

4. INFORMATION ON THE CSB GROUP

4.1 BACKGROUND

4.1.1 Incorporation

CSB was incorporated in Malaysia under the Act on 10 November 2003 as a public company under the name of Classic Scenic Berhad.

The corporate structure of the CSB Group after listing is illustrated in Sections 1.1 and 4.2.1 of this Prospectus.

4.1.2 Share Capital And Changes In Share Capital

The present authorised share capital of CSB is RM100,000,000 comprising 200,000,000 ordinary shares of RM0.50 each. The issued and paid up share capital of CSB is RM47,000,000 comprising 94,000,000 ordinary shares of RM0.50 each.

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

| Date of Allotment/ Subdivision | No. Of Ordinary Shares Allotted/ Subdivided | Par Value (RM) | Consideration | Total Issued And Paid-up Share Capital (RM) |
|---|---|----------------------|---|--|
| 10.11.2003 | 2 | 1.00 | Subscribers' shares | 2 |
| 12.03.2004 | 4 | 0.50 | Subdivided | 2 |
| 31.07.2004 | 79,999,996 | 0.50 | Issued as consideration for Acquisitions | 40,000,000 |
| 19.08.2004 | 14,000,000 | 0.50 | Rights Issue | 47,000,000 |
| To be issued pursuant to the Listing of CSB | 6,000,000 | 0.50 | Public issue | 50,000,000 |

4.1.3 Listing Scheme

In conjunction with, and as an integral part of the listing and quotation for the entire issued and paid-up share capital of CSB on the Second Board of the Bursa Securities, the Company undertook a listing scheme which involved the following:-

(a) Acquisitions

(i) SM

Acquisition of the entire issued and paid up capital of SM comprising 710,000 ordinary shares of RM1.00 each for a total consideration of RM21,471,151 which was satisfied by an issuance of 42,942,302 new Share in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the audited NTA of SM as at 31 December 2003 of RM21,471,151.

4. INFORMATION ON THE CSB GROUP (Cont'd)

| Name of Vendors | No of shares held in SM | % | Purchase Consideration (RM) | No. of CSB Shares issued |
|---------------------------|-------------------------|------------|-----------------------------|--------------------------|
| Lim Chee Keong | 120,000 | 17 | 3,628,928 | 7,257,856 |
| Lim Chee Khoon | 110,000 | 15 | 3,326,517 | 6,653,034 |
| Lim Chee Hwa | 55,000 | 8 | 1,663,258 | 3,326,516 |
| Lim Chee Beng | 55,000 | 8 | 1,663,258 | 3,326,516 |
| Lim Chee Tak | 55,000 | 8 | 1,663,258 | 3,326,516 |
| Lim Kwee Huay | 25,000 | 3 | 756,026 | 1,512,052 |
| Lim Kwee Lan | 25,000 | 3 | 756,026 | 1,512,052 |
| Heng Gek Imm | 55,000 | 8 | 1,663,258 | 3,326,516 |
| Etnik Pesona Sdn Bhd | 70,000 | 10 | 2,116,874 | 4,233,748 |
| Uji Epilog Sdn Bhd | 70,000 | 10 | 2,116,874 | 4,233,748 |
| Revolusi Tenggara Sdn Bhd | 70,000 | 10 | 2,116,874 | 4,233,748 |
| Total | 710,000 | 100 | 21,471,151 | 42,942,302 |

The acquisition was completed on 31 July 2004.

(ii) CFM

Acquisition of the entire issued and paid up capital of CFM comprising 100,000 ordinary shares of RM1.00 each for a total consideration of RM4,622,762 which was satisfied by an issuance of 9,245,524 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the adjusted audited NTA of CFM as at 31 December 2003 of RM4,622,762 after taking into account the adjustment in respect of the fair value (after deducting deferred taxation) of landed properties of approximately RM701,000 and the declared tax exempt dividend of RM12,000,000 and net dividend of RM6,860,317 (after tax of 28%) as follows:

| | RM |
|---|---------------------|
| Audited net tangible assets of CFM as at 31 December 2003 | 22,782,141 |
| Add : Revaluation surplus * net of deferred tax | 700,938 |
| Less: Dividend | <u>(18,860,317)</u> |
| Adjusted net tangible assets as at 31 December 2003 | <u>4,622,762</u> |

Fair value adjustment arising from the revaluation of the landed property :-

| Location/ Title | NBV @ 31.12.03 (RM'000) | Open market value @ 12.1.2004* (RM'000) | Revaluation surplus (RM'000) | Deferred taxation (RM'000) | Net surplus (RM'000) |
|---|-------------------------|---|------------------------------|----------------------------|----------------------|
| <i>Mukim of Sungei Buluh:</i> HSD 41588 PT 9185 | 2,413 | 3,151 | 738 | 37 | 701 |

* The revaluation of the landed property is based on open market value as appraised by the independent professional valuer Messrs HASB Consultants Sdn Bhd on 12 January 2004.

4. INFORMATION ON THE CSB GROUP (Cont'd)

| Name of Vendors | No of shares held in CFM | % | Purchase Consideration (RM) | No. of CSB Shares issued |
|-----------------|--------------------------|------------|-----------------------------|--------------------------|
| Lim Chee Keong | 24,000 | 24 | 1,109,464 | 2,218,928 |
| Lim Chee Khoon | 22,000 | 22 | 1,017,008 | 2,034,016 |
| Lim Chee Hwa | 11,000 | 11 | 508,504 | 1,017,008 |
| Lim Chee Beng | 11,000 | 11 | 508,504 | 1,017,008 |
| Lim Chee Tak | 11,000 | 11 | 508,504 | 1,017,008 |
| Lim Kwee Huay | 5,000 | 5 | 231,137 | 462,274 |
| Lim Kwee Lan | 5,000 | 5 | 231,137 | 462,274 |
| Heng Gek Imm | 11,000 | 11 | 508,504 | 1,017,008 |
| Total | 100,000 | 100 | 4,622,762 | 9,245,524 |

The acquisition was completed on 31 July 2004.

(iii) LKLR

Acquisition of the entire issued and paid up capital of LKLR comprising 750,000 ordinary shares of RM1.00 each for a total consideration of RM12,371,906 which was satisfied by an issuance of 24,743,812 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the adjusted audited NTA of LKLR as at 31 December 2003 of RM12,371,906 after taking into account the adjustment in respect of the fair value (after deducting deferred taxation) of the landed properties of approximately RM10,536,000 as follows:

| | RM |
|--|-------------------|
| Audited net tangible assets of LKLR as at 31 December 2003 | 1,835,762 |
| Revaluation surplus * net of deferred tax | <u>10,536,144</u> |
| Adjusted net tangible assets as at 31 December 2003 | <u>12,371,906</u> |

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4. INFORMATION ON THE CSB GROUP (Cont'd)

Fair value adjustment arising from the revaluation of the landed properties:-

| Location /Title | NBV @ 31.12.03 (RM'000) | Open market value @12.1.2004 * (RM'000) | Revaluation surplus (RM'000) | Deferred taxation (RM'000) | Net surplus (RM'000) |
|-----------------------------------|-------------------------------|--|------------------------------------|----------------------------------|----------------------------|
| <u>Mukim of Serendah:-</u> | | | | | |
| HSD 9361 PT 8515 | 787 | 788 | 1 | - | 1 |
| <u>Mukim of Rawang:-</u> | | | | | |
| HSD 28279 PT 10351 | 2,169 | 5,764 | 3,595 | 540 | 3,055 |
| HSD 28280 PT 10352 | 2,287 | 6,035 | 3,748 | 668 | 3,080 |
| HSD 28281 PT 10353 | 3,119 | 3,116 | (3) | (1) | (2) |
| HSD 28282 PT 10354 | 6,626 | 9,619 | 2,993 | 466 | 2,527 |
| HSD 28283 PT 10355 | 3,587 | 5,789 | 2,202 | 327 | 1,875 |
| Total | 18,575 | 31,111 | 12,536 | 2,000 | 10,536 |

* The revaluation of the landed properties are based on open market value as appraised by the independent professional valuer Messrs HASB Consultants Sdn Bhd on 12 January 2004.

| Name of Vendors | No of shares held in LKLR | % | Purchase Consideration (RM) | No. of CSB Shares issued |
|-----------------|---------------------------------|------------|-----------------------------------|--------------------------------|
| Lim Chee Keong | 180,000 | 24 | 2,969,258 | 5,938,516 |
| Lim Chee Khoo | 165,000 | 22 | 2,721,818 | 5,443,636 |
| Lim Chee Hwa | 82,500 | 11 | 1,360,910 | 2,721,820 |
| Lim Chee Beng | 82,500 | 11 | 1,360,910 | 2,721,820 |
| Lim Chee Tak | 82,500 | 11 | 1,360,910 | 2,721,820 |
| Lim Kwee Huay | 37,500 | 5 | 618,595 | 1,237,190 |
| Lim Kwee Lan | 37,500 | 5 | 618,595 | 1,237,190 |
| Heng Gek Imm | 82,500 | 11 | 1,360,910 | 2,721,820 |
| Total | 750,000 | 100 | 12,371,906 | 24,743,812 |

The acquisition was completed on 31 July 2004.

4. INFORMATION ON THE CSB GROUP (Cont'd)**(iv) LKLT**

Acquisition of the entire issued and paid up capital of LKLT comprising 100,004 ordinary shares of RM1.00 each for a total consideration of RM1,443,354 which was satisfied by an issuance of 2,886,708 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the audited NTA of LKLT as at 31 December 2003 of RM1,443,354.

| Name of Vendors | No of shares held in LKLT | % | Purchase Consideration (RM) | No. of CSB Shares issued |
|-----------------|---------------------------|------------|-----------------------------|--------------------------|
| Lim Chee Keong | 24,002 | 24 | 346,420 | 692,840 |
| Lim Chee Khoon | 22,001 | 22 | 317,541 | 635,082 |
| Lim Chee Hwa | 11,001 | 11 | 158,777 | 317,554 |
| Lim Chee Beng | 11,000 | 11 | 158,762 | 317,524 |
| Lim Chee Tak | 11,000 | 11 | 158,762 | 317,524 |
| Lim Kwee Huay | 5,000 | 5 | 72,165 | 144,330 |
| Lim Kwee Lan | 5,000 | 5 | 72,165 | 144,330 |
| Heng Gek Imm | 11,000 | 11 | 158,762 | 317,524 |
| Total | 100,004 | 100 | 1,443,354 | 2,886,708 |

The acquisition was completed on 31 July 2004.

(v) LKLM

Acquisition of the entire issued and paid up capital of LKLM comprising 10,000 ordinary shares of RM1.00 each for a total consideration of RM90,825 which was satisfied by an issuance of 181,650 new Shares in CSB at an issue price of RM0.50 per Share. The purchase consideration was arrived at based on the audited NTA of LKLM as at 31 December 2003 of RM90,825.

| Name of Vendors | No of shares held in LKLM | % | Purchase Consideration (RM) | No. of CSB Shares issued |
|-----------------|---------------------------|------------|-----------------------------|--------------------------|
| Lim Chee Keong | 2,400 | 24 | 21,798 | 43,596 |
| Lim Chee Khoon | 2,200 | 22 | 19,979 | 39,958 |
| Lim Chee Hwa | 1,100 | 11 | 9,991 | 19,982 |
| Lim Chee Beng | 1,100 | 11 | 9,991 | 19,982 |
| Lim Chee Tak | 1,100 | 11 | 9,991 | 19,982 |
| Lim Kwee Huay | 500 | 5 | 4,542 | 9,084 |
| Lim Kwee Lan | 500 | 5 | 4,542 | 9,084 |
| Heng Gek Imm | 1,100 | 11 | 9,991 | 19,982 |
| Total | 10,000 | 100 | 90,825 | 181,650 |

The acquisition was completed on 31 July 2004.

The new Shares issued pursuant the Acquisitions shall rank pari passu in all respects with the other existing issued and paid-up ordinary shares of the Company including voting rights and rights to all dividends and distributions that may be declared subsequent to the date of allotment thereof.

4. INFORMATION ON THE CSB GROUP (Cont'd)**(b) Nomination**

Pursuant to the Acquisitions, the following shareholders nominated their Shares to LKLH, an investment holding company that are owned by the following shareholders:-

| Vendors/ Shareholders | No of New Shares Held in CSB After Acquisitions | No. of Share Held in LKLH Before Nomination | Shareholdings in LKLH After Nomination (%) |
|----------------------------------|--|--|---|
| Lim Chee Keong | 16,151,732 | 1 | 24.0 |
| Lim Chee Khoon | 14,805,725 | 1 | 22.0 |
| Lim Chee Hwa | 7,402,879 | - | 11.0 |
| Lim Chee Beng | 7,402,850 | - | 11.0 |
| Lim Chee Tak | 7,402,850 | - | 11.0 |
| Lim Kwee Huay | 3,364,933 | - | 5.0 |
| Lim Kwee Lan | 3,364,933 | - | 5.0 |
| Heng Gek Imm | 7,402,850 | - | 11.0 |
| Total | 67,298,752 | 2 | 100.0 |

The nomination was completed as at 31 July 2004.

(c) Rights Issue

Upon completion of the Nomination, CSB implemented a Rights Issue of 14,000,000 new Shares at an issue price of RM0.50 per Share to the existing shareholder of CSB on the basis of 175 Shares for every 1,000 Shares held after the Nomination. Consequently the issued and paid up share capital of CSB was increased from 80,000,000 to 94,000,000 Shares.

The Rights Issue was implemented on 19 August 2004.

(d) Public Issue

The Public Issue of 6,000,000 Shares at an IPO Price of RM1.25 are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner:-

(i) Malaysian Public

2,000,000 Public Issue Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

4. INFORMATION ON THE CSB GROUP (Cont'd)**(ii) Eligible Employees, Directors and Business Associates of the Group**

4,000,000 Public Issue Shares will be reserved for the eligible employees, Directors and business associates (which include the suppliers, sales agents and customers) of the Group.

The shares have been allocated to the eligible employees and Directors of the Group based on the following criteria as approved by the Company's Board of Directors:-

- (a) At least eighteen (18) years old;
- (b) Job position;
- (c) Length of service; and
- (d) Non- Malaysian citizens are not eligible.

Details of the Pink Form Shares allocation to the eligible Directors and employees of the CSB Group are as follows: -

Directors

| Name of Directors | Designation | Pink Form Allocation |
|-------------------|------------------------------------|----------------------|
| Tang Kam Chee | Independent Non Executive Director | 50,000 |
| Tee Sze Ping | Independent Non Executive Director | 20,000 |
| Total | | 70,000 |

Eligible Employees

| Category | No of eligible employees | Pink Form Allocation |
|--|--------------------------|----------------------|
| Senior Managers | 2 | 430,000 |
| Managers/Assistant Managers | 6 | 434,000 |
| Supervisors | 11 | 852,000 |
| Assistant Supervisors/Officers/ Executives | 19 | 380,000 |
| Coordinator/Assistant Officers/Lorry Drivers | 12 | 124,000 |
| Junior Supervisors/General Clerks | 39 | 225,000 |
| General Workers/Guards | 138 | 396,000 |
| Total | 227 | 2,841,000 |

4. INFORMATION ON THE CSB GROUP (Cont'd)**(e) Offer For Sale**

The Offer For Sale of 24,076,100 Shares at an IPO Price of RM1.25 are payable in full on application upon such terms and conditions as set out in this Prospectus and will be allocated and allotted in the following manner: -

(i) Malaysian Public

4,000,000 Offer Shares will be made available for application by Malaysian citizens, companies, societies, co-operatives and institutions, of which at least 30% is to be set aside strictly for Bumiputera individuals, companies, societies, co-operatives and institutions.

(ii) Placees

5,000,000 Offer Shares representing 5.0% of the enlarge paid-up share capital by way of private placement to potential investors (who are deemed public).

(iii) Bumiputera Investors

15,076,100 Offer Shares will be reserved for approved Bumiputera investors by the MITI.

In summary, the IPO Shares will be allocated and allotted in the following manner: -

| | Public Issue Shares | Offer Shares | Total IPO Shares |
|---|------------------------|-------------------|---------------------|
| Malaysian public | 2,000,000 | 4,000,000 | 6,000,000 |
| Eligible Employees, Directors and/or Business Associates of the Group | 4,000,000 | - | 4,000,000 |
| Placees | - | 5,000,000 | 5,000,000 |
| Bumiputera investors | - | 15,076,100 | 15,076,100 |
| Total | 6,000,000 | 24,076,100 | 30,076,100 |

All the IPO Shares available for application by the Malaysian public and the eligible employees, Directors and/or business associates of the Group shall be fully underwritten. The IPO Shares available for application by identified placees and Bumiputera investors will not be underwritten.

Any IPO Shares which are not taken up by eligible employees and Directors of the Group and/or the business associates of the Group will be made available for application by the Malaysian public and/or identified placees via private placement.

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.1.4 ESOS

CSB had on 28 April 2004 obtained the approval of the Bursa Securities to establish an employee share option scheme in order to retain and motivate eligible Executive Directors and employees who have contributed to the success of the Group. According to the Bursa Securities's guidelines on employee share option schemes, the effective date for the implementation of the scheme shall be the date of full compliance with all relevant requirements of Bursa Securities including the following:-

- (a) submission of the final copy of the bylaws of the scheme to the Bursa Securities;
- (b) receipt of approval-in-principle for the listing of the shares to be issued under the scheme from the Bursa Securities;
- (c) procurement of shareholders' approval for the scheme;
- (d) receipt of approval of any other relevant authorities, where applicable; and
- (e) fulfilment of all conditions attached to the above approvals, if any.

AmMerchant must submit a confirmation to the Bursa Securities of full compliance above stating the effective date of implementation together with a certified true copy of the relevant resolution passed by shareholders in general meeting. The submission of the confirmation must be made no later than 5 market days after the effective date of implementation.

The Proposed ESOS will be for a duration of five (5) years and maximum number of Shares that may be issued to eligible Executive Directors and employees of the Group under the Proposed ESOS is limited to 15% of CSB's issued and paid-up share capital at any point in time.

According to the Bursa Securities's guidelines on ESOS, the price payable for the shares under a share scheme for employees shall be:-

- (a) for an applicant implementing the scheme as part of its listing proposal, not less than the initial public offer price ; or
- (b) based on the 5 day weighted average market price of the underlying shares at the time the option is offered, with a discount that does not exceed 10%.

The Company proposes to grant up to 15.0 million Options to the eligible Directors and employees of the Group ("**Initial Grant**"). The exercise price of the Options which is the subject matter of the Initial Grant is the IPO Price of the Shares, where the Options are granted before the Company is listed on Bursa Securities.

In addition to the Initial Grant, the Company shall, within the duration of the ESOS, make offers to grant Options to the Directors and eligible employees of the Group in accordance with the ESOS Bye-Laws adopted by the shareholders of the Company.

The Directors of CSB intend to utilise the proceeds from the exercise of the ESOS Options for working capital purposes.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The new Shares to be allotted upon any exercise of the ESOS Option will upon allotment rank *pari passu* in all respect with the then existing issued ordinary shares of the Company except that the Shares so issued shall not rank for any dividends or other distribution declared, made or paid to shareholders which entitlement date thereof precedes the relevant exercise date of ESOS Option and will be subject to all provisions of the Articles of Association of the Company.

The Bye-Laws of the Proposed ESOS are set out in Section 14 of this Prospectus

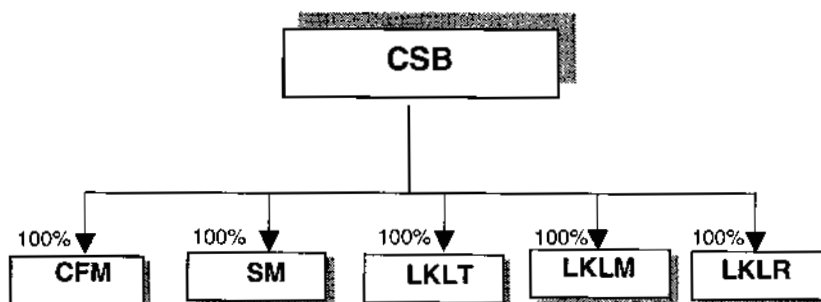
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4. INFORMATION ON THE CSB GROUP (Cont'd)

4.2 BUSINESS OVERVIEW AND ACTIVITIES

4.2.1 Group Structure

An overview of the CSB Group's structure is set out below: -



Details of the subsidiary companies of the CSB are summarised below: -

| Company | Date/Place of Incorporation | Issued and Paid-up Share Capital (RM) | Effective Equity Interest (%) | Principal Activities |
|----------------------------|------------------------------|---------------------------------------|-------------------------------|--|
| Subsidiaries of CSB | | | | |
| SM | 26 January 1999/ Malaysia | 710,000 | 100 | Manufacture of wooden picture frame moulding |
| CFM | 8 March 1991/ Malaysia | 100,000 | 100 | Property holding and rental of properties * |
| LKLR | 14 June 1990/ Malaysia | 750,000 | 100 | Property holding and rental of properties |
| LKLT | 9 March 1983/ Malaysia | 100,004 | 100 | Manufacture of timber products |
| LKLM | 25 April 1997/ Malaysia | 10,000 | 100 | Marketing of timber-related products |

* CFM ceased its wooden picture frame moulding operations in 2002

4.2.2 Principal Products and Services

CSB Group is principally engaged in manufacturing of wooden picture frames moulding. Other business activities of the Group include manufacture of other wood-based products, such as wooden pallets and stillages, property holding and rental of properties.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The breakdown of the Group's revenue by product and services for the year ended 31 December 2003 is as follows:-

| | Revenue contribution for financial years ended 31 December 2003 | |
|---|---|--------------|
| | RM'000 | % |
| Manufacturing of wooden picture frame moulding | 39,870 | 95.9* |
| - Ramin Stained | 15,468 | 37.2 |
| - Matt Colour | 14,522 | 34.9 |
| - Decorative Gilding | 3,700 | 8.9 |
| - Other Wood Stained | 3,177 | 7.6 |
| - Gloss Lacquer | 2,943 | 7.1 |
| - Gold and Silver Leaf | 60 | 0.1 |
| Manufacturing of other wood based products⁽¹⁾ | 1,411 | 3.4 |
| Others⁽²⁾ | 289 | 0.7 |
| Total | 41,571* | 100.0 |

* Total does not add up due to rounding

Note:

- (1) *Wooden pallets and stillages also include top plank and wooden cases. Top planks form the cover of the wooden pallet.*
- (2) *Others include rental income from properties and revenue from sale of sawntimber off-cuts generated from the Group's manufacturing operations.*

For the financial year ended 31 December 2003, wooden picture frame moulding contributed 95.9% of the revenue of the Group. Of this, Ramin Stained and Matt Colour picture frame moulding accounted for the highest revenue contribution at 37.2% and 34.9% respectively. This is followed by Decorative Gilding, Other Wood Stained and Gloss Lacquer picture frame moulding at 8.9%, 7.6% and 7.1% respectively. The remainder are Gold and Silver Leaf wooden picture frame moulding.

Other wood based products such as wooden pallets and stillages accounted for 3.4% of the Group's revenue. The remainder is contributed by rental income and sale of sawntimber off-cuts at 0.7%.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The breakdown of the Group's export and local revenue contributed by products for financial year ended 31 December 2003 is as follows:-

| Markets | Revenue contribution to the Group for financial years ended 31 December 2003 | |
|----------------|---|--------------|
| | RM'000 | % |
| Local | 2,477 | 6.0 |
| Export | 39,094 | 94.0 |
| Total | 41,571 | 100.0 |

For the financial year ended 31 December 2003, export markets contributed 94.0% of the Group's revenue. The remaining 6.0% of the Group's revenue is derived from the local market.

(a) Manufacture of wooden picture frame moulding

CSB Group is principally engaged in the manufacture of quality wooden picture frame moulding, which is used by picture framing outlets for applications including framing of certificates, mirrors, awards, portraits or drawings, paintings, maps, antiques, photos, prints, collectors' items and many others. The manufacture of wooden picture frame moulding is undertaken by SM.

Generally, most households would use some form of wooden picture for decorative purposes. Some of the sectors that would constitute user-industries also include:

- hospitality industry such as hotels/motels and restaurants;
- museums and art galleries;
- foyers of buildings;
- offices.

The Group has the capabilities to provide customised solutions to meet the needs and specifications of customers incorporating:

- in-house frame design and development;
- in-house development of moulds for profiling;
- in-house finishing.

As at 31 August 2004, the Group has developed the following in-house:

- approximately 630 are in-house developed designs of wooden picture frame profiles and finishing;
- approximately 2,300 are designs of profiles and finishing derived from samples provided by customers.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The lengths wooden picture frame moulding manufactured by the Group are primarily between 7 to 11 feet. The Group can manufacture wooden picture frame moulding in a wide range of finishes including:

- Decorative gilding;
- Embossed;
- High gloss lacquer;
- Fillet;
- Gold and silver leaf;
- Ramin stained;
- **Matt black;**
- Solid and metallic;
- Wash and distressed;
- Other wood stain.

Of all these types of finishes, the most common finishes are matt colours and stained wood. Other higher quality finishes include decorative gilding, high gloss lacquer, gold and silver leaf, washed and distressed, embossed and others.

The Group utilises the finger-jointing method in the manufacturing of wooden picture frame moulding. Finger-jointing involves the joining of two pieces of timber end-to-end by sawing into the end of each piece a set of vertical to the surface wedged-shaped projecting 'fingers' that interlock when the two pieces are pushed together with an adhesive, forming a strong glued joint.

As part of the Group's emphasis on quality, SM obtained ISO 9001:2000 accreditation on 14 December 2001. This provides its customers with the assurance of the quality of the Group's products.

SM has been granted Pioneer Status by MITI for a period of 5 years from 1 October 1999 until 30 September 2004.

(b) Manufacture of Other Wood-Based Products

The manufacture of other wood-based products is undertaken by LKLT.

The range of wood-based products manufactured include:

- wooden pallets;
- stillages.

Wooden pallets and stillages are used in the container industry. Wooden pallets are primarily used as a base for assembling, storing, stacking, handling and transporting the movement of goods. Stillages are a form of portable storage racks.

The Group mainly services the local market for its wooden pallets and stillages.

For the year ended 31 December 2003, revenue from its wooden pallets and stillages accounted for RM1.4 million, representing 3.4% of the Group's total revenue.

4. INFORMATION ON THE CSB GROUP (Cont'd)**(c) Property Rental**

The property holding and rental of properties is undertaken by LKLR and CFM.

(d) Marketing Activities

For wooden picture frame moulding, LKLM has been established to manage the local marketing activities whilst SM focus on overseas marketing activities.

The marketing of wooden pallets and stillages is undertaken by LKLT.

4.2.3 Technology Used

As a wooden picture frame moulding manufacturer, one of the major factors to sustain growth and competitiveness is the high quality products. Some of the technologies being used in the Group's operation are as follows:-

(a) Kiln Drying

Kiln drying is a popular and economical method of reducing moisture content in sawntimber. Kiln drying minimises moisture absorption and prevents consequent swelling, shrinking and warping in timber.

A well kiln-dried timber would result in reduced surface cracking and splitting, improved physical and mechanical properties, better working quality with different tools, and easy finishing.

Sawntimber are usually dried in kilns to reduce and adjust the inherent moisture content to a level suited for the climate in which the sawntimber will be used. The required moisture content is usually between 10%±2%.

The kiln drying process is carried out in an enclosed chamber in which the temperature, humidity and circulation of air is controlled to allow the gradual removal of moisture from the sawntimber. The requirements differ depending on the country in which the timbers would be used. Sawntimber for a tropical country such as Malaysia would have a higher moisture content compared to other countries.

(b) Finger-Jointing

Finger-jointing technology optimises the use of timber by enabling small pieces of timber to join into longer timber for further processing.

Finger-jointing is achieved through the use of high-powered and accurate routers or shapers that cut wedges at the ends of timber pieces. Glue is then applied to the ends and the two pieces with corresponding wedges or fingers are pushed together to form one jointed piece. The process of jointing is then repeated until the required length is achieved.

4. INFORMATION ON THE CSB GROUP (Cont'd)

CSB Group uses the face-jointing technique of finger-jointing. Face-jointing results in visible joints on the surface of the moulded timber where the two pieces of timber are joined. The joints are visible as zigzagged patterns on the timber surface.

4.2.4 Approvals, Major Licences and Permits Obtained

The major licences and registration held by the CSB Group include:-

- Manufacturing licences issued by MITI;
- Certificate of Registration for exports with Malaysian Timber Industry Board;
- Woodwork factory licence issued by the Selangor Forestry Department;
- Certificate of Origin issued by the Malaysian Timber Industry Board are required for every consignment of Ramin timber based products exported.

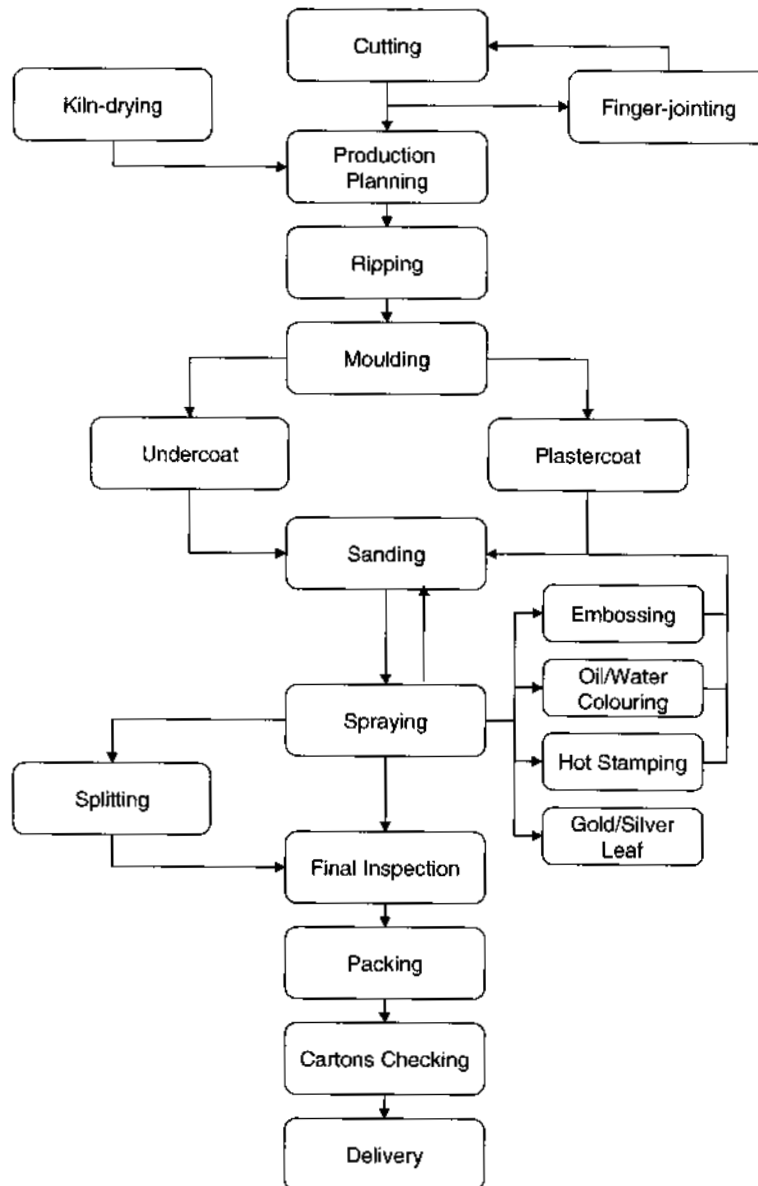
The Group currently does not hold any patents, trademarks or franchises.

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4. INFORMATION ON THE CSB GROUP (Cont'd)

4.2.5 Manufacturing process

The manufacturing process for the manufacture of wooden picture frame moulding can be illustrated as follows:-



- (a) Sawn timber initially goes through a cutting process where the wet timber must be cut into specified lengths within a certain time period to prevent it from turning into black colour. The cut timber lengths are then stacked with runners for better ventilation.
- (b) Kiln-dried sawn timber is checked for moisture content before it is cut into specific lengths. Kiln-dried timber that fails to meet the minimum specifications will be returned to the supplier or sent to the Kiln-drying room for further treatment.

4. INFORMATION ON THE CSB GROUP (Cont'd)

- (c) Kiln-dried timber that does not meet the minimum specified lengths is sent to for finger-jointing.
- (d) After the process, the finger-jointed timber is subsequently checked for moisture content.
- (e) The dried timber then goes through a ripping process where the timber is sawn based on the production list from production planning. During the ripping process, the wood is sawn or cut to the required size. Bent wood will also be cut and sent for finger-jointing.
- (f) The ripped wood then proceeds to the moulding process where the required profile is cut and moulded.
- (g) The non-stained moulding must be coated with an undercoat before it goes through a sanding process. The stained moulding goes through a plaster coat process before the sanding process.
- (h) The moulding then goes through the next stage of the finishing process. These include:
 - Embossing;
 - Oil and Water Colouring;
 - Hot Stamping;
 - Gold and Silver Leaf.
- (i) After the category-specific processing, the finished wood moulding are sent for final inspection. Products that fail to meet the minimum requirements specified are reworked, recycled or simply rejected.
- (j) The accepted products are packaged and packed as a finished product awaiting export or delivery to customers.

4.2.6 Estimated Market Coverage, Position and Share

Market Position

Based on Group's revenue of RM41.6 million for the financial year ended 31 December 2003, CSB Group ranked first among operators within the wooden picture frame moulding industry in Malaysia in 2003.

Market Size and Share

In 2003, the market size for the wooden picture frame moulding industry in Malaysia was estimated at RM150 million.

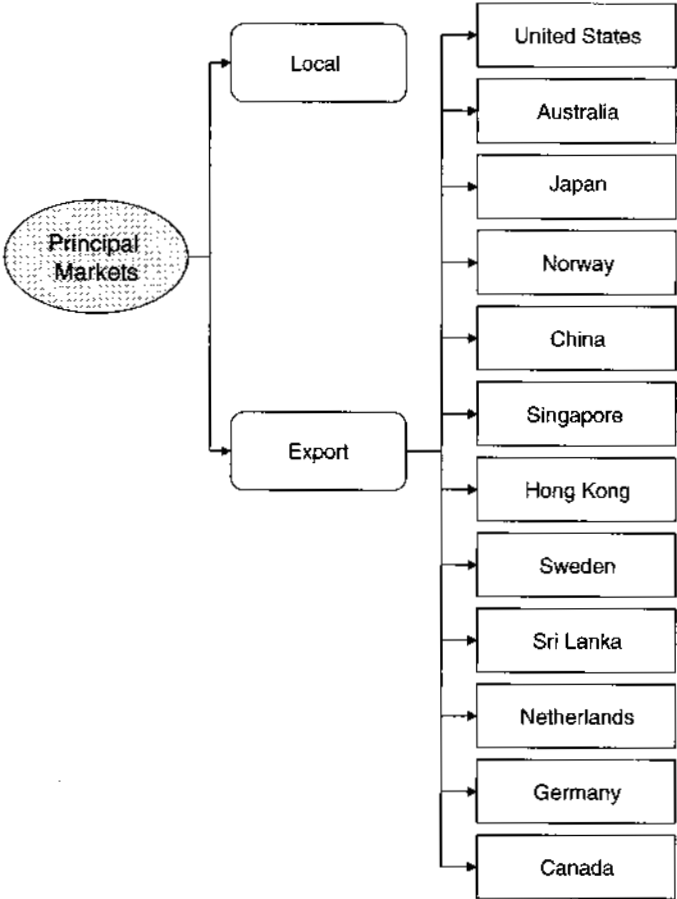
Using Group's revenue of RM39.9 million for picture frame moulding products for the financial year ended 31 December 2003, the market share of CSB in the wooden picture frame moulding segment in Malaysia is estimated at approximately 27% in 2003.

(Source: Assessment of the Wood Moulding Industry focusing on Picture Frame Moulding prepared by Vital Factor Consulting Sdn Bhd)

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.2.7 Principal Markets for Products

The principal markets of the CSB Group are both local and global.



A significant proportion of CSB Group's revenue is derived from export sales. This is reflected by the fact that 94.0% of the Group's revenue was derived from exports for the financial year ended 31 December 2003. The remaining 6.0% was contributed by local sales.

Export sales mainly comprised wooden picture frame moulding whilst local sales are derived from a combination of sales of wooden picture frame moulding and, wooden pallets and stillages.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The revenue contribution of CSB Group by principal markets for the financial year ended 31 December 2003 is as follows:

| Country | Revenue Contribution (RM '000) | Contribution to Group Revenue for Financial Year Ended 31 December 2003 (%) |
|-------------------------|-----------------------------------|--|
| Export | 39,094 | 94.0# |
| United States | 30,503 | 73.4 |
| Australia | 4,156 | 10.0 |
| Japan | 2,841 | 6.8 |
| Norway | 782 | 1.9 |
| China | 255 | 0.6 |
| Canada | 212 | 0.5 |
| Singapore | 175 | 0.4 |
| Hong Kong | 62 | 0.1 |
| Sweden | 56 | 0.1 |
| Sri Lanka | 24 | 0.1 |
| Netherlands | 18 | * |
| Germany | 10 | * |
| Local | 2,477 | 6.0 |
| Selangor ⁽¹⁾ | 1,371 | 3.3 |
| Kuala Lumpur | 936 | 2.3 |
| Johor | 114 | 0.3 |
| Pahang | 35 | 0.1 |
| Seremban | 17 | * |
| Melaka | 4 | * |
| Total | 41,571 | 100 |

Total does not add up due to rounding

⁽¹⁾ Revenue from Selangor also includes rental income of RM96,000.

For the financial year ended 31 December 2003, US accounted for the highest revenue contribution at 73.4%. This is followed by Australia and Japan at 10.0% and 6.8% respectively. The remaining 3.8% is distributed among 10 other export markets.

Within the local market, Selangor accounted for the highest revenue constituting 3.3% of Group's revenue for the financial year ended 31 December 2003. This is followed by Kuala Lumpur at 2.3%.

The remainder is distributed among other markets including Johor, Pahang, Seremban and Melaka.

4. INFORMATION ON THE CSB GROUP (Cont'd)**4.2.8 Types, Sources and Availability of Raw Materials/Inputs**

Following are the major types of raw materials and sources of supply of CSB Group:-

| Raw Materials | Value of Purchases (RM'000) | Percentage of Total Group Purchases (%) | Sources of Supply | |
|--------------------------------|--------------------------------|--|-------------------|------------|
| | | | Local (%) | Import (%) |
| Sawntimber | 12,397 | 76.0 | 98 | 2 |
| - Ramin | 4,911 | 30.1 | | |
| - Jelutong | 3,865 | 23.7 | | |
| - Mixed Hardwood | 1,036 | 6.4 | | |
| - Others | 2,585 | 15.8 | | |
| Plantation Wood | 236 | 1.4 | - | 100 |
| Varnish and Lacquer | 1,744 | 10.7 | 27 | 73 |
| Undercoat | 524 | 3.2 | 95 | 5 |
| Foil | 263 | 1.6 | - | 100 |
| Imitation Gold and Silver Leaf | 7 | # | - | 100 |
| Total | 15,171 | 92.9* | 87 | 13 |

* Does not add up due to rounding.

Insignificant

Note: Raw material purchases exclude consumables such as packing materials, fuel and electricity.

Others include Pulai, Melawis, Durian and other wood species.

Based on the Financial Year Ended 31 December 2003, the Group's total purchases amounted to RM16.3 million.

As CSB Group is in the manufacturing of wooden picture frame moulding and wooden pallets and stillages, the usage of wood-based materials constitutes a significant proportion of raw materials used in its manufacturing operations.

Sawntimber

For the financial year ended 31 December 2003, sawntimber accounted for 76.0% of total raw material purchases of the Group. Of these, Ramin and Jelutong constituted the largest species of sawntimber purchased by the Group at 30.1% and 23.7% respectively. The remainder is distributed among different types of mixed hardwood and other wood species.

The Group sources approximately 98% of its supply of sawntimber locally.

4. INFORMATION ON THE CSB GROUP (Cont'd)

Malaysia is a producer and exporter of sawntimber. There are approximately 1,088 sawmills in Malaysia in 2003. (Source: *Business Overview of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd*)

In 2003, the estimated production of sawntimber in Malaysia reached approximately 4.7 million cubic metres, an increase of 2.7% over the previous year. Between 1999 and 2003, the production of sawntimber in Malaysia declined at an average annual rate of 2.4%. (Source: *Business Overview of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd*)

The Group also uses a small proportion of plantation wood specifically pinewood which is imported from overseas. For the financial year ended 31 December 2003, plantation wood only accounted for 1.4% of total raw material purchases of the Group.

The Group currently stocks approximately 5 to 8 months' supply of sawntimber in its warehouse.

Thus far, management has not experienced any shortages in supply of sawntimber and plantation wood.

Varnish and Lacquer

For the financial year ended 31 December 2003, varnish and lacquer accounted for approximately 10.7% of the total raw material purchases of the Group.

The Group sources approximately 27% of its varnish and lacquer locally and the remainder 73% is imported.

Some of the reasons for importing varnish and lacquer are:

- Some of the grades of varnish and lacquer used by the Group are not available locally;
- Locally produced varnish and lacquer do not meet the specifications and requirements of overseas customers for example non-scratch resistance.

In Malaysia, there are approximately 38 operators who are formulators of paint and paint products including varnishes in 2001. (Source: *Business Overview of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd*)

Sales value of paints, varnishes and lacquers reached approximately RM1.4 billion in 2003, an increase of 8.8%. Between 1998 and 2003, sales value of paints, varnishes and lacquers increased at an average rate of 9.0% per annum. (Source: *Business Overview of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd*)

According to management, the Group has not experienced any shortages in the supply of varnishes and lacquers.

Other Materials

Other raw materials used by the Group include undercoat, foil and imitation gold and silver leaf. All of these materials constituted only 4.8% of total purchases of the Group for the financial year ended 31 December 2003.

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.2.9 Quality Control Procedures

CSB Group places significant emphasis on quality. Stringent quality controls are implemented in each and every aspect of its operations.

Essentially the Group adopts the following approaches to ensure that certain quality standards maintained internally:

- In-coming raw materials as in the sawntimber is fully inspected for quality and those with an excessive number of knots and cracks will be returned to the supplier.
- Prior to mass production, coating, finishing and colouring will be checked against the specifications of the customer.
- At each stage of the production process, quality checks are also undertaken.
- Final quality checks in the form of inspections are also carried out for 100% of the final products before despatching to the customer.

As part of the Group's emphasis on quality, SM obtained ISO 9001:2000 quality accreditations from Lloyd's Register Quality Assurance in 2001. This provides customers with the assurance of quality of wooden picture frame moulding produced by the Group.

As at 31 August 2004, CSB Group has an experienced quality assurance team of 49 line leaders and supervisors that are responsible for monitoring the quality of its products in addition to a final inspection team consisting 18 personnel. However these line leaders and supervisors also perform other tasks in the production process.

The Group also employs a mixture of manual and automated features to ensure consistent quality in its products. The Group has provided on the job training to its factory workers to enable them to contribute to the efficient production and operation of the factory. Constant monitoring of the production lines by skilled and experienced supervisors has enabled the CSB Group to manufacture products that meet the customer requirements.

4.2.10 Research and Development

CSB Group has three personnel in the R & D team which is headed by a Director. The main objective of the R&D Department is to:

- develop new designs in wooden picture frames;
- evaluate existing products for continuous improvement;
- assess the feasibility of proposed new designs and species of timber before production;
- undertake research on new formulations of coatings and finishing to achieve desired results.

There are no testing facilities required for wooden picture frame moulding as there are no properties to test. Wooden picture frame moulding is mainly based on aesthetics and finishing.

4. INFORMATION ON THE CSB GROUP (Cont'd)***Achievements in research and development***

Over the years, CSB Group has successfully undertaken R&D to commercialise the following products that are reflected in its current product portfolio.

- Wooden Picture Frames
- Decorative gilding
- Embossed
- Gold and silver Leaf
- Ramin stained
- Matt black
- Solid and metallic
- Wash and distressed
- Other wood stained

R&D was undertaken in the wooden picture frames to achieve the different types of finishing for example the wash and distressed finish to give the effect of an aged appearance in the frame.

On going research and development

The Group's R&D are focused on the following areas including:

- a) Development of new designs and products;
 - b) Formulation of coatings and finishing;
 - c) Improvement of existing manufacturing processes.
- a) Development of New Designs and Products

CSB Group undertakes research on new designs in wooden picture frames to cater to the needs and preferences of its consumers particularly in the respective export markets.

In all the new designs, the Group has to develop a sample of wooden picture frames to achieve the specifications and requirements of the customer before it goes into full production. Usually samples are provided by the customer for the Group to emulate the exact appearance, design and finish.

The Group keeps abreast with developments in worldwide trends through its regular visits to, and participation in, both local and international trade exhibitions as well as working closely and understanding the requirements and tastes of existing customers.

Some of the areas that the Group seeks to emulate international best practices and trends include:

- Different types of finishing for example using more intense hand distressing to create an authentic aged appearance for the antique effect. Other finishing of wooden picture frame moulding also includes high gloss and metallic based 3-D holographic effects.
- Different profiling to meet the needs of end-consumers, which continues to be the larger profiles for the market in USA.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The Group is currently developing the following new designs of wooden picture frames:

- ready-made picture frame designs that will appeal to the needs and taste of overseas consumers;
- wooden picture frame moulding made from plantation wood such as radiata pine;
- new designs of wooden picture frame moulding with laminated foil or veneer look finish.

b) Formulation of coating and finishing

One of the major processes in the production of wooden picture frame moulding is in the formulation of coatings to achieve the desired characteristics or appearance. The process of the application and the coating will impact on the quality of the finished product.

The Group formulates its own coatings in-house and most of these are customised to the requirements of the customer.

Some of the on-going research and development on coating and finishing of wooden picture frame moulding that are currently being developed by the Group include:

- antique look with 'fired ' or 'burnt' effects;
- conventional or 'country' look;
- 3-D Holographic or 3-D depth effects.

The Group has already undertaken pilot production runs of wooden picture frame moulding with some of the above combination of coating and finishing.

c) Improvement of existing manufacturing Processes

CSB Group is committed in ensuring continuous process improvement, particularly in its manufacturing processes.

The Group's commitment in this area is seen through a range of activities, such as:

- Continuous evaluation and streamlining of existing work processes and procedures;
- Surveying and adopting new technologies and machineries to elevate overall efficiency and productivity level.

Future Research and development

a) Use of Alternative Raw Materials

CSB Group proposes to undertake R & D on the use of alternative wood-based raw materials for its production of wooden picture frame moulding. Some of the alternative wood-based materials include:

- Chipboard
- Medium Density Fibreboard (MDF)
- Other wood species

At this stage, CSB Group is developing wooden picture frame moulding using plantation wood such as radiata pine.

4. INFORMATION ON THE CSB GROUP (Cont'd)**Research and development expenditure**

The amount spent on R&D activities for the last three financial years are as follows:

| Financial Year Ended | 2001 | 2002 | 2003 |
|---|------------------|------------------|------------------|
| R&D Capital Expenditure (RM) | 23,120.0 | 19,908.7 | 31,307.0 |
| R&D Operating Expenses (RM) | 105,750.6 | 272,643.6 | 316,951.3 |
| TOTAL R&D Expenses (RM) | 128,870.6 | 292,552.2 | 348,258.3 |
| Total R&D Expenses as a Proportion of the Group's Total Revenue (%) | 0.4 % | 0.8% | 0.8% |

4.2.11 Interruptions in the Business for the Past Twelve (12) Months

There have been no interruption in the form of trade disputes or major operational breakdown occurring within the Group that significantly impairs the Group's business performance during the past twelve (12) months.

4.2.12 Employees

To date, shortage of labour has never been a major issue, neither has it impeded on the Group's business growth or caused interruptions in its operations.

As at 31 August 2004, the CSB Group had a total of 337 employees (include Executive Directors) in its workforce and the overall employee segmentation is as follows:

| | Local | Foreign | Total | Average of years service |
|-------------------------------------|------------|-----------|------------|--------------------------|
| <i>Management and Professionals</i> | 21 | - | 21 | 7 |
| <i>Sales and Marketing</i> | 4 | - | 4 | 8 |
| <i>Technical and Supervisory</i> | 15 | - | 15 | |
| - Quality Assurance | 2 | - | 2 | 2 |
| - Research and Development | 3 | - | 3 | 5 |
| - Production Supervisors | 10 | - | 10 | 10 |
| <i>Clerical and Administrative</i> | 18 | - | 18 | 2 |
| <i>Factory Workers</i> | 202 | 77 | 279 | |
| - Skilled Workers | 50 | - | 50 | 7 |
| - Semi-skilled Workers | 135 | 49 | 184 | 3 |
| - Unskilled Workers | 17 | 28 | 45 | <1 |
| TOTAL | 260 | 77 | 337 | |

Note:

Skilled workers are mainly line leaders and assistant supervisors.

Semi-skilled workers are mainly machine operators and quality assurance personnel.

Unskilled workers are mainly cleaners, general workers, workers on probation and security guards

Management and professional personnel represented 6.2% of the Group's total staff strength. Technical and supervisory staff accounted for approximately 4.5% of total number of employees.

4. INFORMATION ON THE CSB GROUP (Cont'd)

Clerical and administrative personnel accounted for 5.3% of the Group's total workforce.

Factory floor workers remained the largest workforce, which accounted for 82.8% of the Group's total staff strength. Skilled workers and semi-skilled workers accounted for 14.8% and 54.6% respectively. The remaining unskilled workers represented 13.4% of the total staff strength.

Foreign workers accounted for 22.8% of the Group's workforce, all of whom are primarily involved in factory operations, including manning machinery and equipment.

The Group does not have any employees who are members of any unions and the employees enjoy a cordial relationship with the management. There has been no major industrial dispute in the past between the management and the employees of the Group.

Training

The directors firmly believe that competent and trained employees are instrumental to the success of CSB Group. The Group conducts training needs identification, prepares annual training plan, provides formal and on-job-training as well as conducts post-training evaluation. Formal training and development programmes are categorized into 3 types:

(a) Job-related skill training

Comprise of training and seminar aims at developing job-competency such as effective purchasing management, material planning and control, forklift operator and managing customer complaints.

(b) Certificate courses

The Group sponsors employees to pursue examinable courses such as shipping, safety and health officer and human resource management.

(c) Soft skills training

Comprise of training to develop employee personal skill and cultivate positive work attitude such as communication skill, supervisory skill, 18 essential productivity techniques and fire-fighting.

4.2.13 Key Achievements/Milestones/Awards

On 14 December 2001, SM has obtained accreditation from ISO 9001: 2000 Standard. This provides customer with the assurance of quality of its products.

SM was also one of the 50 winners of the Enterprise 50 award for the Year 2004. Enterprise 50 is an annual award programme organised by Deloitte KassimChan and the Small and Medium Industries Development Corporation (SMIDEC). This award recognises the achievements of Malaysia's enterprising homegrown companies which are well positioned for the future. 50 winners are selected from amongst the nominations received, and the evaluation is based on the companies' management and financial performance.

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.2.14 Modes of Marketing/Distributions/Sales

a) Marketing strategies

The sales and marketing arm of CSB Group utilises the following marketing strategies:

- continually providing excellence in product quality and customer service to foster a long-term business relationship;
- expand its market presence overseas by working in close partnership with overseas customers;
- maintaining close working relationships with its customers to win incremental sales;
- keeping abreast with rapidly changing trends and technological development to stay ahead of competition as well as better meet the needs of customers;
- promote and market the Group's products through local and international trade fairs and exhibitions such as:
 - . Décor-Expo Atlanta, USA;
 - . Décor-Expo New York, USA;
 - . Art and Framing Trade Fair, Australia;
 - . Quadrum Sacca, Italy;
 - . Ambiente-Frankfurt, Germany;
 - . Autumn Fair Birmingham, UK.

The Group specifically exhibited its wooden picture frame moulding at the Quadrum Sacca convention in Italy in 2002 and 2004.

As at 31 August 2004, the Group has 4 sales and marketing personnel focusing on cultivating new business development. The sales and marketing division is headed by a Director.

b) Distribution channel

The distribution channel strategy of CSB Group is mainly based on indirect distribution to local and overseas customers. The Group's products are distributed to framing workshops and outlets, ready-made frame manufacturers, galleries and picture frame moulding distributors.

This distribution channel strategy enables the Group to utilise the existing distribution network of its customers to reach other user-industries or the final end-consumer.

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.2.15 Production/Operating Capacities and Output

The production output the Group for the financial year ended 31 December 2003 is as follows:

| TYPES OF PRODUCTS | Annual Capacity | Production for the Financial Year 2003 | Percentage Utilisation |
|-------------------------------------|-----------------|--|------------------------|
| Wooden Picture Frame moulding | 25,626,000 feet | 21,358,000 feet | 83 |
| Wooden Pallets/Stillages/Top Planks | 78,000 units | 49,000 units | 62 |

Note: Production is based on an average of one 10-hour shift per day, six days per week. Capacity is based on an average of one 11-hour shift per day, six days per week.

The CSB Group currently operates 6 days per week and 10 hours daily production. The daily 10-hour manufacturing schedule is critical to allow for key bottleneck processes such as the curing of wooden picture frame moulding to take place before proceeding onto the next process.

Curing of the wooden picture frames moulding requires a period of 8 to 48 hours depending on the type of finishing. The curing process also requires space for the stacking of the moulding before it is transferred to the next process.

The curing process is part of the manufacturing process that typifies the nature of the wooded picture frame moulding industry.

4.2.16 Location of Business

(a) Principal Assets

The Group's manufacturing facilities are located in the Jalan RP3, Taman Rawang Perdana, set out as follows :-

| Registered Owner | Location | Description | Total land / Built-up area (sq ft) |
|------------------|----------|-----------------------------|------------------------------------|
| LKLR | Lot 9 | Factory building | 76,209/69,369 |
| LKLR | Lot 10 | Factory building | 76,058/65,383 |
| LKLR | Lot 11 | Vacant industrial land* | 94,422 |
| LKLR | Lot 12 | Factory cum office building | 98,631/106,692 |
| LKLR | Lot 13 | Factory building | 76,478/57,783 |

* under construction

(b) Principal Place of Business

Lot 9,10,12 and 13 Jalan RP3
Taman Rawang Perdana
48000 Rawang
Selangor Darul Ehsan

(c) Marketing and Distribution Network

Lot 12, Jalan RP3
Taman Rawang Perdana
48000 Rawang
Selangor Darul Ehsan

4. INFORMATION ON THE CSB GROUP (Cont'd)**4.3 SUBSIDIARIES****4.3.1 SM****(a) Background and History**

SM was incorporated in Malaysia under the Act on 26 January 1999 as a private limited company. The Company commenced operation in 1999 and obtained Pioneer Status Certification on 1 October 1999 for a period of 5 years. It was accredited with ISO Certification on 14 December 2001.

(b) Principal Activities and Products/Services

The company is principally engaged in manufacture of wooden picture frame moulding. The major product range consists of ramin stained, matt colour, decorative gilding, other wood stained, gloss lacquer, gold and silver leaf finishings.

(c) Substantial Shareholders

SM is a wholly owned subsidiary of CSB.

The substantial shareholders of SM are as follows: -

| Name | Direct Interest | | Indirect Interest | |
|----------------|-----------------|-----|------------------------|-----|
| | No. of shares | (%) | No. of shares | (%) |
| CSB | 710,000 | 100 | - | - |
| LKLH | - | - | ⁽¹⁾ 710,000 | 100 |
| Lim Chee Keong | - | - | ⁽²⁾ 710,000 | 100 |
| Lim Chee Khoo | - | - | ⁽²⁾ 710,000 | 100 |

Notes: -

(1) Deemed interested by virtue of its shareholdings under Section 6A of the Act, in CSB.

(2) Deemed interested by virtue of their shareholding in LKLH pursuant to Section 6A of the Act.

(d) Share Capital

The authorised share capital of SM is RM1,000,000 comprising 1,000,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM710,000 comprising of 710,000 ordinary shares of RM1.00 each.

The changes in SM's issued and paid up share capital since incorporation are as follows: -

| Date Issued | No. of shares allotted | Par value (RM) | Consideration | Cumulative issued and paid up share capital (RM) |
|-------------|------------------------|----------------|---------------------|--|
| 26.01.1999 | 2 | 1.00 | Subscriber's shares | 2 |
| 28.08.1999 | 99,998 | 1.00 | Cash | 100,000 |
| 24.10.2001 | 400,000 | 1.00 | Cash | 500,000 |
| 11.09.2003 | 210,000 | 1.00 | Cash | 710,000 |

4. INFORMATION ON THE CSB GROUP (Cont'd)**(e) Subsidiary/Associated Corporations**

SM does not have any subsidiary or associated corporations.

4.3.2 CFM**(a) Background and History**

CFM was incorporated in Malaysia under the Act on 8 March 1991 as a private limited company. The Company commenced operation in 1994 and obtained Pioneer Status Certification on 1 October 1994 for a period of 5 years.

(b) Principal Activities and Products/Services

The Company was principally engaged in manufacture of wooden picture frame moulding and has ceased its manufacturing operation since November 2002. Currently, the Company is a property holding company and rental of properties.

(c) Substantial Shareholders

CFM is a wholly owned subsidiary of CSB.

The substantial shareholders of CFM are as follows: -

| Name | Direct Interest | | Indirect Interest | |
|----------------|-----------------|-----|------------------------|-----|
| | No. of shares | (%) | No. of shares | (%) |
| CSB | 100,000 | 100 | - | - |
| LKLH | - | - | ⁽¹⁾ 100,000 | 100 |
| Lim Chee Keong | - | - | ⁽²⁾ 100,000 | 100 |
| Lim Chee Khoon | - | - | ⁽²⁾ 100,000 | 100 |

Notes: -

(1) Deemed interested by virtue of its shareholdings in CSB, pursuant to Section 6A of the Act.

(2) Deemed interested by virtue of their shareholdings in LKLH pursuant to Section 6A of the Act.

(d) Share Capital

The authorised share capital of CFM is RM500,000 comprising 500,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM100,000 comprising of 100,000 ordinary shares of RM1.00 each.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The changes in CFM's issued and paid up share capital since incorporation are as follows: -

| Date Issued | No. of shares allotted | Par value (RM) | Consideration | Cumulative issued and paid up share capital (RM) |
|-------------|------------------------|----------------|---------------------|--|
| 08.03.1991 | 2 | 1.00 | Subscriber's shares | 2 |
| 30.08.1994 | 99,998 | 1.00 | Cash | 100,000 |

(e) Subsidiary/Associated Corporations

CFM does not have any subsidiary or associated corporations.

4.3.3 LKLR**(a) Background and History**

LKLR was incorporated in Malaysia under the Act on 14 June 1990 as a private limited company. The company commenced operation in 1991.

(b) Principal Activities and Products/Services

The company is principally engaged in property holding and rental of properties.

(c) Substantial Shareholders

LKLR is a wholly owned subsidiary of CSB.

The substantial shareholders of LKLR are as follows: -

| Name | Direct Interest | | Indirect Interest | |
|----------------|-----------------|-----|------------------------|-----|
| | No. of shares | (%) | No. of shares | (%) |
| CSB | 750,000 | 100 | - | - |
| LKLH | - | - | ⁽¹⁾ 750,000 | 100 |
| Lim Chee Keong | - | - | ⁽²⁾ 750,000 | 100 |
| Lim Chee Khoon | - | - | ⁽²⁾ 750,000 | 100 |

Notes: -

- (1) Deemed interested by virtue of its shareholdings in CSB, pursuant to Section 6A of the Act.
- (2) Deemed interested by virtue of their shareholdings in LKLH pursuant to Section 6A of the Act.

4. INFORMATION ON THE CSB GROUP (Cont'd)**(d) Share Capital**

The authorised share capital of LKLR is RM750,000 comprising 750,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM750,000 comprising of 750,000 ordinary shares of RM1.00 each.

The changes in LKLR's issued and paid up share capital since incorporation are as follows: -

| Date Issued | No. of shares allotted | Par value (RM) | Consideration | Cumulative issued and paid up share capital (RM) |
|--------------------|-------------------------------|-----------------------|----------------------|---|
| 14.06.1990 | 3 | 1.00 | Subscriber's shares | 3 |
| 18.09.1991 | 115,000 | 1.00 | Cash | 115,003 |
| 03.02.1992 | 115,000 | 1.00 | Cash | 230,003 |
| 02.03.1992 | 190,000 | 1.00 | Cash | 420,003 |
| 18.08.1993 | 329,997 | 1.00 | Other than Cash* | 750,000 |

* repayment of shareholders' advance

(e) Subsidiary/Associated Corporations

LKLR does not have any subsidiary or associated corporations.

4.3.4 LKLT**(a) Background and History**

LKLT was incorporated in Malaysia under the Act on 9 March 1983 as a private limited company. The Company commenced operation of manufacture of timber product in 1998.

(b) Principal Activities and Products/Services

The company is principally engaged in manufacture of timber products. The major product range consists of wooden pallet, top plank and wooden strip.

(c) Substantial Shareholders

LKLT is a wholly owned subsidiary of CSB.

The substantial shareholders of LKLT are as follows: -

| Name | Direct Interest | | Indirect Interest | |
|----------------|------------------------|------------|--------------------------|------------|
| | No. of shares | (%) | No. of shares | (%) |
| CSB | 100,004 | 100 | - | - |
| LKLH | - | - | ⁽¹⁾ 100,004 | 100 |
| Lim Chee Keong | - | - | ⁽²⁾ 100,004 | 100 |
| Lim Chee Khoon | - | - | ⁽²⁾ 100,004 | 100 |

4. INFORMATION ON THE CSB GROUP (Cont'd)

Notes: -

- (1) Deemed interested by virtue of its shareholdings in CSB, pursuant to Section 6A of the Act.
 (2) Deemed interested by virtue of their shareholdings in LKLH pursuant to Section 6A of the Act.

(d) Share Capital

The authorised share capital of LKLT is RM250,000 comprising 250,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM100,004 comprising of 100,004 ordinary shares of RM1.00 each.

The changes in LKLT's issued and paid up share capital since incorporation are as follows: -

| Date Issued | No. of shares allotted | Par value (RM) | Consideration | Cumulative issued and paid up share capital (RM) |
|-------------|------------------------|----------------|---------------------|--|
| 09.03.1983 | 3 | 1.00 | Subscriber's shares | 3 |
| 24.08.1987 | 1 | 1.00 | Cash | 4 |
| 24.03.1988 | 50,000 | 1.00 | Cash | 50,004 |
| 01.06.1989 | 50,000 | 1.00 | Cash | 100,004 |

(e) Subsidiary/Associated Corporations

LKLT does not have any subsidiary or associated corporations.

4.3.5 LKLM**(a) Background and History**

LKLM was incorporated in Malaysia under the Act on 25 April 1997 as a private limited company. The Company commenced business in 1997.

(b) Principal Activities and Products/Services

The company is principally engaged in marketing of timber-related products. The major products that are being marketed consist of wooden picture frame moulding and poster wood.

(c) Substantial Shareholders

LKLM is a wholly owned subsidiary of CSB.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The substantial shareholders of LKLM are as follows: -

| Name | Direct Interest | | Indirect Interest | |
|----------------|-----------------|-----|-----------------------|-----|
| | No. of shares | (%) | No. of shares | (%) |
| CSB | 10,000 | 100 | - | - |
| LKLH | - | - | ⁽¹⁾ 10,000 | 100 |
| Lim Chee Keong | - | - | ⁽²⁾ 10,000 | 100 |
| Lim Chee Khoon | - | - | ⁽²⁾ 10,000 | 100 |

Notes: -

- (1) Deemed interested by virtue of its shareholdings in CSB, pursuant to Section 6A of the Act.
- (2) Deemed interested by virtue of their shareholdings in LKLH, pursuant to Section 6A of the Act.

(d) Share Capital

The authorised share capital of LKLM is RM100,000 comprising of 100,000 ordinary shares of RM1.00 each. The issued and paid up share capital is RM10,000 comprising of 10,000 ordinary shares of RM1.00 each.

The changes in LKLM's issued and paid up share capital since incorporation are as follows: -

| Date Issued | No. of shares allotted | Par value (RM) | Consideration | Cumulative issued and paid up share capital (RM) |
|-------------|------------------------|----------------|---------------------|--|
| 25.04.1997 | 2 | 1.00 | Subscriber's shares | 2 |
| 16.12.2003 | 9,998 | 1.00 | Cash | 10,000 |

(e) Subsidiary/Associated Corporations

LKLM does not have any subsidiary or associated corporations.

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4. INFORMATION ON THE CSB GROUP (Cont'd)

4.4 INDUSTRY OVERVIEW**4.4.1 Overview of the Malaysian Economy**

The Malaysian economy accelerated its growth momentum in the first half of 2004, after a strong take-off in 2003, and is expected to surpass earlier expectations with higher growth of 7% for the whole year. Positive signs of a firm economic recovery at the global front, particularly in the first six months as well as higher commodity prices, reinforced the 'feel-good' factor that contributed to further improvement in consumer and business sentiments. Growth has become more broad based with all sectors registering positive growth. Domestic demand, particularly private consumption, continued to sustain growth for five consecutive years, while private investment, which picked up in 2003, became more entrenched, resulting in a private sector-led growth.

The broad-based growth is evident of the effective measures implemented by the Government to develop new sources of growth to reduce the nation's vulnerability to the external environment. Expanding at 10.5%, the manufacturing sector, which has become more diversified with higher-end, value-added and new emerging industries and products, remains a major contributor to growth. New growth areas in information and communication technology (ICT), strong expansion in financial services and revival in tourism activities supported growth in the services sector, enabling it to maintain its premier position in terms of share to gross domestic product (GDP) at 57%.

Import growth was strong, particularly for intermediate and capital goods, reflecting robust domestic economic activities, fuelled by recovery in private investment and higher disposable income. The trade balance in July 2004 remained in surplus for 81 consecutive months since November 1997. Better export earnings and inflow of foreign funds increased by international reserves to USD54.4 billion as at 14 August 2004, sufficient to finance 7.2 months of retained imports and five times the short-term external debt. The national resources position remains strong with gross national product (GNP), providing ample liquidity to finance both public and private sector initiatives.

The outlook for 2005 will generally remain favourable although global growth is expected to moderate on account of high oil prices, inflationary pressures, interest rate hikes and a probable slowdown in China's economy. The emergence of these risks, that became apparent in the second half of 2004 and are expected to continue into 2005, will have a larger impact on growth next year. Global economic growth is projected to moderate to 4.4% in 2005 from 4.6% in 2004. The stronger macroeconomic fundamentals and resilience, backed by sturdy domestic demand and broad-based growth, will however, continue to support Malaysia's GDP growth, forecast at 6% in 2005.

The manufacturing sector, the forerunner in economy activity, will continue to spearhead growth although at a slightly slower pace as the electronics demand tapers in the global semiconductor cycle.

(Economic Report 2004/2005)

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.4.2 Overview of the Global Economy

World output, projected to grow by 4.6% in 2004, is close to matching the strong global growth of 4.7% at the beginning of the new millennium, the highest in the last two decades. The global economy recovered from the adverse effects of the 11 September incident, which drove the world into recession in 2001, and the subsequent fallout from the Severe Acute Respiratory Syndrome (SARS) epidemic, as well as the war in Iraq to attain broad-based growth. This recovery was supported by the accommodative monetary and fiscal policies pursued by major economies which revived confidence to fuel global growth.

The continued strengthening of the global economy is mainly driven by sustained consumption and export growth in the United States (US) and Japanese economies. Elsewhere, the vibrant economies in the Asia-Pacific region, in particular China and to a lesser extent India, further supported the strengthening of global growth. Amidst this optimistic development, world inflation continued to remain benign despite concerns over rising oil prices.

The gradual pick-up in world trade contributed in a big way towards global growth. World trade, which practically came to a standstill in 2001 (0.1%), slowly gained strength in subsequent years, supported by strong import demand from developing Asia, the transition economies and the US, to record a growth of 4.5% for 2003. World trade is projected to strengthen even further in 2004 at 6.8% as global growth becomes more broad based.

With continuing improvement in the external economic environment beginning from the second half of 2003, brought about by a synchronized global upswing, growth in East Asia is expected to broaden and strengthen in the course of 2004. Generally, economic activities accelerated in most countries in the region, particularly among members of the Association of Southeast Asian Nations as well as China, Japan and the Republic of Korea (ASEAN+3), driven by continued strength in domestic demand and buoyant intra-regional trade.

East Asian economies are expected to register GDP growth of 7.3% in 2004 (2003: 6.5%), benefiting from the more diversified growth in both the US and Japan. The region's strong macroeconomic fundamentals, as reflected in the healthy balance of payments position and record level of foreign exchange reserves in excess of USD1.3 trillion, as well as stronger banking and corporate sectors following their successful restructuring after the financial crisis, have also lent credence to the optimistic forecast.

As with the rest of East Asia, ASEAN economies also performed better in 2003. The improved performance was supported by robust commodity prices, rising exports and firmer domestic demand, particularly private consumption and investment. Trade between ASEAN and China intensified in recent years, reflecting closer regional integration. China's total trade share to ASEAN-5 (Indonesia, Malaysia, Philippines, Singapore and Thailand), for example, rose significantly from 5.6% in 2001 to 9.2% in 2003. As a whole, ASEAN economies are expected to register higher real GDP growth of 5.5%-5.9% in 2004 (2003: 5%).

(Economic Report 2004/2005)

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.4.3 The Manufacturing Industry

Between 1999 and 2003, the manufacturing industry grew at an average annual rate of 5.8%. In 1999, the industry recorded a double-digit real growth of 11.7%. In 2000, real GDP growth continued to be driven by the manufacturing industry and grew by 18.3%. The robust broad-based growth experienced was driven mainly by strong external demand.

In 2001, the manufacturing industry recorded a decline of 5.9% compared to the previous year. This was the result of a slowdown in major industrial countries and the downturn in the global electronics market.

However, in 2002, the manufacturing industry turned around to expand by 4.1%, mainly attributed to higher external demand, particularly from the electronics sector. In 2003, manufacturing industry recorded a growth of 8.3% to reach RM71.3 billion.

The manufacturing industry is forecasted to grow by 7.8% per annum and contribute 31.4% to GDP and 29.3% of total employment between 2004 and 2005

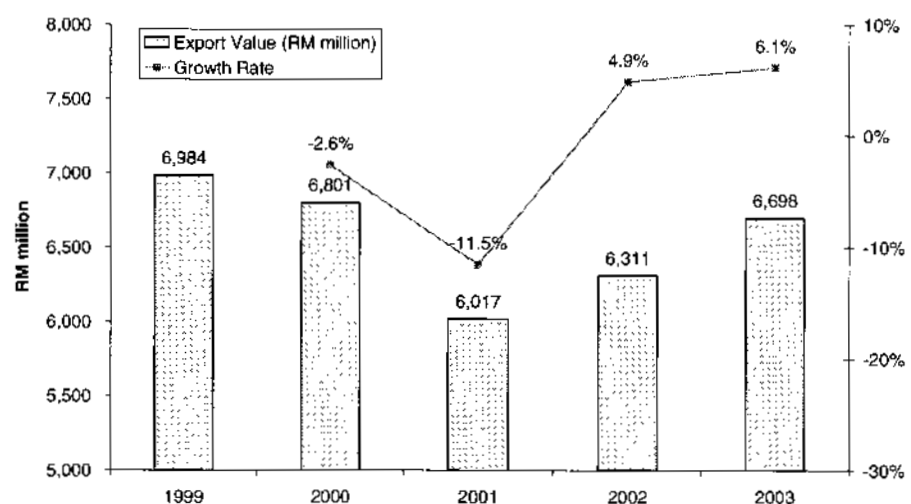
(Source: Assessment of the Wood Moulding Industry focusing on Picture Frame Moulding prepared by Vital Factor Consulting Sdn Bhd)

4.4.4 Wood and Wood Products Sector

Between 1999 and 2003, the Wood and Wood Products Production Index declined at an average rate of 0.3%.

In 2003, the Wood and Wood Products Production Index increased by 0.9%, from 98.6 points to 99.5 points. This trend continued to the first quarter of 2004 with the index increasing to a 107.5 points.

Gross Exports of Wood Products



Gross export value of wood products declined by an average annual rate of 1.0% from 1999 to 2003.

4. INFORMATION ON THE CSB GROUP (Cont'd)

In 2003, gross exports of wood products recorded a positive growth of 6.1%.

(Source: Assessment of the Wood Moulding Industry focusing on Picture Frame Moulding prepared by Vital Factor Consulting Sdn Bhd)

4.4.5 Outlook and Prospects of Industry

The outlook of wooden picture frame moulding Industry is dependent on the following factors:

(a) Local Production

- Between 1996 and 2000, the sales value of the manufacture of wooden picture frame moulding grew at an average annual rate of 21.4%. In 2000, sales value of wooden picture frame moulding grew by 35.5% to reach RM110.6 million.
- Between 1996 and 2000, the production volume of wooden picture frame moulding grew at an average annual rate of 15.0%. In 2000, sales value of wooden picture frame mouldings grew by 102.0% to reach 30.5 million units.
- Between 1997 and 2000, the sales value of the manufacture of wooden mirror frame moulding grew at an average annual rate of 0.5%. In 2000, sales value of wooden mirror frame moulding grew by 549.5% to reach RM16.4 million.
- Between 1997 and 2000, production quantity of wooden mirror frame moulding grew at an average annual rate of 90.2%. In 2000, production of wooden mirror Frame moulding reached 1.3 million units.

(b) Exports

- Between 1999 and 2003, export value of wooden picture frame moulding for paintings, photographs, mirrors or similar objects grew at an average rate of 1.7% per annum. In 2003, export value of such products grew by 10.1% to reach approximately RM104.0 million.
- Between 1999 and 2003, export quantity of wooden picture frame moulding for paintings, photographs, mirrors or similar objects grew at an average rate of 2.2% per annum. In 2003, export quantity of such products decreased by 15.5% to reach 7,618 tonnes.

(c) Imports

- Import value of wooden picture frame moulding for paintings, photographs, mirrors or similar objects grew at an average annual rate of 53.2% between 1999 and 2003. In 2003, import value of such products increased by 152.3% to reach RM9.1 million.
- Import quantity wooden picture frame moulding for paintings, photographs, mirrors or similar objects grew at an average annual rate of 79.8% between 1999 and 2003. In 2003, import value of such products increased by 70.3% to reach 1,328 tonnes.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The following are areas of growth and opportunities of wooden picture frame moulding Industry:-

(a) Alternative Wood-based Raw Materials

There are opportunities for manufacturers to explore the use of other alternative wood-based materials for the production of picture frame moulding. Some of these materials include:

- plantation wood such as radiata pine which is ecologically sound and also a renewable resource;
- reconstituted wood-based panel board such as MDF which is made from recycled wood waste. The qualities of MDF include uniformity in texture, density and appearance makes it an ideal base for picture frame moulding. In addition, MDF does not have the knots or imperfections usually found in natural timber

The use of alternative raw materials will enable manufacturers to provide customers with a wider range of options in picture frame moulding.

(b) New Markets Outside the United States

Countries that are outside the dominant export market of USA for example Australia, Japan, United Kingdom, Thailand, Philippines, and Singapore present export opportunities for wooden picture frame moulding manufacturers in Malaysia. All the above countries excluding USA accounted for approximately 37% (including countries in the 'others' category) of total exports of wooden frame moulding for paintings, photographs, mirrors or similar objects from Malaysia in 2003).

Manufacturers that are already export-oriented will be in a stronger position to expand into these other export markets.

(Source: Assessment of the Wood Moulding Industry focusing on Picture Frame Moulding prepared by Vital Factor Consulting Sdn Bhd)

4.4.6 Players and Competition

All manufacturers in the wood picture frame moulding operate under normal competitive conditions. Competition exists in both the local and global markets. On the local level, the manufacturers with other Malaysian manufacturers as well as imports from abroad.

On the global level, Malaysian manufacturers compete against foreign manufacturers as well as other Malaysian export-oriented manufacturers.

Competition among manufacturers within the wooden picture frame moulding is intense and this is based on the following observations:

- In 2003, there were approximately 157 wood moulding manufacturers. Of these, there are approximately 40 wooden picture frame moulding manufacturers in Malaysia. Most of the wooden picture frame moulding manufacturers are predominantly smaller sized operators.

4. INFORMATION ON THE CSB GROUP *(Cont'd)*

- Competition from overseas countries such as China particularly in the low-end wooden picture frame moulding exerts further competitive pressure in the local and global market.
- The non-existence of branding on wooden picture frame moulding makes it difficult for consumers to discern one manufacturer from another. The lack of distinction between different wooden picture frame moulding particularly at the basic and low-end, with the exception of aesthetics and appearance further contributes to the intensity of competition.
- However manufacturers that focus on more complex finishing processes, for example high gloss lacquer, distressed or aged appearance at the standards of quality that meets the needs of export based customers, are able to moderate the intensity of competition by moving away from the basic low-end types of wooden picture frame moulding.
- Manufacturers that are predominantly export-oriented are also in a stronger position to reduce the intensity of competition due to the fact that they are servicing the global market.

(Source: Assessment of the Wood Moulding Industry focusing on Picture Frame Moulding prepared by Vital Factor Consulting Sdn Bhd)

4.4.7 Government Laws and Regulations

There are no material government laws, regulations and policies apart from the normal manufacturing licence and wood-based industry licences that may impede the performance and growth of the CSB Group.

According to the Industrial Coordination Act, 1975 which mandates all companies with shareholders' funds of RM2.5 million or above, or engaging 75 or more full-time employees to attain a manufacturing licence.

Licensing of Wood-based Industry

The main governing bodies within the Wood-based Industry are the Malaysian Timber Industry Board and the Forestry Departments in the respective states.

As a federal matter, the Malaysian Timber Industry Board is the authority responsible for the issuance of licences for wood-based activities

At the state level, the main governing body is the Forestry Department of the respective states.

The Wood-based Industries Enactment 1973 and Wood-based Industries Rules 1990 requires the following occupations to be registered with the Malaysian Timber Industry Board:

- Exports of timber or business as exporters;
- Jetty operators;
- Timber grading;
- Suppliers or timber processors, for purpose of export trade.

4. INFORMATION ON THE CSB GROUP *(Cont'd)*

Wood-based manufacturers are required to have a licence to site, construct, erect, establish, operate or maintain wood-based operations, such as:

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

According to Malaysian Timber Industry Board, the export of wooden picture frame moulding does not require a licence as it is categorised as a finished product. However the export of wooden picture frame moulding have to be registered with the Malaysian Timber Industry Board.

According to Malaysian Timber Industry Board, cess rates are not applicable for wooden picture frame moulding that has a finish or coating on the moulding, which is categorised under finished products.

Environmental Regulation

The Group has installed centralised suction and/or air-filtration systems in the factories to control sawdust. These systems control the sawdust emitted in the environment and ensure a cleaner and healthier working environment in the factories.

Waste oil from machine lubricants contains significant quantities of additives. Without appropriate treatment they can cause, fouling and the production of malodorous gases, which are potentially carcinogenic

The disposal of waste oil from machine lubricants is governed by the 'Spent Oil or Grease used for Lubricating Industrial Machines' of Scheduled Wastes, Non Specific Sources in the Environmental Quality Act 1974 and the Environmental Quality (Scheduled Wastes) Regulations 1989.

Paints and stains used in the finishing of moulding and joinery products contain hazardous solvents, such as Volatile Organic Compounds (VOC) evaporate readily into the air to form ground level ozone and smog, that are responsible for a number of health and environmental issue.

The Group's paint spraying activities are usually well-ventilated even within partially enclosed areas.

The disposal of empty paint and stain cans and drums is regulated under the 'Containers and Bags Containing Hazardous Residues' of Scheduled Wastes, Non Specific Sources, Environmental Quality Act 1974 and Environmental Quality (Scheduled Wastes) Regulations 1989.

(Source: Assessment of the Wood Moulding Industry focusing on Picture Frame Moulding prepared by Vital Factor Consulting Sdn Bhd)

4. INFORMATION ON THE CSB GROUP *(Cont'd)*

The wastes generated by CSB Group include:

- bulk waste from off-cuts of sawntimber are then used to produce wooden strips, which are then sold to external contractors;
- off-cuts that are utilised in finger-jointing applications can also be recycled;
- wood shavings and sawdust are recycled as fuel for the boilers during kiln-drying operations;
- paint residue from spray painting is treated internally through waste water treatment before the sludge is collected and disposed by Kualiti Alam Sdn Bhd;
- sawdust and remaining wood waste from the moulding process is disposed in a Government approved dumping site;
- waste from lubricants used in the machinery are stored and sold to external contractors for recycling.

4.4.8 Substitute Products/Services

There most common substitute products for wooden picture frame moulding such non-wood based materials including plastic and aluminium. These substitute products may replace wood-based picture frame moulding depending on the current trends and customer preferences surrounding these products. However no one substitute product can replace all usage of wooden picture frame moulding.

In addition, there are also substitutes within wood-based materials itself for example reconstituted wood-based panel board such as MDF.

It is unlikely that the threat from other alternative non-wood based materials is significant as wood-based materials have its own advantages over plastic and aluminium substitutes. The appearance of natural wood grains and the ability of natural wood to take intricate shaping and moulding together with the quality of the finishing makes natural wood more superior compared to other alternative non-wood based materials

(Source: Prospects and Future Plans of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd)

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4. INFORMATION ON THE CSB GROUP (Cont'd)

4.5 DETAILS OF MAJOR LICENCE AND PERMIT

The licences held by the Group (which will be renewed upon expiry) required for the purposes of conducting its businesses are listed as below:-

| Authority | Date of Issuance/ Expiry | Name of Company | Nature of Licence | Major Conditions | Status of Compliance |
|------------------------------|--------------------------|-----------------|--|--|---|
| Selangor Forestry Department | 1.7.2002/ 31.12.2004 | SM | Wood work factory licence for Lot 13 Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | <ul style="list-style-type: none"> ▪ The licence holder cannot make any changes in the shareholdings of the entire factory or any part of the machinery in the factory without prior written approval from the State Authorities. | Complied |
| Selangor Forestry Department | | SM | Wood work factory licence for Lots 9, 10 and 12 Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | <ul style="list-style-type: none"> ▪ Conditions are not available to SM as at date of this Prospectus as SM has yet to obtain the licence from the Selangor Forestry Department. | Application has been made by SM to Selangor Forestry Department ("Authority") for the issuance of licence and is pending for approval. The application has reached an advanced stage and the process is expected to complete in due course in view that the file is now in Jawatankuasa Kilang dan Bahan Kayu of the Peninsula Malaysia Forestry Department for technical clearance in respect of the machines layout plan. |
| Selangor Forestry Department | | LKLT | Wood work factory licence for Lot 13 Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | <ul style="list-style-type: none"> ▪ Conditions are not available to LKLT as at date of this Prospectus as LKLT has yet to obtain the licence from the Selangor Forestry Department. | Approval for application of the licence has been obtained on 6 September 2004 and the issuance of the licence is still pending. |
| MITI | 1.07.2004 | SM | Manufacturing Licence for manufacturing of wooden picture frame at Lots 9, 10 and 12 Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | <ul style="list-style-type: none"> ▪ The composition of the board of directors of the licence holder must in general reflect the company's equity structure and MITI must be informed of any appointment and change in the board of directors; ▪ The licence holder must take and train Malaysian citizens to reflect a multi racial composition for all level of staff; and | Complied |

4. INFORMATION ON THE CSB GROUP (Cont'd)

| Authority | Date of Issuance/ Expiry | Name of Company | Nature of Licence | Major Conditions | Status of Compliance |
|-------------------------------------|--------------------------|-----------------|--|--|----------------------|
| MITI | 23.7.2001* | SM | Manufacturing licence for manufacturing of wooden picture frame at Lot 13, Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | <ul style="list-style-type: none"> ■ As far as possible, the licence holder is to use the services of companies and manufacturers owned by Malaysian citizens in the context of the Dasar Ekonomi Baru. ■ The composition of the board of directors of the licence holder must in general reflect the company's equity structure and MITI must be informed of any appointment and change in the board of directors; ■ The licence holder must take and train Malaysian citizens to reflect a multi racial composition for all level of staff; and ■ As far as possible, the licence holder is to use the services of companies and manufacturers owned by Malaysian citizens in the context of the Dasar Ekonomi Baru. | Complied |
| MITI | 1.10.1999/ 30.9.2004 | SM | Certification of Pioneer Status Certificate for manufacturing of wooden picture frames | <ul style="list-style-type: none"> ■ At least 70% of the shares in the company is to be purchased and owned by Malaysian citizens. | Complied |
| Lembaga Perindustrian Kayu Malaysia | 11.1.2003/ 31.3.2005 | SM | Certificate of Registration for Export of Wood Moulding | Nil | Nil |
| Royal Customs and Excise Malaysia | 26.3.2004* | SM | Manufacturer's licence as licenced manufacturer at Lots 9, 10, 12 and 13 Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | Nil | Nil |

4. INFORMATION ON THE CSB GROUP (Cont'd)

| Authority | Date of Issuance/ Expiry | Name of Company | Nature of Licence | Major Conditions | Status of Compliance |
|-----------------------------------|---------------------------|-----------------|--|------------------|----------------------|
| Royal Customs and Excise Malaysia | 25.4.2004/ 20.4.2005 | SM | Exemption of material and component for sales tax:- 1) imitation silver leaves, hot stamping foil and cloth liner; | Nil | Nil |
| | 25.4.2004/ 20.4.2005 | | 2) reaction initiator, clear sealer, pigmented sealer, clear lacquer, pigmented lacquer and hot stamping foil; and | | |
| | 25.4.2004/ 20.4.2005 | | 3) paint, adhesive clearpoly sheet, craft paper, thinner, starform roll, sticker, lacquer and steel wool; and. | | |
| | 25.4.2004/ 20.4.2005 | | 4) reaction initiator, clear sealer, pigmented sealer, clear lacquer, pigmented lacquer, cloth liner, hot stamping foil and imbal paper. | | |
| | 12.5.04/ 10.5.05 | | 5) abrasive material (Paco cloth belt) | | |
| Ministry of Finance | | SM | Exemption of import duties for the following raw material for the export market:- | Nil | Nil |
| | 13.8.2003/ 12.8.2005 | | 1) imitation silver leaves; | | |
| | 6.4.2004/ 3.5.2006 | | 2) clear sealer, pigmented sealer, clear lacquer and pigmented lacquer; and | | |
| | 11.10.2002/ 15.11.2004 | | 3) imbal paper (Bianco Pure Cellulose) | | |

4. INFORMATION ON THE CSB GROUP (Cont'd)

| Authority | Date of Issuance/ Expiry | Name of Company | Nature of Licence | Major Conditions | Status of Compliance |
|-----------------------------------|-----------------------------|-----------------|---|------------------|----------------------|
| | 7.7.04/ 3.5.06 | | 4) clear sealer, pigmented sealer, clear lacquer and pigmented lacquer; | | |
| Royal Customs and Excise Malaysia | 2.2.2001* | LKLT | Manufacturer's licence as licenced manufacturer at Lot 13 Jalan RP3, Taman Rawang Perdana, 48000 Rawang, Selangor Darul Ehsan | Nil | Nil |

Notes:

* These licences do not have any expiry date.

^ CFM ceased its wooden picture frame moulding operations in 2002.

Further to the above, Convention on International Trade in Endangered Species Certificate of Origin ("CITES") issued by the Malaysian Timber Industry Board is required for every consignment of Ramin timber based products exported.

4. INFORMATION ON THE CSB GROUP (Cont'd)

4.6 MAJOR CUSTOMERS

Based on the Group's last audited financial statements for the financial year ended 31 December 2003, the top ten (10) customers of the Group are as follows:

| | Customer Name | Country of Origin | Products Purchased | Amount RM'000 | % of CSB Group Revenue | Length of Relationship (Years)^ |
|----|-----------------------------|-------------------|-------------------------------|---------------|------------------------|---------------------------------|
| 1 | Studio Moulding Inc. | USA | Wooden Picture Frame Moulding | 17,799 | 42.8 | 8 |
| 2 | Wall Moulding & Associates | USA | Wooden Picture Frame Moulding | 2,378 | 5.7 | 10 |
| 3 | Marks and Co. Pty Ltd | Australia | Wooden Picture Frame Moulding | 1,922 | 4.6 | 8 |
| 4 | The Art Source Inc. | USA | Wooden Picture Frame Moulding | 1,845 | 4.4 | 2 |
| 5 | Megawood Mouldings Pty Ltd | Australia | Wooden Picture Frame Moulding | 1,723 | 4.1 | 10 |
| 6 | Greco Frame and Supply Inc. | USA | Wooden Picture Frame Moulding | 1,689 | 4.1 | 4 |
| 7 | Delta Picture Frame Co. | USA | Wooden Picture Frame Moulding | 1,287 | 3.1 | 9 |
| 8 | The Hadley Companies | USA | Wooden Picture Frame Moulding | 1,036 | 2.5 | 4 |
| 9 | T Chatani & Co. Ltd | Japan | Wooden Picture Frame Moulding | 1,029 | 2.5 | 11 |
| 10 | Putnum Distributors | USA | Wooden Picture Frame Moulding | 885 | 2.1 | 10 |
| | Total | | | 31,593 | 75.9 | |

Note:

[^] Length of relationship for customers started from CFM which was previously in the business of manufacturing of wooden picture frames in 1994 before SM took over the manufacturing activities. CFM ceased operations in 2002.

For the financial year ended 31 December 2003, the Group's top 10 customers accounted for 75.9% of the Group's revenue amounting to approximately RM31.6 million.

The top customer, Studio Moulding Inc. in USA, contributed 42.8% of the Group's revenue for the financial year ended 31 December 2003.

Studio Moulding is a designer and distributor of wooden picture frame in the USA. The company has a distribution network that extends to Los Angeles, San Francisco, Dallas, Seattle, Chicago and Atlanta. By selling through Studio Moulding, CSB Group is able to sell to a wider base of frame makers in the USA

The next largest customers were Wall Moulding & Associates in USA and Marks and Co. Pty Ltd in Australia with revenue contribution of 5.7% and 4.6% respectively.

The combined top 3 customers accounted for 53.1% of the Group's revenue for the year ended 31 December 2003 and the remaining 46.9% of its revenue was spread across 114 customers situated both locally and abroad.

4. INFORMATION ON THE CSB GROUP (Cont'd)

CSB Group has enjoyed long term business relationships with its customers. Approximately 70% of its top 10 customers have been dealing with the Group for 8 or more years.

Its long-standing customer relationships serve as an endorsement of the quality of its products and services, and more importantly, a stable customer base.

Although there is dependency on the top customer, Studio Moulding Inc. in USA, the following are the mitigation factors:

- long-term business relationship with Studio Moulding Inc. whereby the Group has been dealing with this customer for eight years.
- the Group is currently supplying approximately 381 items of wooden picture frame moulding to the top customer. The ability for the Group to meet such a diverse range of products creates a dependency on the Group.
- large customer base of 116 other customers spread over 13 countries including Malaysia.
- in addition to Studio Moulding, the Group has approximately 17 other customers in the USA.

Studio Moulding Inc.'s contribution to turnover varies on a year-to-year basis and this is substantiated by the following:

| | Financial Year ended 31 December. 2003 | Financial Year ended 31 December 2002 | Financial Year ended 31 December 2001 |
|--------------------|---|--|--|
| Sales | RM41,571 | RM36,007 | 29,637 |
| Total Revenue | RM17,799 | RM17,698 | 11,354 |
| % of Total revenue | 42.8% | 49.2% | 38.3% |

For the financial year ended 31 December 2003, Studio Moulding Inc.'s contribution to total Group revenue declined from 49.2% in the previous year to 42.8%.

For the financial year ended 31 December 2001, Studio Moulding Inc. contributed 38.3% to Group's revenue.

As USA is Malaysia's largest export market for wooden picture frame moulding, the focus of most export-oriented manufacturers will be in this country. In 2002, USA accounted for 63% of total exports of wooden frames for paintings, photographs, mirrors or similar objects.

(Source: Business Overview of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd)

4. INFORMATION ON THE CSB GROUP (Cont'd)**4.7 MAJOR SUPPLIERS**

Based on the Group's last audited financial statements for the financial year ended 31 December 2003, the top ten (10) suppliers of the Group are as follows: -

| | Supplier Name | Products Purchased | Purchases for the Financial Year Ended 31 December 2003 (RM '000) | % of Group's Total Purchases | Length of Relationship (Years) |
|----|---|---------------------|---|------------------------------|--------------------------------|
| 1 | Sin Kian Jaya Trading | Sawntimber | 2,068 | 12.7 | 10 |
| 2 | Ezonewood Industry | Sawntimber | 1,347 | 8.3 | 3 |
| 3 | Arch Chemicals Coatings Singapore Pte Ltd | Lacquer and varnish | 1,274 | 7.8 | 10 |
| 4 | Senibina Aktif Sdn Bhd | Sawntimber | 870 | 5.3 | 4 |
| 5 | Chye Hin Wood Products Sdn Bhd | Sawntimber | 801 | 4.9 | 4 |
| 6 | Opal Pacific Sdn Bhd | Sawntimber | 744 | 4.6 | 6 |
| 7 | Zam Lee Timber & Hardware Sdn Bhd | Sawntimber | 709 | 4.3 | 6 |
| 8 | Archworth Corporation (M) Sdn Bhd | Sawntimber | 667 | 4.1 | 4 |
| 9 | Wei Huat Trading Sdn Bhd | Sawntimber | 633 | 3.9 | 3 |
| 10 | New Heap Hoe Sawmill Sdn Bhd | Sawntimber | 483 | 3.0 | 8 |
| | Total | | 9,596 | 58.9 | |

CSB Group's top 10 suppliers represented 58.9% of total purchases for the financial year ended 31 December 2003.

The Group's top supplier, Sin Kian Jaya Trading accounted for 12.7% of total purchases of the Group for the financial year ended 31 December 2003. This was mainly for the purchase of sawntimber. The Group has a total of 9 suppliers of sawntimber among its top 10 suppliers. In the event of a disruption in supply, the Group can always source the sawntimber from all the other suppliers.

The next largest suppliers, Ezonewood Industry and Arch Chemicals Coatings Singapore Pte Ltd, accounted for 8.3% and 7.8% of the Group's total purchases respectively.

As part of the Group's philosophy in cultivating long-term supplier relationships, approximately 80% of its top 10 suppliers have been dealing with the Group for 4 or more years.

(Source: Prospects and Future Plans of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd)

4. INFORMATION ON THE CSB GROUP (Cont'd)**4.8 FUTURE PLANS, STRATEGIES AND PROSPECTS**

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

(a) Product expansion**(i) New Materials for Wooden Picture Frame Moulding**

Part of the plans of CSB Group involves the use of alternative raw materials for the production of wooden picture frame moulding. Some of the alternative wood-based materials that the Group is currently exploring include:

- Chipboard
- MDF
- Other wood species

The use of alternative raw materials has to undergo research and development to assess the different types of coatings, colour, finishes that would adhere to the materials and, also the final appearance and aesthetics of the finished product.

The Group intends to commence the research and development of alternative raw materials by 2006.

(ii) New Range, Designs and Finishing of Wooden Picture Frame Moulding

CSB Group intends to expand on its existing range of wooden picture frame through the development of new range and designs including:

- ready-made picture frames that will appeal to the needs and taste of overseas consumers;
- wooden picture frames moulding made from plantation wood such as radiata pine;
- new designs of laminated wooden picture frame moulding with foil or veneer look finish;
- new coating and finishing of Wooden Picture Frame Moulding with the following:
 - antique look with 'fired or 'burnt'
 - conventional or 'country' look;
 - 3-D Holographic or 3-D depth effects.

As the Group is already producing wooden picture frame moulding, it is easy to go to the next step and produce ready-made picture frames to customers. It is envisaged that the Group will target the European markets for this new range of product.

The Group will be undertaking a feasibility study on the ready-made picture frame market to determine its viability before commencing.

Currently the Group is only at the trial stages of producing wooden picture frames made from plantation wood such as radiata pine. Once the final product is acceptable, it intends to launch a new range of designs using this type of plantation wood.

The Group will be undertaking a feasibility study on the ready-made picture frame market to determine its viability before commencing.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The Group has already undertaken pilot production runs with wooden picture frame moulding with some of the combinations of new coating and finishing.

The timing of the Group's launch of new range, designs and finishing of wooden picture frames and moulding are:

- :
- 2005 for wooden picture frame moulding made from radiata pine;
- 2005 for laminated wooden picture frame moulding
- 2005 for new coating and finishing of wooden picture frame moulding
- 2006 for the ready-made picture frames.

(iii) Corner Samples

Corner samples refer to the samples of one corner of the picture frames that are exhibited for ease of reference. This will enable CSB Group's customers to display these samples to the end-consumers. Some of these corner samples are also full picture frames itself.

The Group estimated that the full production of corner samples of picture frames is expected to commence by 2005.

(b) New Export Markets

For the financial year ended 31 December 2003, exports constituted 94.0% of CSB Group's revenue.

As the Group's strength is in addressing export market opportunities, the Group will target new countries that are not currently covered and this includes:

- United Kingdom by 2006;
- Middle East by 2005

(c) Expansion of manufacturing facilities

(i) Purchase of New Machinery and Equipment

Part of the Group's plans also includes investing in new machinery and equipment for its operations. This is to cater for future business growth including new products and new designs.

Currently the utilisation of manufacturing capacity of CSB Group for wooden picture frame moulding is 83%. In anticipation for future growth, the Group would need to expand on its manufacturing operations before it reaches maximum capacity.

It is envisaged that the purchases of new machinery and equipment will include:

- 2 unit of air compressors;
- 1 unit of sanding machine;
- 4 units of conveyors;
- 4 units of extruder machines;
- 1 unit of dust collector;
- 1 unit of paint spraying machine;
- 6 units of stacking machines;
- 2 units of water curtain for paint spraying.

4. INFORMATION ON THE CSB GROUP (Cont'd)

The Group is expected to purchase the above new machinery and equipment by 2005.

(ii) Construction of New Manufacturing Plant

The Group proposes to construct a new manufacturing plant for the expansion of its the manufacturing operations. The new plant will focus on the manufacturing of wooden picture frame moulding.

The size of the proposed plant is estimated approximately 4,500 square metres.

Construction on the plant commenced in February 2004 and is expected to be completed by December 2004.

(Source: Prospects and Future Plans of Classic Scenic Berhad prepared by Vital Factor Consulting Sdn Bhd)

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