IV. RISK FACTORS

Prior to making an investment decision, potential investors in the Company should carefully consider the following (which may not be exhaustive) in addition to all the other relevant information contained elsewhere in this Prospectus, before making an application.

(i) No prior market for the DEB Shares

Prior to the Public Issue and Offer, there was no public market for the DEB Shares. No assurance can be given that an active market for the DEB Shares will develop upon their listing on the Second Board of the KLSE and, if developed, that such a market will be sustained. The Issue/Offer Price of RM0.65 per Issue Share and Offer Share was determined after taking into consideration a number of factors, including but not limited to, the Group's financial and operating history and conditions, its prospects and the prospects for the industry in which the Group operates, the management of the Group, the market prices for shares of companies engaged in businesses similar to that of the Group and prevailing market conditions. There can be no assurance that the Issue/Offer Price of the Issue Shares and Offer Shares will correspond to the price at which the DEB Shares will trade on the Second Board of the KLSE upon or subsequent to their listing.

(ii) Profit forecast

The profit forecast of the Group, as set out in Section XI.2 of this Prospectus, is based on assumptions that are subject to uncertainties and contingencies. Because of the judgements and inherent uncertainties of the forecast and because events and circumstances frequently do not occur as expected, there can be no assurance that the forecast as set out herein will be realised and actual results may be materially different from that shown.

Investors are deemed to have read and understood the descriptions of the assumptions and uncertainties underlying the forecast.

(iii) Business risks

The DEB Group is principally involved in the manufacturing and distribution of wood-based products. Apart from the general risks which are faced by most of other industries in the manufacturing and trading sector, including but not limited to labour and raw materials shortages, cyclical price fluctuations of products, increases in the cost of raw materials and labour, changes in general economic, business and credit conditions, fluctuations in foreign exchange rates, entry of new competitors, introduction of new technology and substitute products, and new legislation that may be instituted imposing stringent requirements on the market participants, the Group is also subject to other specific business risks which are inherent in the timber and wood processing industry as follows:

(a) Wood panel supply

The Group's operations largely depend on the wood panel supply which is indirectly dependent on the long term sustainable supply of rubberwood and pinewood, which are the core materials used for the manufacturing operations of the Group. In the absence of long term supply contracts with its suppliers, there can be no assurance that the operations of the Group will not be disrupted due to the shortage in supply of wood panel.

The Group currently has a diversified source of supply for its wood panel requirements and is not dependent on any single supplier. The Directors are of the opinion that the Group's long term relationship with its existing suppliers and the continuing efforts of the Group in seeking new sources of wood panel supply will reduce the risk of shortage in wood panel supply significantly. The Directors also see the government's effort in enhancing forest resource sustainability management as a positive sign for the wood processing industry.

(b) Distributorship

Certain subsidiaries of DEB are distributors of wood products manufactured by various overseas and local manufacturers. Currently, there is no distributorship agreement between the subsidiaries and these manufacturers and as such, there can be no assurance that the Group's performance will not be affected should the manufacturers cease their distributorship arrangements with the DEB Group. However, the Directors of DEB are confident that the DEB Group will continue to act as distributor for these manufacturers in view of their long business relationships. Nevertheless, the DEB Group may obtain alternative sources for these products being distributed from other manufacturers.

(c) Competition

The Group faces competition in both the domestic and global markets. The manufacturing operations of the Group compete with certain foreign manufacturers who have production facilities in the countries in which the DEB Group supplies goods to, such as Australia and Europe. They also have the advantage in terms of geographical proximity with the customers, cheaper shipment cost and better understanding of the foreign market conditions that enable them to response promptly to any changes thereof. The distribution operations of the Group face competition mainly from the domestic front and its competitors comprise listed companies and numerous small to medium sized players in Peninsular Malaysia and East Malaysia.

In view of the competitive conditions, the Group continuously develops measures to counter competition which include product differentiation, innovation in production technique and customers-focused marketing strategy. Further details of the Group's marketing strategies and competitive advantages are set out in Section VII.3.11 of this Prospectus. Notwithstanding the Group has taken the necessary measures to keep its competitive position in the market, there can be no assurance it will be able to maintain or increase its market share in the future.

(d) Credit control

As an export-oriented entity and with its local customers spread out in a wide geographical area around Peninsular Malaysia, the Group is exposed to certain degree of credit risk in the collection of its trade receivables. Notwithstanding stringent credit assessment policy is adopted by the Group, which includes extending credit terms to customers according to the length of relationship and credit track records, sight documentary credit or open account trading settlement basis for the overseas customers and vigorous credit monitoring and debt recovery effort by the marketing personnel located at different business stations, there is still no assurance that the default in payment by certain customers of the Group will not have material impact on the financial position of the Group in the short or long term.

(iv) Operational risks

The Group faces certain operational risks which include but not limited to fire outbreaks and disruption of electricity and water supply, which would affect the Group's business operations.

The Group has taken precautionary steps to minimise the occurrence of such risks through installation of fire resistance walls, fire hydrants, fire extinguishers, sprinkle systems and disperse the storage of raw materials and finished products at various premises. In this regard, the Group has formed a safety committee which is entrusted with the duty to ensure that the security policies and control system are strictly adhere to at all times.

Under the security policies of the Group, the employees are trained on the use of fire fighting equipment as well as basic fire fighting techniques and regular fire drills are being conducted. In the event that any of the factories' operation is disrupted by fire outbreak, the Group has the flexibility to relocate its affected operations in a short period of time given that the Group has six (6) warehouses and two (2) factories to hold its production facilities and stocks. Furthermore, the Group has earmarked a portion of the proceeds raised from the Public Issue to purchase a new factory cum warehouse.

The Group's production process is highly automated and thus is dependent on the consistent supply of electricity for its smooth operations. In this respect, the DEB Group seeks to limit the risk by maintaining one (1) month supply of finished goods and trading merchandise for contingency purposes. The Group also plans to install a back-up generator in the existing factory of PWSB. The Group has never experienced any serious water supply shortage which would materially affect its operations.

Notwithstanding the aforesaid, the Group has purchased adequate insurance coverage on consequential loss and damages resulting from fire on its premises, plant and equipment and stocks.

(v) Foreign market risk and foreign currency fluctuation risk

The Group has a business operation in Singapore via AIPL and by virtue of its business reach in the overseas markets, the Group is exposed to certain foreign market risks which include but not limited to the adverse changes in political climate and economic conditions, risk of war and unfavourable changes in the foreign governments' policies towards foreign products and specifically towards certain timber products and detrimental publicity from international environmentalists. The Group strives to diversify its overseas customer base and reduce its dependency in a single market segment through customer-oriented marketing strategy and exploration into niche market segments.

The Group sources 90% of the wood supplies from local suppliers whilst only the remaining balance of 10% are imported from overseas. The most commonly used currencies in the Group's business dealings are the Euro Dollars, US Dollars and Australian Dollars. The fluctuation in the aforesaid foreign currencies could potentially have a material impact on the financial position of the Group.

As a measure to mitigate the risk of foreign currency exposure, the Group maintains a foreign currency bank account for the receipts and payments with respect to its overseas transactions. Although the Malaysian Ringgit is currently pegged against the US Dollar which provides a degree of certainty in the Group's business transactions which are denominated in US Dollars, there is no assurance that the peg will not be removed or adjusted in the future.

(vi) Absence of long term sales contracts

In the wood-based products industry, there is always an element of uncertainty in the sales due to the absence of long term sales contracts with customers. This is considered a norm in the industry due to the nature of the industry which is highly fragmented and competitive with no clear market leaders in the industry. The Directors of DEB believe that the Group's continuing effort in maintaining its competitive edge in terms of efficiency, products quality and customer-oriented marketing strategy, will enable the Group to expand its domestic and export market share and further reduce dependence on any single customer.

(vii) Technological change and process development

At the advance end of the wood processing industry, market players are generally operating in a capital intensive manner with heavy investment in advance machinery to ensure production efficiency. The risks involved with rapid technological changes are the obsolescence of current technology, the requirement of new technology not matched by existing technical staff and that the operations of the Group are not ready for new methods.

The DEB Group acknowledges the said risks and is continuously exploring other areas of technological improvement, ensuring that staff are continuously trained to align their skills with the requirements of new technologies and investing in state-of-art machinery and equipment to keep abreast with the latest technology. However, there can be no assurance that the rapid development of technological change will not have a material adverse effect on the Group's business.

(viii) Future expansion plans

The Group has been aggressively expanding its business, for which the Group has set out definitive plans to establish distribution networks in the US and PRC. These plans will potentially translate into higher sales and profit for the Group. Details of the Group's future plans are set out in Section VII.3.15 of this Prospectus. Notwithstanding the Directors have conducted careful study on the plans and their potential impact on the performance of the Group, there can be no assurance that the plans will be carried out as anticipated and if so implemented, will succeed in contributing positively to the performance of the Group.

(ix) Seasonality

The export markets which the DEB Group is serving are generally seasonal in its demand for wood-based products. The exports to the US, South Korea, Australia and Europe usually increase substantially prior to the festive seasons in these countries. Due to the seasonal climate changes in certain countries, the exports are usually minimal in the winter season due to limited economic activities during this period of time of adverse weather condition. To counter this seasonality of sales cycle, the Group has ventured into markets at different geographical locations and climate condition. For example, when the demand is relatively low in the US, South Korea and Europe during the winter season, the DEB Group is able to compensate the seasonal downturn in demand from the aforesaid countries through export to Australia which is expected to be in the summer season to ensure continuity in the demand for the DEB Group's products in different seasons.

(x) Political, economic and regulatory factors

Adverse developments in the political and economic conditions in Malaysia and other countries could materially and adversely affect the financial and business prospects of the Group and the markets of its end products. These include the risks of war, global economic downturn and unfavorable change in the Government's policy such as the depreciation of the Malaysian Ringgit, methods of taxation, currency exchange controls and government policies.

In particular, the timber and wood processing industry is affected by the regulatory requirements and any changes thereof relating to the preservation of forest resources and environment conditions. Whilst the Group uses its best endeavour to comply with the relevant regulations, there can be no assurance that any unfavourable changes in the regulatory requirements will not have a material impact on the Group's operations and future performance. In addition, with the growing influence of certain non-governmental organisations which constantly undertake worldwide campaigns against certain activities and products of the timber and wood processing industry, there is a risk that the adverse publicity propagated by these organisations may be detrimental to the Group's business prospects.

(xi) Influence by certain shareholders

Subsequent to the Public Issue and Offer, the Offerors and NSPSB will collectively own, directly and indirectly, approximately 55.0% of the Company's issued and paid-up share capital. As a result, they, if acting jointly, are likely to be able to influence the outcome of certain matters requiring the vote of the Company's shareholders, unless they are required to abstain from voting by law and/or by the relevant authorities. In addition, the management of the DEB Group will be under the direction of Cha Aku Wai @ Sia Ah Kow who is the Managing Director of the DEB Group and a substantial shareholder of NSPSB, the holding company of DEB. The structure of the Group is such that members of the Board and management have its own independent functions but overall decisions are made on a collective basis. There are also control procedures in place to ensure business decisions and outcomes are made on rational and independent basis and not through undue influence.

(xii) Dependence on key personnel

The Group believes that its continued success will depend, to some extent, upon the abilities and continued efforts of its existing Directors and senior management.

The loss of any of the Group's Directors and/or any senior management may adversely affect the Group's ability to compete effectively in the wood-based products industry in the future. In this respect, however, it should be noted that some of the key senior management personnel have been with the Group for more than nine (9) years. This is evidence of the Group's ability to retain its employees who are made to be aware of the sustained efforts on the part of the Group's Directors on the career development of the Group's employees. This has contributed to the cordial relationship with the Group's employees and consequently to the low staff turnover.

The Directors of DEB recognise the need to maintain skilled and experienced personnel and have in place a management succession plan (as set out in Section VII.7.4) to provide incentives for its staff to improve their performance and productivity.

(xiii) Environmental concerns

The Directors of the DEB believe that the Group's existing operations are in strict compliance with the relevant regulations governing environmental concerns and matters within Malaysia. Notwithstanding the above, there is no assurance that the operations and performance of the Group will not be adversely affected should the Government change the relevant regulations which would result in the Group incurring additional cost for compliance thereof, including but not limited to varying its operating procedures and/or acquiring new production techniques or facilities.

(xiv) Forward-looking statements

Certain statements contained in this Prospectus, statements made in press releases and oral statements that may be made by DEB or DEB's officers, Directors or employees acting on behalf of the Company, that are not statements of historical fact, constitute "forward-looking statement". Investors can identify some of these statements by forward-looking terms such as "expect", "believe", "plan", "intend", "estimate", "anticipate", "may", "will", "would", "could" or similar words. However, investors should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial position, business strategy, plans and prospects are forward-looking statements.

These forward-looking statements involve unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Given the risks and uncertainties that may cause the Group's actual future results, performance or achievements to be materially different from that expected, expressed or implied by the forward-looking statements in this Prospectus, DEB does not warrant or represent to investors that the Group's actual future results, performance or achievements will be as discussed in those statements.

(xv) Financial risks

Based on the Group's financial statement as at 31 March 2003, total borrowings of the Group stood at approximately RM20.133 million or gearing of 0.4 times. Of the total borrowings, approximately RM20.036 million (excluding hire purchase which has fixed interest rates) is pegged to the BLR of the Group's principal bankers which is greatly influenced by directives from BNM.

In addition, out of the total borrowings of the Group, AIPL has approximately RM2.78 million (based on closing rate as at 31 March 2003) equivalent of Singapore Dollar loan raised for financing of its business operation in Singapore. Consequently the Group's financing cost may be affected by fluctuation in the local and foreign interest rates. Furthermore, there can be no assurance that the principal bankers will not withdraw the financial facilities that are presently granted to the Group.

In mitigating the risks mentioned above, the Group has consistently made prudent financial decisions by not placing heavy reliance on bank borrowings in financing its capital expenditure and has thus, been able to support working capital and certain portions of capital expenditure through internally-generated funds. Future capital investments will be partly financed through proceeds from the Public Issue as disclosed in Section V.7 of this Prospectus. In addition, the Group has continuously maintained a cordial relationship with its principal bankers.

(xvi) Limit on operating and financial flexibility

The subsidiaries of DEB have entered into various credit facility agreements with banks or financiers to finance their operations and business activities. These agreements contain, *inter-alia*, covenants that may limit the DEB Group's operating and financing flexibility. Any act by the DEB Group falling within the ambit or scope of such covenants will require the consent of the relevant banks or financiers. Breach of such covenants may give rise to a right by the bank or financier to terminate the relevant credit facility and/or enforce any securities granted in relation to that credit facility. The Board of DEB is aware of such covenants and shall take all precautions necessary to prevent any breach of these agreements.

(xvii) Underwriting risks

The success of the listing exercise is also exposed to the risk that it may fail or be delayed should the Underwriter fail to honour its obligations under the underwriting agreement.

(xviii) Delay in or abortion of the Listing

The occurrence of any one or more of the following events may cause a delay in or abortion of the Listing:

(a) the Bumiputera investors approved by the MITI fail to subscribe to the portion of Offer Shares allocated to them;

(b) the eligible employees fail to subscribe to the portion of Issue Shares allocated to them;

(c) the Underwriter exercising its rights pursuant to the Underwriting Agreement discharging itself from its obligations thereunder; or

(d) the Company is unable to meet the public spread requirement, that is, at least 25% of the issued and paid-up capital of the Company must be held by a minimum number of 1,000 public shareholders holding not less than 100 shares each, upon completion of the Public Issue and Offer, and at the point of Listing.

Although the Directors of DEB and the Offerors will endeavour to ensure compliance by DEB of the various listing requirements, including, *inter-alia,* the public spread requirement imposed by the KLSE for the successful Listing, no assurance can be given that the abovementioned factors will not cause a delay in or abortion of the Listing.

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V. DETAILS OF THE PUBLIC ISSUE AND OFFER

1. Share Capital and Rights Attaching to the Issue Shares

	RM
Authorised:	
200,000,000 ordinary shares of RM0.50 each	100,000,000
Issued and fully paid-up:	
77,400,000 ordinary shares of RM0.50 each	38,700,000
To be issued pursuant to the Public Issue:	
8,600,000 new ordinary shares of RM0.50 each	4,300,000
	43,000,000
To be offered pursuant to the Offer:	
17,200,000 ordinary shares of RM0.50 each	8,600,000

The Issue/Offer price of RM0.65 for each Issue Share and Offer Share is payable in full on application.

There is only one (1) class of shares in DEB, being DEB Shares, all of which rank pari passu with one another. The Issue Shares will upon allotment and issue, rank pari passu in all respects with the existing DEB Shares including voting rights except that they will not be entitled to any dividends, rights, allotments and/or other distributions, the entitlement date of which is prior to the allotment of the DEB Shares.

Subject to any special rights attaching to any shares that may be issued by the Company in the future, the shareholders of the Company shall, in proportion to the amount paid-up on the shares held by them, be entitled to share in the whole of the profits paid out by the Company as dividends and other distributions and the whole of any surplus in the event of the liquidation of the Company in accordance with its Articles of Association.

At every general meeting of the Company, each shareholder shall be entitled to vote in person or by proxy or by attorney, and on a show of hands, every person present who is a shareholder or representative or proxy or attorney to a shareholder shall have one vote and on a poll, every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have one vote for each DEB Share held. A proxy need not be a member of the Company.

2. Opening and Closing of Applications

Applications will be accepted from 10.00 a.m. on 22 September 2003 and will close at 8.00 p.m. on 2 October 2003 or such further date or dates as the Directors of the Company, the Underwriter and/or the Offerors may mutually decide.

3. Important Tentative Dates

The indicative timing of events leading up to the listing of and quotation for the entire enlarged issued and paid-up share capital of DEB on the Second Board of the KLSE is set out below:

		Dates
Issue of Prospectus / Opening date for the Public Issue/Offer	:	22 September 2003
Last date and time for acceptance and payment / Closing date for the Public Issue/Offer	:	2 October 2003
The tentative date for balloting of applications	:	7 October 2003
The tentative date for despatch of notices of allotment to successful applicants	:	15 October 2003
The tentative date of listing	:	20 October 2003

Note:

This timetable is tentative and is subject to changes which may be necessary to facilitate implementation procedures. The application period will remain open until 8.00 p.m. on 2 October 2003 or such further date or dates as the Directors of DEB, Underwriter and/or the Offerors may mutually decide. Should the closing date of the application be extended, the dates for the balloting, despatch of notices of allotment and listing of and quotation for the entire enlarged issued and paid-up share capital of DEB on the Second Board of the KLSE would be extended accordingly. Any changes to the above tentative dates will be published in a widely circulated daily newspaper within Malaysia.

4. Particulars of the Public Issue and Offer

The Public Issue and Offer are subject to the terms and conditions of this Prospectus. Upon acceptance of applications, the Issue Shares and Offer Shares will be allocated in the following manner:

(i) Public Issue

(a) 600,000 Issue Shares will be made available for application by Malaysian public, to be alloted via ballot, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, co-operatives, societies and institutions;

(b) 4,000,000 Issue Shares are reserved for eligible employees of the DEB Group; and

(c) 4,000,000 Issue Shares are reserved for private placement to identified investors.

(ii) Offer

(a) 12,900,000 Offer Shares will be made available for application by Bumiputera investors approved by MITI; and

(b) 4,300,000 Offer Shares are reserved for private placement to identified investors.

The Issue Price of RM0.65 per Issue Share is payable in full on application based on the terms and conditions as set out in this Prospectus. The minimum number of DEB Shares to be subscribed pursuant to the Public Issue is 8,600,000 DEB Shares at an Issue Price of RM0.65 per Issue Share.

The Issue Shares in respect of paragraph (i)(b) above are allocated based on the designation and length of service of the eligible employees who are confirmed employees of the DEB Group as at 31 August 2003 (excluding the Directors of the DEB Group and/or persons connected to them). Based on this criterion, there are 154 employees who are eligible to subscribe for the reserved Issue Shares.

The Issue Shares under paragraph (i)(b) above are not required to be underwritten, and are therefore not underwritten.

In the event that any of the Issue Shares under paragraph (i)(b) above is not taken up by the eligible employees based on the pre-determined allocation list, such number of unsubscribe shares will first be re-allocated to those eligible employees who apply for excess Issue Shares on top of their pre-determined allocation on a proportionate basis (subject to rounding of odd lots). In the event that there are still Issue Shares not taken up after the above re-allocation, such Issue Shares will then be made available for application by the Malaysian public. All the Issue Shares under paragraph (i)(a) above (except for those Issue Shares reserved for eligible employees which are not taken up) have been fully underwritten.

The Offer Shares in respect of paragraph (ii)(a) need not and will not be underwritten. The Issue Shares and Offer Shares in respect of paragraphs (i)(c) and (ii)(b) respectively will not be underwritten as the identified investors have provided irrevocable undertakings to subscribe and acquire the said Issue Shares and Offer Shares respectively.

5. Basis of Arriving at the Issue Price and Offer Price

The Issue/Offer Price of RM0.65 per DEB Share was determined and agreed upon by the Company, Offerors and CIMB, as the Adviser and Underwriter, after taking into account, *inter-alia*, the following factors:

(i) the DEB Group's financial and operating history and conditions;

(ii) the future prospects of the DEB Group and of the wood-based product industry;

(iii) the forecast net PE Multiple of 6.3 times based on the forecast net EPS of 10.4 sen for the financial year ending 31 March 2004;

(iv) The forecast dividend yield of approximately 3.8% based on the forecast tax-exempt dividend per DEB Share of 2.5 sen for the financial year ending 31 March 2004 and the Issue/Offer Price of RM0.65 per DEB Share;

(v) The proforma consolidated NTA per DEB Share as at 31 March 2003 (after payment of the Pre-listing Dividend, the Public Issue and deducting estimated listing expenses of RM1.5 million) of RM0.62; and

(vi) The qualitative and quantitative factors of the DEB Group as outlined in Sections VI, VII and XI of this Prospectus.

However, investors should note that the market prices of the DEB Shares upon and subsequent to the listing on the Second Board of the KLSE are subject to the vagaries of market forces and other uncertainties, which may affect the price of the DEB Shares being traded. Investors should also bear in mind the Risk Factors as set out in Section IV of this Prospectus before deciding on whether or not to invest in the DEB Shares.

6. Purposes of the Public Issue and Offer

The purposes of the Public Issue and Offer are as follows:

(i) The listing of DEB Shares on the Second Board of the KLSE is expected to enhance the Group's corporate reputation;

(ii) To enable DEB to have access to the capital market for funds required for the Group's future expansion and continued growth;

(iii) To provide an opportunity for the Malaysian public and eligible employees to participate in the equity and in the continuing growth of the DEB Group; and

(iv) To raise proceeds for the items as stated in Section V.7 below.

7. Utilisation of Proceeds

No part of the gross proceeds which amount to approximately RM11.18 million arising from the Offer is receivable by DEB. The Offerors shall bear the stamp duty and other charges relating to the Offer.

The gross proceeds of RM5,590,000 arising from the Public Issue will accrue entirely to the Company, which are expected to be fully utilised by June 2004, will be utilised in the following manner:

	Notes	RM 000
Purchase of plant and machinery	(i)	1,500
To part finance the purchase of factory cum warehouse	(ii)	2,590
Estimated expenses for the listing exercise	(iii)	1,500
		5,590

Notes:

(i) *An amount of RM1.5 million is proposed to be allocated for the purchase of the following machinery:*

Description	***No. of units to be purchased***	***Estimated total cost RM 000***	***Tentative date for purchase***
Moulding machine	*1*	*400*	*March 2004*
Wrapping machine	*1*	*1,100*	*March 2004*
Total	*2*	*1,500*	

The new machinery is expected to increase the production capacity by an additional 150 cubic metres of products per month.

(ii) *PWSB has entered into a conditional Sale and Purchase Agreement dated 25 September 2002 with Cheng Yew Heng Manufactory Sdn Bhd to acquire a factory cum warehouse located in Kulai, Johor for a total purchase consideration of RM4.0 million to store finished goods. The said property is valued at RM4.1 million by the valuer, Messrs. KGV (Johor). The property is located in the industrial park in which the existing factory of PWSB is situated. It is PWSB's plan to convert the storage space in its existing factory into production floor to house the new machinery. The new factory cum warehouse shall be used to store finished goods.*

It is proposed that RM2.59 million of the proceeds arising from the Public Issue shall be used to part finance the purchase of the said property. The balance of the consideration is to be financed by internally generated funds of the Group.

The details of the said property are as follows:

Address	*Land Area*	*Build-up Area*	*Tenure*
41088 (Block A) 24 ¼ miles, Jalan Besi 3 Desa Perindustrian Kulai 81000 Kulai, Johor Darul Takzim	*89,526 sq.ft.*	*37,906 sq.ft.*	*Freehold*

(iii) *The details of the estimated listing expenses are as follows:*

	RM
Professional fees	*650,000*
SC's fees	*51,500*
KLSE's fees	*7,000*
Printing and advertisement expenses	*200,000*
Issuing house's fee and disbursement	*80,000*
Underwriting commission, placement fees and brokerage	*380,000*
Contingencies	*131,500*
Total	*1,500,000*

All expenses relating to the listing exercise will be borne by the Company. The Directors of the Company expect the proceeds from the Public Issue to be fully utilised by June 2004.

The impact of the proceeds raised from the Public Issue on the balance sheet of the Group is reflected in Sections XI.7 of this Prospectus.

8. Brokerage, Underwriting Commission and Placement Fees

The Underwriter mentioned in Section I of this Prospectus has agreed to underwrite all the 600,000 Issue Shares which are available for application by the Malaysian citizens, companies, co-operatives, societies and institutions. Underwriting commission is payable by the Company at the rate of 2.5% of the Issue Price of RM0.65 per DEB Share underwritten.

Brokerage relating to the Public Issue is payable by the Company at the rate of 1% of the Issue Price of RM0.65 per DEB Share in respect of successful applications which bear the stamp of CIMB, member companies of the KLSE, members of the Association of Banks in Malaysia, members of the Association of Merchant Banks in Malaysia or MIDFCCS. Brokerage with respect to the Offer Shares is payable at the rate of 1% of the Offer Price of RM0.65 on the Offer Shares by the Offerors.

Placement fees are payable by the Company to the Placement Agent at an average rate of 2.3% in respect of the 4,000,000 Issue Shares which are to be placed out to identified investors. Placement fees are payable by the Offerors to the Placement Agent at an average rate of 2.3% in respect of the 4,300,000 Offer Shares which are to be placed out to identified investors and at a rate of 0.75% in respect of the 12,900,000 Offer Shares reserved for Bumiputera investors approved by the MITI.

The Underwriter may withdraw from their obligations under the Underwriting Agreement relating to the Public Issue after the opening of the public offerings in the event any of the warranties, representations, or undertakings given by the Company is breached prior to the date of listing and on the occurrence of any unforeseen circumstances beyond the reasonable control of the contracting parties.

9. Salient Terms of the Underwriting Agreement

An Underwriting Agreement was entered into between the Company and the Underwriter on 2 September 2003 to underwrite 600,000 Issue Shares which are made available for application by the Malaysian public ("Underwriten Shares"). The salient terms of the Underwriting Agreement are as follows:

(i) The obligations of the Underwriter under the Underwriting Agreement are conditional upon:

(a) there having been on or prior to the Closing Date (means the date adopted in the Prospectus as the last date for acceptance and receipt of application for the subscription of the Issue Shares or on any later date or dates as the Directors of the Company, Offerors and Underwriter may mutually agree upon), neither any material adverse change nor any development reasonably likely to result in any material adverse change, in the condition (financial or otherwise) of the Company or its subsidiaries, which is material in the context of the Public Issue or the Offer from that set forth in the Prospectus, nor the occurrence of any event or the discovery of any fact which is inaccurate, untrue or incorrect to any extent which is or will be material in the reasonable opinion of the Underwriter, which makes any of the representations and warranties contained in Clause 3 of the Underwriting Agreement untrue and incorrect in any material respect as though they had been given and made on such date with reference to the facts and circumstances then subsisting, nor the occurrence of any breach of the undertakings contained in Clause 3 of the Underwriting Agreement;

(b) the delivery to the Underwriter prior to the date of the registration of the Prospectus, a copy certified as a true copy by an authorised officer of the Company of all the resolutions of the Directors and the shareholders in general meeting approving the Underwriting Agreement, the Prospectus, the Public Issue and the Offer and authorising the execution of the Underwriting Agreement and the issuance of the Prospectus and a certificate, in the form or substantially in the form contained in the First Schedule of the Underwriting Agreement, dated the date of the Prospectus signed by duly authorised officers of the Company stating that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as is referred to in Clause 2.2.1 of the Underwriting Agreement;

(c) the delivery to the Underwriter on the Closing Date of such reports and confirmations dated the Closing Date from the Directors as the Underwriter may reasonably require to ascertain that there is no material change subsequent to the date of the Underwriting Agreement that will adversely affect the performance or financial position of the Company or its subsidiaries;

(d) the Underwriter having been satisfied that arrangements have been made by the Company to ensure payment of the expenses referred to in Clause 13 of the Underwriting Agreement;

(e) the Public Issue and the Offer not being prohibited by any statute, order, rule, regulation, directive or guideline (whether or not having the force of law) promulgated or issued by any legislative, executive or regulatory body or authority in Malaysia (including the KLSE);

(f) the Company having complied and that the Public Issue and the Offer are in compliance with the policies, guidelines and requirements of the SC and all revisions, amendments and/or supplements thereto;

(g) the Company registering the Prospectus with the SC and the lodgment of the same with the ROC within two (2) months from the date of the Underwriting Agreement, or within such other date as the parties may mutually agree; and

(h) an application being made to the KLSE within three (3) Market Days from the date of issue of the Prospectus for admission to the official list of the KLSE.

If any of the conditions set out in Clause 2.2 of the Underwriting Agreement is not satisfied by the Closing Date, the Underwriter shall thereupon be entitled to terminate the Underwriting Agreement and in that event except for the liability of the Company for the payment of costs and expenses as provided in Clause 13 of the Underwriting Agreement incurred prior to the termination there shall be no further claims by the Underwriter against the Company, and the Parties shall be released and discharged from their respective obligations provided that the Underwriter may at its discretion with respect to its own obligations waive compliance with any of the provisions of Clause 2.2 of the Underwriting Agreement and any condition so waived shall be deemed to have been satisfied without affecting the Company's obligations pursuant to the other provisions under the Underwriting Agreement. In addition to this, neither the Company nor the Underwriter shall be under any obligation to enter into a new or fresh underwriting agreement.

(ii) In accordance with the Underwriting Agreement, upon any material breach of the said representations or warranties or any material failure to perform any of the said agreements or undertakings or any change rendering any of the said warranties, representations or agreements inaccurate in a material respect coming to the notice of the Underwriter prior to the Closing Date, the Underwriter shall be entitled by notice to the Company to elect to treat such breach, failure or change as releasing or discharging the Underwriter from its obligations.

(iii) Subject to prior consultation with the Company, the Underwriter shall be entitled to terminate the Underwriting Agreement by notice in writing delivered to the Company at any time on or before the Closing Date if the success of the Public Issue and/or the Offer or the distribution or sale (in the primary market) is, in the opinion of the Underwriter, materially jeopardised by:

(a) any material breach by the Company of any of the representations, warranties or undertakings contained in Clause 3 of the Underwriting Agreement (which, if capable of remedy, is not remedied within three (3) Market Days after notice of such breach shall have been given to the Company by the Underwriter);

(b) any material and adverse change in the condition or any development resulting in a material and adverse change in the financial position of the Company and/or its subsidiaries from that described in the Prospectus; and

(c) any material and adverse changes in the markets of the products produced by the DEB Group.

On delivery of such a notice, the Underwriting Agreement shall become null and void and each Party's rights and obligations shall cease and none of the Parties (except for the liability of the Company in respect of payments of costs and expenses referred to in Clause 13 of the Underwriting Agreement incurred prior to the termination) shall have any claim against each other. Thereafter the Underwriter and the Company shall confer with a view to deferring the Public Issue and the Offer or entering into a new underwriting agreement provided that the Company or the Underwriter shall not be under any obligation to enter into such new agreement.

The obligations of the Underwriter shall lapse after the expiry of three (3) months from the date of the Underwriting Agreement unless the Underwriter has consent to an extension of time beyond such period.

(iv) It will be an event of force majeure if one of the following occurs:

(a) any material change in any law, regulation, directive, policy or ruling in any jurisdiction which seriously affects or will seriously affect the business of the Company and/or its subsidiaries;

(b) any change in national or international monetary, financial, political or economic conditions (including but not limited to conditions on the stock market, in Malaysia or overseas, foreign exchange market or money market or with regard to inter-bank offer or interest rates both in Malaysia and overseas) or exchange control legislation or regulations or currency exchange rates or an occurrence as a result of an act or acts of God or in the event of national disorder, outbreak of war, outbreak of disease or the declaration of a state of national emergency; or

(c) if in the reasonable opinion of the Underwriter that the success of the Listing is seriously jeopardised by the Kuala Lumpur Composite Index falling below 600 points and remaining below 600 points for three (3) consecutive Market Days at any time between the date of the Underwriting Agreement and up to and including the Closing Date.

In the event of a force majeure pursuant to Clause 10.1 of the Underwriting Agreement, the Underwriter may, subject to prior consultation with the Company, at any time prior to or on the Closing Date terminate the Underwriting Agreement by giving notice to the Company in the manner as set out in Clause 14 of the Underwriting Agreement or request for the Closing Date to be extended to such reasonable date as the Underwriter may decide.

Upon delivery of the notice of termination pursuant to Clause 10.2.1 of the Underwriting Agreement and in the manner as set out in Clause 14 of the Underwriting Agreement, the Underwriting Agreement will terminate and thereafter each Party's rights and obligations will cease and none of the Parties will have any claim against each other.

In the event of a delivery of a request under Clause 10.2.2 of the Underwriting Agreement, the Company shall consent to such request for the extension of the Closing Date. The delivery of a request under Clause 10.2.2 of the Underwriting Agreement shall not preclude the Underwriter from giving a further request for extension pursuant to Clause 10.2.2 of the Underwriting Agreement or the giving of a notice to terminate pursuant to Clause 10.2.1 of the Underwriting Agreement.

(v) The Underwriter shall have the right to terminate the Underwriting Agreement by notice in writing served by the Underwriter on the Company in the event that the approval in principle of the KLSE for the admission of the Company to the Official List of the KLSE or for the listing of and quotation for the entire enlarged issued and paid-up share capital of the Company on the Second Board of the KLSE is withdrawn or not procured within two (2) months from the Closing Date or such other date as the Parties may mutually agree in writing and upon such termination, the liabilities of the Company and the Underwriter shall become null and void and none of the Parties shall have a claim against each other except for the liability of the Company for the payment of costs and expenses to the Underwriter as provided in Clauses 6.3, 6.4 and 13 of the Underwriting Agreement and the Company shall return to the Underwriter such moneys paid by the Underwriter pursuant to Clause 5.3 of the Underwriting Agreement within forty-eight (48) hours of the receipt of such notice.

10. Moratorium on the Disposal of DEB Shares

Under the Policies and Guidelines on Issue/Offer of Securities issued by the SC, the below-mentioned shareholder of DEB will not be allowed to sell, transfer or assign its shareholding of 38,700,000 DEB Shares, representing 45% of the enlarged issued and paid-up share capital of DEB within one (1) year from the date of admission of DEB to the Official List of the Second Board of KLSE.

The shareholder of DEB who is subjected to the moratorium is as follows:

Shareholder	No. of DEB Shares held after the Public Issue and Offer	% of enlarged share capital	No. of DEB Shares placed under moratorium	% of enlarged share capital
NSPSB	43,860,000	51.0	38,700,000	45.0

The restriction, which is fully acknowledged by the aforesaid shareholder, is specifically endorsed on the share certificates and notices of allotment representing the shareholding of the aforesaid shareholder which is under moratorium to ensure that the Company's registrar does not register any transfer not in compliance with the restriction imposed by the SC and KLSE.

The remarks to be endorsed on these share certificates are as follows:

"The shares comprised herein are not capable of being sold, transferred or assigned for a period as determined by the SC ("Moratorium Period"). Accordingly, the shares comprised herein will not constitute good delivery pursuant to the Rules of the Exchange during the Moratorium Period. No share certificate or certificates will be issued to replace this certificate unless the same shall be endorsed with this restriction"

In addition, the shareholders of NSPSB, that is Cha Aku Wai @ Sia Ah Kow, Low Chwee Tian, Teo Chiew Peng, Teo Ah Tee @ Teo Chuan How, Teo Ah Bah @ Teo Chuang Kwee, Teo Choon Kiat @ Teo Chuan Kit, Teo Chiew Luan @ Teo Chiew Ngoh, Teo Kee Tai, Kuah Kwai Yoke @ Kuah Boo Cheng, Ong Teng Ser, Chai Soon Too, Liaw Siang Ming, Teo Chuan Soon, Diu Dian Hong, Tan Hon Kiat @ Tan Hoon Siong, Tan Ah Sim @ Tan Siew Wah, Owee Geok Choon, Chung Ek Fong, Er Lee Keng, Sim Lai Soon, Teo Chuan Geo, Tan Ah Liang and Heng Yik Poh have given their undertakings that they will not sell, transfer or assign their shareholdings in NSPSB within one (1) year from the date of admission of DEB to the Official List of the Second Board of KLSE.

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VI. INDUSTRY OVERVIEW AND OUTLOOK

The DEB Group is principally involved in the manufacturing and distribution of wood-based products. Its manufactured products comprising white primed MDF mouldings and wrapped mouldings are predominantly exported overseas, mainly to Australia, South Korea and Europe. The laminated wood panels produced by the Group are catered solely for the domestic market. The DEB Group also purchases raw timbers and other wood-based products mainly from East Malaysia, Indonesia, Australia, New Zealand and PRC for subsequent distribution within Peninsular Malaysia and overseas. The business of the DEB Group is hence closely linked to the general domestic economic conditions as well as the world economic conditions, particularly the countries or regions in which the DEB Group's products are marketed or intended to penetrate. As the DEB Group's products are intermediary products mainly consumed by furniture makers and building material wholesalers, the outlook of the wood-based furniture industry and construction sector will also affect the prospects of the DEB Group.

1. Overview of the Malaysian Economy

Recovery of the Malaysian economy gained momentum in 2002 amidst a more challenging external environment. Real economic growth turned positive in the first quarter of 2002 and strengthened to 5.6% in the fourth quarter of 2002. For 2002, real gross domestic product ("GDP") expanded by 4.2% compared with 0.4% in 2001. In response to the strong domestic and external demand conditions, all sectors in the economy expanded, with the main impetus to growth emanating from the services and manufacturing sectors. The services sector benefited from the recovery in domestic demand, the expansion in trade-related activity and the growth in tourist arrivals.

Domestic demand conditions strengthened significantly in 2002, sustained by the continued expansion in overall public sector spending and a marked increase in private consumption. External demand recovered in 2002 and provided an important contribution to overall growth. Real exports of goods and services turned around to increase by 3.6% after contracting by 7.5% in 2001. The main impetus for stronger export performance in 2002 was from the manufacturing and tourism sectors. While the consumer price index ("CPI") increased at a faster rate of 1.8% in 2002, demand or core inflation rose 0.4%.

In an environment of heightened uncertainty in the global economy, growth in the Malaysian economy would be mainly domestic driven, supported by a modest growth in external demand. Real GDP growth has the potential to be sustained in the region of 4.5% in 2003. The projections for growth in 2003 are based on a modest world economic growth, some pick-up in the global electronics industry, firm commodity prices and further expansion in intra-regional trade.

A stimulus package amounting to RM7.3 billion was introduced by the Government in May 2003 mainly aimed at promoting private investment, strengthening the nation's competitiveness, developing new sources of growth and enhancing the effectiveness of the delivery system. The Government is confident that this package will ensure more sustainable growth in the medium and long-term and further strengthen the economic fundamentals of Malaysia. The measures to develop new sources of domestic growth shall reduce the country's dependence on the external sector.

(Source: BNM Annual Report 2002, BNM's press statement on the economic and financial development for first quarter of 2003, Economic Stimulus Package published by Ministry of Finance Malaysia)

2. Overview of the Global Economy

World growth expanded by a modest 3% in 2002 while world trade growth turned positive to grow by 2.9% (2001: -0.1%). The global economic outlook continues to be affected by the geopolitical and economic uncertainties and the adverse impact of sharply rising oil prices on private sector consumption and investment. Growth will be supported by a moderate expansion in the US and Asian regional economies as growth prospects for Japan and the euro area remain difficult. Under these circumstances, it is projected that world growth will expand modestly by 3.1% (2002: 3%) while world trade will increase by 3.5 to 4.5% in 2003. Meanwhile, for the Asian regional economies, policy flexibility, stronger fundamentals, continued growth in domestic consumption, fiscal stimulus, recovery in investment, improvement in exports and strengthening intra-regional trade are expected to sustain growth.

The economic overview of certain countries to which the DEB Group's products are exported or potentially to penetrate are set out as follows:

Existing markets	**Economic overview**
South Korea	Given its strong fiscal position, Korea has the flexibility to use fiscal policy to support domestic demand. In line with the expected developments, the forecast is for real GDP in Korea to expand by 5.5%. Korea and PRC are expected to lead growth in the Asian region.
Europe	In 2002, growth slowed down markedly due to the continued economic weakness in Germany where activities were dampened by rising unemployment and the decline in equity markets, even though government spending was higher. The growth performance of the euro area is expected to be modest, with real GDP expanding marginally by 0.9% in 2003. Monetary easing, however, would support growth as real interest rates are currently at their lowest levels in two decades.
Potential markets	
Japan	In Japan, growth was mainly export driven while domestic conditions remained weak throughout 2002. In 2003, real GDP growth is expected to expand by 0.6%. Exports, mainly to the East Asian markets (which accounts for about 40% of its exports), is expected to be the main driver of growth. Meanwhile, weaknesses in the corporate and household balance sheets are expected to dampen further domestic demand.
Singapore	In 2003, the Singapore economy is envisaged to continue its recovery, with growth between 2% to 5%. Amidst structural unemployment, supply-side policy measures are being implemented to promote growth. Strategies are directed to diversify the economy and reduce operating costs. In February 2003, economic roadmap for the next fifteen (15) years was introduced, with emphasis on expanding external ties, maintaining competitiveness, encouraging entrepreneurship, developing human resources and promoting a more service-based and value-added manufacturing economy.

Potential markets

PRC — With the share of regional exports to the PRC intra-regional trade averaging 28.8% per annum during the period 1991 to the first-half of 2002, the PRC has become the largest market for intra-regional exports. Real GDP growth in the PRC is projected to be sustained at a high level of 7% induced by strong domestic demand, maintenance of supportive monetary and fiscal policies, increase in foreign direct investment and an acceleration in its privatisation policy.

US — Growth in the US expanded by 3.5% in the first half of 2002 before slowing down to 2.5% in the second half in 2002. Activities were supported by the cumulative impact of monetary easing and income tax measures. These policies stimulated refinancing activities, housing demand and auto purchases, thereby sustaining private consumption. In addition, the slower decline in inventory and larger government spending also contributed to GDP growth. In 2003, growth of the US economy is estimated to be modest at 2.4% with higher Government spending providing the main impetus to growth, particularly in the first half of 2003.

(Source: BNM Annual Report 2002 and Economic Report 2002/2003)

3. Overview of the Wood-Based Products Industry

The wood-based products industry represents a sub-sector of the timber industry and is dominated by primary processing activities of sawmilling, veneer and plywood production. However, in recent years, downstream processing activities such as the manufacture of mouldings, furniture and joinery have increased significantly. While most of the larger sawmills and plywood mills are concentrated in East Malaysia, most of the secondary and tertiary wood-based industries are located in Peninsular Malaysia because of the availability of infrastructure and logistics support.

Among the various processed timber products, panel products have since 1994 emerged as the largest sector of the wood-based industry in value terms, taking the lead from sawn timber. Based on an estimate made in 1999, the production of panel products constituted 38% of the output of the wood-based industry in value terms. The higher value added products have increased their share of output tremendously since 1990. Output of furniture grew by an impressive 23.9% per annum during the nine years from 1990 to 1999 while panel products surged by 16.8% per annum.

Production of the wood-based industry, comprising plywood, joinery, flooring and sawn timber, fell by 10.8% in the first six months of 2002 (January to June 2001: 6.6%), particularly due to lower exports of plywood to Japan. However, while the sector is still experiencing contraction on a year-on-year basis, some early signs of bottoming out have emerged lately with overall output of wood products recording a moderate decline of 6.2% in the second quarter of 2002 compared to –15.4% in the previous quarter. The decline in output of wood products in 2002 reflecting lower saw milling activities and plywood production. Nevertheless, exports of wood products rose in 2002 due to improved prices of plywood and sawn timber as well as increased demand from Korea, Canada and Thailand. Exports of furniture also rebounded, driven by the strong housing market in the US, particularly in the first half of 2002. Notwithstanding the encouraging export performance, Malaysian wood-based products continued to face competition in the global markets from substitute products like Polyvinyl Chloride ("PVC") and steel.

Based on an estimate shown in the Asia Pacific Forest Industries Journal, the world consumption of sawn timber is expected to grow by 2.3% from 1990 to 2010, whereas the consumption of panel products is expected to grow at a faster rate of 4.8%. It is expected that there will be a degree of plywood substitution by other panel products.

With many countries in the Asia Pacific region increasingly timber-deficient, they have moved into reconstituted wood-based panels as a substitute for plywood and sawn timber. The consumption of particleboard and MDF is anticipated to grow at 8.3% yearly. The main reason is because particleboard and MDF can be made from non-commercial small logs, branches or wood chips. Similarly, for mouldings, joinery and furniture, the potential for increased demand in these sectors is considerable.

Currently the sector excluding the furniture industry, operates between 55%-60% of is capacity, with 75% of its output exported. Production capacity is expected to improve further to 70% due to stronger demand from other importing countries such as South Korea and Taiwan. On the other hand, the sales of furniture and fixtures recorded an increase of 16% during the first six months of 2002, with capacity utilisation generally above 70%. The stronger demand was on account of greater efforts by furniture manufacturers to promote Malaysian wood products through furniture fairs and exhibitions, and the continuous improvements in design to meet the changing needs of industrial and household demand.

The outlook for the industry is generally positive, judging by the continued expansion of its exports. However, the weakening of the US furniture market is a concern to Malaysia, since 29% of Malaysian furniture is exported to US. In addition, there is increasing competition from the PRC, Brazil and Vietnam against Malaysia's timber products. In fact, the furniture industry in the PRC has surpassed Malaysia in the last few years. With low labour costs and abundant natural resources, these countries will pose a formidable challenge to Malaysia's furniture exports in the future. Production of saw logs increased by 4.2% in 2002, in response to higher demand from traditional markets, including Japan, PRC and India. As a group, these countries accounted for more than 75% of total saw log exports. On the price front, developments were also positive. Besides an improvement in external demand, the shortage in tropical logs in the international markets following the ban on log exports by Indonesia since 2001, contributed to higher prices.

As a result, export prices of Malaysian logs were traded 16.6% higher at an average of RM367 per cubic meter in 2002, which lifted export earnings by 17.5%. Exports of sawn timber, however, continued to decline in 2002, as demand from major buyers, particularly in Europe, remained low.

The performance of manufactured exports is expected to be sustained in 2003 with a growth of 6.7%, reflecting the improvement in electronics demand, especially from the Asian region. Exports of non-electronics products are projected to turn around to increase by 5.6% (2002: -0.8%), attributable to better performance in the chemical products, wood products, non-metallic mineral products, optical and scientific equipment, toys and sporting goods, furniture and textiles.

(Source: Second Industrial Master Plan 1996–2005, Dynaquest Sdn Bhd, Industrial Sector Analysis– Sawmills & Timber Processing, BNM Annual Report 2002, Malaysia International Trade and Industry Report 2001 and Economic Report 2002/2003)

4. Overview of the Construction and Property Sectors

In 2002, growth in the construction sector was maintained at 2.3%. Growth was supported mainly by higher Government expenditure on infrastructure projects and household demand for residential property. In the non-residential sub-sector, construction activity remained focussed on existing projects given the prevailing large overhang of office and retail space. In the civil engineering sub-sector, growth was stimulated by higher Federal Government development expenditure on construction-related projects, especially for projects related to the transportation, education, housing and public utilities sub-sectors. While new construction in the residential sub-sector remained strong, overall demand for properties moderated. Demand for affordable and landed houses in choice locations with good accessibility, however, was sustained. Several factors lent support to residential development in 2002. The most significant were the promotion of home ownership via the stamp duty waiver in the first half of 2002 and attractive financing packages with very competitive rates offered by financial institutions. Construction activity in the non-residential subsector remained subdued, as construction of purpose-built office and retail space during 2002 was supported mainly by on-going projects.

In 2003, growth in the construction sector is envisaged to increase by 1.9%, reflecting mainly the slower growth in the civil engineering and residential sub-sectors. This reflects the lower spending on infrastructure projects by both the private sector and the Government following the completion of some of the on-going projects. In the case of the residential sub-sector, there has been an increase in property overhang and the take-up rate for newly-launched projects during the first half of 2002 was low. Meanwhile, activity in the non-residential sub-sector will continue to be affected by the oversupply situation.

(Source: BNM Annual Report 2002)

5. Industry Dynamics

The timber processing industry is a highly fragmented one with over 5,527 units ranging from sawmills to pulp and paper manufacturers. In 2000, there were 1,136 sawmills; 183 plywood and veneer mills; 344 timber moulding factories; 14 MDF mills, 41 laminated board factories and 11 particleboard mills. The wood-based industry is a highly export-oriented industry. In value terms, about 77% of the production in 1998 was exported, thus contributed to the timber industry's prominence as a foreign exchange earner.

The wood-based sector is characterised by a large number of firms that are undercapitalised, lack modern labour-saving equipment and are domestic-oriented. Currently, Malaysian wood-based exporters serve the original equipment manufacturing markets where the designs are provided by the buyers.

The advantage is created by being competitive in resource and price factors. Malaysia's future competitive advantage in the wood-based sector will rest on its ability to produce products based on R&D inputs as well as in securing strong positions in niche markets. There is also a potential for increasing subcontracting activities between large firms manufacturing finished products and smaller ones manufacturing components.

In terms of sales of timber products, competition is mainly from external forces as between 55% to 85% of the various categories of Malaysia's timber products are exported. Malaysia's timber producers face competition from developing areas such as South America (especially Brazil), Africa and neighbouring Asian countries (Indonesia, Thailand and Cambodia) as well as Papua New Guinea and Solomon Islands.

As the industry is dependent on the export sector and the local construction sector, the well being of the foreign markets and the local construction industry is important to the industry.

(Source: Forestry Department of Peninsular Malaysia, Sabah and Sarawak, Second Industrial Master Plan 1996–2005 and Dynaquest Sdn Bhd, Industrial Sector Analysis–Sawmills & Timber Processing)

6. Industry Players and Competition

The industry players in the wood-based product industry are very fragmented in terms of the types of products manufactured by each individual player and the market segments that they serve. Set out below are the companies with similar business as the DEB Group by product types identified by the Directors:

Product	**Market destination**	**Companies with similar business as the DEB Group**
Primed MDF mouldings	Foreign	(i) Straits Timber Products Sdn Bhd (ii) Carter Holt Harvey Ltd (Australia) (iii) Pacific MDF Moulding Corporation (US)
Wrapped mouldings	Domestic and foreign	At the domestic front, the companies that provide similar wrapped mouldings for export markets are Hume Fibre Board Sdn Bhd and Tik Huat Wood Industries Sdn Bhd PROFIPAS (Italy) Sung Jin Ltd (Korea)
Laminated wood panels	Domestic	Major local companies that provide lamination services include Syarikat UD Trading Sdn Bhd, Sunply Industries Sdn Bhd, Duthai Sdn Bhd and Adeco Industries Sdn Bhd
Wood panel products	Domestic and foreign	KPS Plywood Sdn Bhd, Wason Enterprise Sdn Bhd, Minply Berhad, Syarikat UD Trading Sdn Bhd, Seon Lim (M) Sdn Bhd, Lee Tat Lee Trading Sdn Bhd and Asia Prima Resources Sdn Bhd

Various measures have been undertaken by the DEB Group to maintain its competitiveness in the industry. Please refer to Section VII.3.11 for the competitive advantage that the DEB Group believes to have over its competitors.

Most of the wood-based product exporters are located in Peninsular Malaysia. The DEB Group's share on the total export sales from Peninsular Malaysia in the calendar year 2002 (latest available figure) by export destinations and product types is set out in the table below:

	Total DEB Group's export sales RM 000	Cubic Metre	* Total Peninsular Malaysia export sales RM 000	Cubic Metre	Percentage of contribution from DEB Group RM 000 %	Cubic Metre %
By export destination:						
▪ Oceania	18,280	13,744	100,218	55,849	18.24	24.61
▪ Europe	4,566	3,365	195,188	111,783	2.33	3.01
▪ Asean	3,351	3,229	158,932	190,601	2.11	1.69
▪ East Asia	2,506	1,543	516,794	625,023	0.48	0.25
▪ West Asia and Indian Ocean	1,695	1,671	128,124	157,347	1.32	1.06
▪ US	230	134	92,416	47,196	0.25	0.28
By product type:						
▪ Moulding profile	17,524	10,153	381,476	181,907	4.59	5.58
▪ Plywood	10,386	9,771	235,524	198,756	4.41	4.92
▪ MDF	2,232	2,790	740,501	900,976	0.30	0.31
▪ Particle board	486	972	70,280	134,018	0.69	0.73

* *Source: Malaysian Timber Industry Board*

7. Government Legislation, Policies and Incentives

Measures will continue to be taken by the government to develop the wood-based products industry and other resource-based industries. More aggressive promotion of forest plantation projects including rubber forest plantation will be undertaken to address the need for a sustainable supply of timber in the long run. Strategies will be targeted to develop downstream activities and promoting new investments in high value-added and differentiated products. Among the products with the potential to be developed further for the export market are panel products for interior decoration, household and home-office furniture, solid wood doors and windows. R&D activities will also be intensified to develop new technologies to maximise the recovery rate of wood and utilisation of wood waste.

In the government's continue effort in managing the sustainability of forest resources, the Malaysian Timber Certification Council (MTCC), which was set up in January 1999 with the objective of operating a voluntary national timber certification scheme for Malaysia, officially launched its certification scheme in January 2002.

The MTCC certification scheme provides buyers of Malaysian timber products the assurance that the products are sourced from sustainably managed forests. In order to ensure a wider market acceptance of its scheme and certified products, MTCC has been working closely with the Forest Stewardship Council (FSC) and local stakeholders through the National Steering Committee to design an FSC-compatible certification standard. Currently the US and European Union impose restriction on import of timber products sourced only from sustainably managed forests certified by the FSC.

The following strategies, amongst others, were proposed under the Second Industrial Master Plan 1996–2005 to promote the wood-based industry:

(a) strengthening the activities of the public research institutions in relation to downstream processing of the wood-based sector;

(b) support technology-intensive R&D projects;

(c) enhancing private sector R&D to support the shift to specialised and high-priced premium products;

(d) greater use of automation to reduce labour utilisation and improve productivity;

(e) developing own design and brand names;

(f) specific financial schemes to support high-end and knowledge-driven sub-sectors and investments in capital equipment and environmentally-friendly practices; and

(g) duty exemptions on all other components for the export-oriented furniture sub-sector.

The timber industry is generally governed by laws and regulations instituted by the Department of Forestry, Forest Research Institute Malaysia and Malaysian Timber Industry Board, all of which are geared towards the management of sustainable forest resources while promoting the growth of the timber industry.

(Source: Second Industrial Master Plan 1996–2005, Malaysia International Trade and Industry Report 2001, Eighth Malaysia Plan 2001-2005 and BNM Annual Report 2002)

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