

APP TIMBER



Suppliers of Pine, Oak, Maple, Beech, etc.



our customers
& our suppliers
are our
partners

We are not economists but as far as we see it the timber industry is in a real depression rather than "recession". Of course the demand for timber products will continue to rise in the long run but it will take many years before Asia will reach the same export levels as in the early 2000's. Furthermore we believe that the American dominance in the purchase of Asian made furniture will drop significantly and this likely will shift to Asia. The USA is spending USD700bn to bail out various companies (and industries) but this is not creating new jobs whereas China is spending USD849bn on new projects creating a lot of new jobs. It seems that the USA is basically bankrupt and taxpayers will have a hefty bill to pay for many years whereas China is still

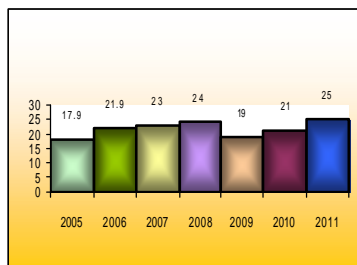
APP TIMBER
Market Observations

This review is based on our recent trading activities and is not necessarily a correct overall view of business in Asia.

cash rich and will recover much faster from this crisis. The Chinese Yuan could become the world's dominant currency and surpass the US dollar. Our bets are on China and the rest of Asia to become the long-term main player in the purchase of Asian made wood products. In this respect we recommend to read the book called "The New Asian Hemisphere" written by Kishore Mahbubani.

APP Timber results 2008

Our trading volume increased slightly from USD23.1mln in 2007 to about USD24mln this year but the net profit margin dropped significantly.



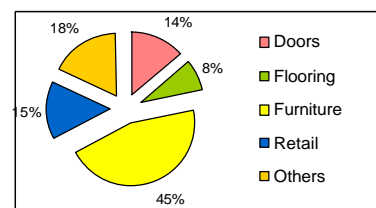
Basically we sold higher volumes of lower grade timbers but operating costs increased. The forecast for 2009 will be a further drop in trading volume to about USD19 million but we hope to maintain our profit margin due to the

ongoing restructuring of our product lines and services. The following is the break-down of our sales per segment;

Segment	2008	2007
Hardwoods	46%	39%
Softwoods	28%	41%
Veneer	21%	20%
Logs	5%	-

The sales of hardwoods increased substantially but most sales was in the lower grades of American White Oak and Yellow Poplar. The sales of African hardwoods declined further due to the strong Euro and much of this demand was replaced by South American hardwoods. The sales of softwoods continued to drop significantly especially in Vietnam and China.

There is a clear shift in our sales being less dependant on furniture and more towards other segments as can be seen in the below diagram.



We expect this trend to continue in 2009 due to the current crisis. Especially the low end furniture segment (in & outdoor) and engineered flooring will have very hard times and much less business is expected. The sales of South American and Africa sawn timber will likely rise as long as the timber is certified to be from legal

resources.

Sawn Timber

American Hardwoods: we expect that the high demand for low grades of White Oak, Yellow Poplar, Ash and Alder will continue. **South American Hardwoods;** the demand for Ipe, Cumaru and Jatoba will continue to increase especially for solid flooring to be sold domestically in Asia.

African Hardwoods; most sawmills are reducing logging and sawn timber output in the hope to reverse the continuous decrease of selling prices in Europe but we expect that despite these efforts prices will not increase significantly in 2009.

Softwoods; both Radiata Pine and Scandinavian Spruce have reached rock-bottom price levels and many softwood sawmills will not be able to survive selling at these levels and we expect that 15-20% of the world's softwood production will close in 2009 and, as a result, prices might increase slightly.

Towards well managed forests

APP Timber has a good reputation of providing sawn timber and veneers originating from well managed forests. Our company is FSC certified (SW-COC-001657) but we support ANY reliable program which supports **well managed forestry** and we strongly encourage buyers of finished products to support ALL such programs and not to allow any one certification body to "dominate" the industry.

Veneers

Our veneer sales remained stable in 2008 mainly due to increased sales of American veneers such as White Oak especially due to the cheap USD versus the higher Euro which resulted in decreased sales of European Oak veneer. We do expect a rise in the sales of the smaller volumes of exotic veneers.

APP TIMBER News Flash

We like to keep you updated about all those new developments which could affect your business.

Asian labour cost on the rise

The labour costs in Asia are rising drastically initially linked to the rising oil prices mid this year. The highest increase is officially in Vietnam where the government will increase the base salary with 20% starting January 1st, 2009. But unofficially it will be in China where in certain regions salaries have risen with 20 to 40% in the last two years. Below is the comparison of average base salaries (incl. tax but excl. overtime).

Salary forecast per Month 2009

Indonesia	– USD65 to USD105
Malaysia	– USD190 to USD230
Vietnam	– USD45 to USD85
China	– USD115 to USD260
Thailand	– USD115 to USD150

China's export tax rebate

The People's Bank of China recently announced a 11 percent rise of the Export Tax Rebate on certain wooden furniture. This increase was expected to relief

the pressure on the Chinese exporters and improve China's competitiveness but the impact is unlikely to be felt fast due to the current global crisis. This increase is a reversal of past reductions and it will be interesting to see what changes 2009 will bring for China's export policies.

Vietnam increases export tax

The Vietnam Ministry of Finance has introduced a 10 percent export tax on flooring products made from imported wood. This new ruling is aimed at "preventing fraudulent tax evasion by exporters" according the minister. It appears that many exporters are actually using local timber (which is already subject to a 10 percent tax) but declared this as "imported timber".

HSBC forestry policy

HSBC intends to terminate 30% of their ties with Indonesian and Malaysian forestry clients inclusive palm oil, soy and timber by the end of 2009. This will be applied to any companies in so called "high-risk" countries who fail to comply with HSBC's forestry policy.

Californian emission ruling

The newly introduced CARB ruling will have a profound influence on the Asian industry. Not so much because of the standards to comply with the regulations but simply due to the way a factory will have to certify their products to comply. We fully support stricter emission regulations but there must but a clear and feasible way to comply. The EC will introduce similar regulations early 2009 but these regulations are easier to verify with SGS or other independent companies.

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