

# Review of Operations *(by Managing Director)*



## **AN IMPRESSIVE TURNAROUND**

The Group made an impressive turnaround in operating performance during the year under review. The Group achieved a pre-tax profit of RM49 million for the year ended 31st January, 2000, as compared to a pre-tax loss of RM46 million in 1999. Correspondingly, the Group turnover also increased by 36.9% to RM267 million and pre-tax profit margin increased significantly to 18%.

The profit after tax attributable to the shareholders was RM46 million for the year under review. There was no profit attributable to the shareholders in the previous year. In tandem with the improvement in Group's earnings, the earnings per share increased to 22.97 sen and Group's net tangible assets backing per RM1 share increased by 22% to RM1.11.

At the company level, pre-tax profit also increased significantly to RM13 from RM0.1 million as reported previously. Correspondingly, turnover increased to RM81 million from RM18 million in the previous year.

This good performance for the year is primarily attributable to the recovery in the Asian economies which spurred demand for logs, plywood and particle board, particularly from our traditional markets like Japan and South Korea. The demand is also spurred by depletion of inventory in consumer countries and cut back in supply from a neighboring country. As a result of the increase in demand, timber prices were on an upward trend. Consequently, profit margins improve significantly.

## **DIVISION REVIEW**

### **Plywood Division**

During the year under review, STH had installed an advanced peeling system. This new investment in hi-tech machinery helped to speed up the production process, recover more face and back veneer and reduce wastage.

Buoyed by a stable export price, and our continued efforts in focusing in sales and production of higher value added plywood products, the Division become the star performer in the Group, as we increased our efforts in the sale and production of high-value products. Revenue from this division was RM161 million, representing 60% of the total revenue of the Group.

The Group achieved an impressive increase in the plywood production, achieving a total production of 133,452 m<sup>3</sup> as compared to 133,257 m<sup>3</sup> reported previously. The production volume of 133,452 m<sup>3</sup> in 2000 is also in line with the forecast production volume of 132,000 m<sup>3</sup>.

In terms of market share, Japan remained a key market for the Group, while China imported much lower amounts of our plywood. As predicted in last year's review, the USA showed its potential as strong consumers by becoming our second largest market. Japan at 58% and the USA at 15% of our plywood market constituted 73% of our total exports.

The other significant markets were South Korea, Singapore, the United Kingdom and China, while Taiwan and local Malaysian consumption were at only 1% in terms of market share.

Overall, our market share remained stable, thanks to our aggressive marketing strategies in opening new export markets and offering an expanded range of products, including higher grade plywood products.

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## Logging Division

The Group enjoyed the benefit of a full year operations, since it completed the acquisition of 2 timber licences covering 125,631 hectares in the previous year. As a result, the logging division became a significant contributor to the Group's turnover. The division achieved a sale turnover of RM69 million which is significantly higher as compared to the forecast sales of RM56 million.

In addition, the Group introduced heli logging in 2000 which enable the Group to achieve higher production volumes and therefore higher turnover for its Logging Division.

Malaysia was the largest market for our logs, contributing 65% to the sales volume. Japan was the second most important market, at 23%. Next were Taiwan, India and Hong Kong - a total of 12%.

## Particleboard Division

The year 2000 is a watershed year for the Particleboard Division. The series of strategies implemented by the Group to turnaround the Particleboard Division yielded results. For the first time, the Particleboard Division made a positive contribution to the Group's pre-tax profit of RM4 million. This augurs well for the Group's profit performance in the years ahead. The Division achieved an impressive increase in production volumes and higher prices of raw particleboard.

The Division contributed 18% to the Group's turnover as compared to 11% in the previous year. The increase of 7% is significant as turnover of the Group increased to RM267 million from RM195 million in the previous year. The Division achieved a sales turnover of RM48 million which is 60% or RM18 million higher than the forecast of RM30 million.

The Division achieved total production volume of 108,771 cubic metre, which is in line with the forecast production volume of 108,000 cubic metre. The Division exported 87% of its total production and its largest export market is South Korea.

## Sawn Timber & Mouldings Division

The Division recorded a turnover of RM34 million and contributed only 13% to the Group's aggregate turnover, much lower than in the previous year. The revenue generated was 15% more than the planned revenue.

In terms of production volume for sawn timber, we achieved an output of 34,202 cubic metre compared to 36,000 cubic metre in planned volume.

The 'Big Three' countries for the Group's sawn timber were Malaysia (42%), South Korea (20%) and Japan (12%), Singapore, Taiwan, Thailand and France took up 25%. In total, we exported 58% of our sawn timber.

In mouldings, the planned volume of 2,400 cubic metre was exceeded and we achieved 3,304 cubic metre. In all, 99% our mouldings output was exported. Our key export markets were Japan, South Korea and Taiwan - accounting for a total of 89%. Our other markets were Taiwan, Singapore, USA, Thailand, Australia and Malaysia.

## INTEGRATING IT INTO OUR OPERATIONS

The SAP R/3 system has given the STH Group an added dimension in improving business efficiency. With its integration of business functions and information sharing, the system has given us an edge in operations by integrating our resources and components towards a common objective.

The SAP R/3 system has also allowed the re-engineering of our Group's business through the implementation of key modules in Financial Management, Material Management, Sales and Distribution, Production Planning and Human Resources Management.

The Business Transformation Programme (BTP) and the Business Process Re-Engineering (BPR) Workgroup have both functioned well, further helping to improve business efficiencies for greater competitive advantages.

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## RESEARCH & DEVELOPMENT

To make an impact in developed countries such as the USA and the UK, the Group's strategy is to develop 'Green Products' which have a better chance of being accepted due to the environmentally friendly methods employed in their processing and production.

## CURRENT YEAR PROSPECTS

The Group is confident of enhanced prospects going forward. The Group would continue to focus on its strategy for servicing its major market, that is by supplying higher quality and value added products and providing consistent excellent customer services. In addition, the Group is well positioned to benefit from the optimistic outlook in the timber trade and positive trends in timber prices.

The Group's continuing efforts in using heli-logging as a means of timber extraction and the commitment to reforestation will help to increase supply of logs as well as to ensure that these natural resources will be sustained. Furthermore, the STH Group is also working to reduce costs of production and upgrade machinery to improve productivity.

Whilst the outlook is optimistic, we wish to caution that there are several factors which may have an adverse impact on the optimistic outlook in the timber trade. These factors include movements in the USD exchange rate which will continue to have an impact on the timber trade and possible strengthening in Ringgit Malaysia against USD which will have an adverse impact on profitability unless prices in USD move in tandem with the strengthening in Ringgit Malaysia against USD.

Barring unforeseen circumstances, the Group is expected to return better results in the current financial year.

## THE NEW BUSINESS OPPORTUNITIES

STH will also continue to explore new opportunities in upstream and downstream activities with a view to further integrate its Group operations and ensures sufficient supply of timber logs for the Group's downstream operations, enhance recovery from logs and ultimately create more shareholder value.

## CONCLUSION

With Asian economies back on the growth track, and the USA as an important new market, together with the wider range of value-added plywood and particleboard products we can offer, the STH Group is confident that it will reach new heights as a leading totally integrated and advanced wood-based group in Asia-Pacific.

**Tiong Chiong Ong**  
Managing Director

18th April, 2000