corporation Limited and Sanko Limited. An analysis of the Group's turnover (in percentages) for 1999 and 2000 by direct sales and sales via agents are as follows :-

Turnover	1999 %	2000 %
<i>Exports</i>		
Direct exports	10	8
Exports via agents with Aikbee's export licences	67	64
Exports via agents' export licences	12	17
Total exports	89	89
Domestic consumption	11	11
TOTAL	100	100

4. INFORMATION ON AIKBBE GROUP (Cont'd)

An analysis of its exports by turnover in percentages to the different countries are as follows:-

Countries	1997	1998	1999	2000
	%	%	%	%
Japan	39	36	58	32
Thailand	16	10	9	10
Middle Eastern countries *	22	13	10	20
Singapore	11	2	2	2
Hong Kong & China	5	9	2.5	2.5
Korea	1	3	2	2
Europe #	3	11	10	25
USA	-	7	-	-
Philippines	-	-	1	1
Others	3	9	5.5	5.5

* Mainly consisting of sales to Dubai, Kuwait and North Yemen

Mainly consisting of sales to France, England, Italy, Germany and Holland

Technical Expertise

Most Aikbee staff, from loggers to the management, has extensive experience in the timber industry. The supervisors have an average of fifteen years' experience whilst the senior management has an average of nineteen years. Experience is a pertinent factor in the timber industry. With technical know-how, leaders for each division are continuously training staff to ensure continuity in the Company. The low staff turnover indicates staff loyalty reflecting strong guidance and leadership of the existing management.

The Aikbee Group currently has six certified graders qualified under the Malaysian Timber Industry Board. These graders have experience ranging from 5 to 25 years. The Group also has two forestry managers and three forestry supervisors, each of whom heads a team to perform log extraction. They have an average of 15 years' experience.

Meanwhile, there are assistants training under these forestry managers to ensure smooth transition of duties in future.

Brand name

Being in the timber industry for more than four decades, Aikbee has built its brand name with emphasis on consistent quality products. Aikbee has always practised stringent quality control, reliability of timely shipments and neat product packaging (such as bundling, end trimming and colour identification) to protect and build the prestige of its brand. Details of quality control measures implemented by Aikbee are set out in Section 4.5.12 of this Prospectus. The Group's timber products with the brand "Aikbee" is marketed locally and in several other countries and the Directors continue to endeavour to ensure that it is synonymous to quality and reliability.

4.5.7 Competitive Pricing

Aikbee's products are competitively priced against its competitors' because it is able to source logs at a lower price through agreements with both log concession companies and suppliers. Sourcing logs through log extraction will generally be at a lower cost compared to purchasing ready logs. Thus, Aikbee is able to implement a strategy whereby purchases are made when prices of logs are reasonable and to log when prices are excessively high. During times when the market prices of logs are low, the Group will also buy in bulk to maximise discounts. Further, Aikbee has close relationship with suppliers and concessionaires, good track record for payment and ability to place large orders.

4. INFORMATION ON AIKBEЕ GROUP (Cont'd)

4.5.8 Capital Investment

The downstream activities of the timber industry require high initial capital outlay. In 1995 and 1996, Aikbee's subsidiaries upgraded their machinery and added the pony saw lines to improve the recovery rates.

A capital investment of approximately RM7 million from 1996 to 1998 brings Aikbee to a new era of moving into downstream activities. Margins will continue to increase as the Group focuses more on downstream products, which provide better returns per volume.

4.5.9 Unique Qualities of Wood

The unique qualities of wood render it a material without substitutes. Whilst other materials such as concrete, leather and plastic may be used as an alternative in certain usage such as railway construction and furniture manufacturing, the inherent characteristics of these materials remain different from those of wood. For example, wood has a natural appearance, durability, good thermal insulation quality and working properties. Thus, timber will always have an inelastic demand of its own which is irreplaceable.

The same characteristics also permit Aikbee in maintaining the usage of wood to diversify and expand its product diversity. The diversity is also seen in the various industries that utilise wood including construction, engineering and household. The trade is, thus, not reliant on any particular product, user, industry or single market, rendering it a viable and steady market. Aikbee's product range is wide yet simple.

4.5.10 Product Diversity

Beginning with sawn timber, the subsequent processing is very flexible and the end product can range from truck bolsters, truck bodies, railway sleepers to construction materials such as cornices, skirtings, floorstrips and architraves. Each of these products which Aikbee manufactures will create a niche market for the Group and allows for room to change in focuses in any critical events affecting the viability of any particular industry or end user. The diversity of wood itself provides Aikbee with the flexibility of producing various products and accessing various markets.

Further recovery can be made from producing short length items such as wheelbarrow handles and parquet strips which increases Aikbee's wood utilisation and recovery rate. It is thus, not dependent on any single product or range of products. (Segmental analysis of the turnover and profit by products is set out in Part 5 of the Accountants' Report herein). As its products are targeted at users in numerous industries such as the construction, engineering and housing industries, it is not dependent on any particular industry.

The Group is increasingly focusing on downstream activities and emphasizing on product variety. Having established a wide international market in industrial and engineering timber, the Group is constantly on the lookout to diversify its timber products (e.g. renovation and interior finishing). Other than railway sleepers, truck bodies and truck bolsters, Aikbee is increasing the production of engineering timber (such as finger-joints, tanalised timber, S2S, S4S, E2E, E4E) and construction timber (such as door and window frames, timber skirting, architrave, cornices, floorstrips, parquet, etc.).

The diverse products and services of Aikbee permit the spread of product dependency across different markets, industries, countries and product users.

Further, the Group has diversified horizontally to include replanting and plantation maintenance management as one of its principal activities, recognising its potential whilst playing a role in responsible resource management.

4. INFORMATION ON AIKBEE GROUP *(Cont'd)*

4.5.11 *Marketing Plans and Strategies*

The Malaysian Timber Industry Board acts as the country's marketing arm for the timber industry and maintains a list of timber companies which includes Aikbee.

As shown in Section 4.5.6, other than direct sales, Aikbee supplies to agents with a large international network such as Mulpha International Bhd, T.O.M. Corporation Limited and Sanko Limited to assist in its sales and marketing. Locally, renovation contractors and sales agents have also been appointed to cater for sales of moulding products.

Many of its marketing strategies are also geared towards quick and secure settlement. The Group is careful in managing its risks with the undeveloped countries/economies albeit not discriminating, and thus, primarily uses agents in trading with the companies in these countries.

Large orders that may tie down the Group's liquidity are also preferably marketed through agents rather than direct sale, as collections are received before shipment. Hedging against foreign exchange fluctuation is also achieved in the same manner.

4.5.12 *Quality Control Procedures*

The quality control procedures adopted by Aikbee in general terms are in compliance to the requirements of the Malaysian Grading Rules for sawn hardwood timber. The procedures involved the incorporation of detecting defects system for each timber panel at each process to ensure the best quality products as required by the customers.

The process is undertaken to eliminate the non-tolerable defects prior to official grading. The procedures are as follows:-

- (i) Checking is done manually whereby the quality controller shall inspect the timber parcel pieces by pieces;
- (ii) Prior to checking, the quality controller shall observe the following requirements:-
 - (a) species of the timber;
 - (b) the specification;
 - (c) the quality and quantity of the parcel;
 - (d) the drying method;
 - (e) the chemical treatment;
 - (f) the usage of the timber; and
 - (g) other special requirement.
- (iii) The checking shall commence to detect the defects appearing on the wide face of the timber so that the defects beyond the grade could be rejected; and
- (iv) After the checking, the panel shall then be used for rebundle or for other processes.

4.5.13 *Human Resources and Training*

To keep abreast with the modernisation of technology and demand for quality timber products, the Directors and senior management of the Group attend trade fairs and seminars relevant to the timber industry so as to be aware of the latest machinery available as well as the latest developments and progress in the industry.