



Teak

as our corporate philosophy

Ladies and Gentlemen

We have just concluded our first business year after an intensive and challenging development phase. Our expectations were high and we are pleased to report that our efforts have met with success in many areas. Prime Forestry Switzerland AG and Prime Forestry Panama S.A., as well as our sales offices in Toronto and Dublin have fulfilled their mandate to the satisfaction of all shareholders.

We are pleased to present our readers with a closer look at what we have achieved in 2002 and 2003. The operational management team relished the challenge of developing and consolidating the company. Exceptional commitment was shown by all those involved. On behalf of the shareholders and the Board of Directors, I would like to offer my sincere thanks to the Management Team and our entire workforce throughout the world for their enthusiasm and commitment.

Teak is more than just a business opportunity to us – put quite simply; it is our corporate philosophy. Our aim is to be successful in business while still remaining in harmony with nature. This also includes a good relationship with our tree partners, transparent corporate management and a team-oriented approach within the company. In this respect, the growth, stability and usefulness of the teak tree represent a shining example to us.

Yours truly

Hubert N. Steiner
Chairman of the Board of Directors



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Report by the CEO

The year in review and future prospects by Kurt E. Meier

From a private initiative to a successful timber company

What started three years ago with the search for suitable land to cultivate an initial hardwood plantation has since developed into a successful timber and forestry company. This positive progress is largely based on the fact that wood consumption internationally continues to increase. Hardwoods take on a special significance in this connection: few other renewable construction elements or materials can be used and processed in such versatile ways as a result of its properties. Teak, which our company is concentrating on in the initial phase, stands out for its weather-resistant characteristics – it virtually never rots. Very few hardwoods have this characteristic. Teak is therefore one of the most sought after and valuable types of commercial timber.

Conflict between ecology and economy

In the past, the demand for prime quality tropical hardwood has led to uncontrollable and frequently illegal deforestation resulting in over-exploitation of the tropical rainforests. The loss of more than half of the original rainforest area over the last hundred years is one of the contributing factors threatening the stability and balance of the world's eco-system.

International efforts by politicians and governmental authorities and the tireless global commitment of environmental associations have resulted in greater awareness. A major rethink by society and consumers as well as by shareholders and stakeholders has led the economic trend towards corporate and operational management alignment with sustainability. It is against such a background that the

Prime Forestry Group (PFG) has based its business model and its success strategy so far. The production of tropical hardwood, through the development of sustainably managed plantations, for further commercial processing represents substantial relief for tropical rainforests.

The forestry activities pursued by PFG in the conflicting area between ecological considerations and economic necessity are harmonized in its strategic business unit (SBU) FORESTRY OPERATIONS.

People, Planet, Profit – the three pillars of sustainability

The integration of the internationally recognized FSC guidelines in the entire plantation and management operations ensures, both inwardly and outwardly, socially responsible management (people) that functions and produces in an environmentally friendly way (planet) while still maintaining its footing in the economic world (profit).

The combination of in-depth expertise and practical experience by those who lead the PFG SBU Forestry Operations are important factors for success.

PFG has good working relationships and cooperation with the Panamanian authorities. It is not just the increasing economic importance of the Prime Forestry Group as a landowner and plantation developer/operator that is acknowledged. In the long-term economic horizon lays the general development of an entire timber industry and with it attractive jobs for the Panamanian people.

At the same time as this report is being printed, the Forestry Operations team will be tackling its third planting season. This year's production target is approximately 800 hectares (ha). We anticipate that the entire land area directly owned by the Prime Forestry Group or that can be utilized by the company based on long-term agreements will expand to more than 4,000 ha by the end of 2004.

Positive echo and widespread interest

The cornerstones of our growth strategy are the major interest and confidence shown in us by our investors and tree partners. The necessary financial prerequisites are created within a second strategic business unit – INVESTMENT MARKETING. This unit develops products that enable private and institutional third parties to participate in the PFG business concept.

In particular, the sale of one to two-year-old certified PFG teak tree stands to predominantly private customers, who mandate PFG to manage and process the trees they have acquired, has developed very successfully. With this one product, our sales offices in Zurich and Toronto have acquired 700 tree partners in 27 countries in 2003. Motivated by this success, we opened our third sales office in Dublin in the last quarter of 2003, expanded the sales teams in Zurich and Toronto, and intensified our marketing strategies.

Business planning for 2004 projects the acquisition of an additional 1,500 to 1,800 private tree partners. Furthermore, the sales figures for the first quarter of 2004 lead us to believe that this goal can be attained.

In addition, the INVESTMENT MARKETING department is focusing on institutional investors this year. With the development of a new department, we can concentrate on the growing interest shown in institutional circles and design and offer tailor-made sustainable investment opportunities.

Our approach – Business and Nature in Harmony – is an ambitious one. In order to do it justice, we must turn the care, quality and intensity that ensure the healthy growth of our trees into a working and behavioural standard throughout the entire company. The year 2003 has shown us that such efforts are appreciated and supported both inside and outside the company.

Yours truly

Kurt E. Meier
Chief Executive Officer

Highlights 2003 – our pride

- Establishment of 370 ha of teak plantations using a strict quality management system
- Implementation of vanguard technologies for the nursery production of 500,000 teak seedlings
 - Employment of more than 150 workers throughout the entire year
 - FSC certification of PFP plantations by SmartWood (USA)
- Field marking and registration of 1/10th ha plots on the plantation map after surveying
- Recruitment and training of a highly qualified administrative and operative working team
 - First company in Panama to implement the most efficient plantation management techniques for the production of prime quality plantations (land mechanization, land evaluation to strict criteria, hiring of forest experts, new nursery technology, GIS technology, etc.)



Three-month



FSC-certified teak



The greenhouse teak



Diego Perez explains tree cultivation



On the way to the plantation

PFG – The Plantations

High-yield timber production under ideal environmental conditions

Torio

Prime Forestry Panama S.A.'s (PFP) first plantation, known as Torio and located close to the town of Mariato in the Province of Veraguas, was established in 2002 with 289 ha of planted teak trees. It has been successfully integrated into the environmental conditions in this region. After receiving FSC certification at the beginning of 2003, the Torio plantation started to attract investors in Europe, Africa, and Asia. The best sections of the plantation were selected for selling by locating and dividing the plantation into 1/10th ha plots directly in the field as well as on detailed project maps utilizing satellite photo images, Geographic Information System (GIS) technology, and state of the art software programs. The outcome was a precisely marked 1/10th ha plot matrix with accurate geographic coordinates for the exact location of each of the plots sold.

San Lorenzo

PFP's plantation in San Lorenzo (Province of Chiriqui) is located approximately 250 kilometers from the Torio plantation. At the beginning of January 2003, farmland and old pasture land totaling 928 ha was transformed into a teak forest project of 370 ha with an adjacent nature reserve (residual stands of trees, vegetation along rivers and creeks, slopes with more than 25% gradient, etc.). PFP introduced the latest in plantation technologies on this land. The entire usable area was mechanized, planting holes were systematically made using motorized drills, and a sophisticated fertilization program implemented meeting FSC's environmental and social criteria and standards. During the 2004 planting season, an additional 135 ha is being cultivated in this plantation.

Alongside a highly-qualified forest and administrative team, a large number of temporary workers from local communities within the project area were employed in 2003 – numbering as many as 250 during the planting season (June to August). PFP is thus fulfilling an important social role in rural areas of Panama where local people have few employment opportunities.

Nursery production

For the first time in Panama, an innovative plant production system (pellet "jiffy" containers) was used for the cultivation of 500,000 teak plants. The careful selection of seedlings and improved seed material (seeds from a certified supplier – CATIE seed bank, www.catie.ac.cr) guarantee top quality. Approximately 40 women were responsible for tree care and maintenance in the initial stages. Seedling beds and greenhouses were constructed with simple on-site material utilizing the most advanced knowledge for creating the perfect environmental conditions for prime plant production.

FSC certification

At the end of the planting season, the San Lorenzo project was certified by SmartWood (USA) in accordance with FSC (Forest Stewardship Council) criteria, confirming that PFP is applying the highest plantation standards. Not to mention assuring our clients that we are not only operating fast-growing teak plantations but also taking environmental and social factors into consideration.

Acquisition of new land

Searching for new land on which to establish plantations is a complex process and demands, among other things, meticulous soil testing, legal status verifications, and environmental and feasibility studies. Between September 2003 and January 2004, PFP identified 600 ha in the San Juan area that are eminently suitable for teak cultivation and located only 20 km from the San Lorenzo plantation.



Consolidated balance sheet as of 31.12.2003

Assets and liabilities of the Prime Forestry Group

	31.12.2003
	EUR
ASSETS	
Current assets	
Liquid assets	836,229
Trade accounts receivable	1,188,859
Other short term accounts receivable	287,324
Prepaid expenses	846,353
Total Current assets	3,158,765
Fixed assets	
Property, plant, IT and other equipment	255,683
Real estate	2,354,862
Total Fixed assets	2,610,545
Intangible assets	41,744
Goodwill	433,806
Capitalized start-up costs	86,405
Total Intangible assets	561,955
Total Non current assets	3,172,500
TOTAL ASSETS	6,331,265
	31.12.2003
	EUR
LIABILITIES AND SHAREHOLDERS' EQUITY	
Liabilities	
Trade accounts payable	1,899,264
Other short term liabilities	10,060
Short term provisions	13,473
Deferred income	130,789
Long term third party liabilities	867,646
Long term shareholder liabilities	525,200
Long term provisions	540,618
Total Liabilities	3,987,050
Shareholders' equity	
Share capital	1,923,200
Profit for the year	421,015
Total shareholder's equity	2,344,215
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	6,331,265



Consolidated income statement 2003

Revenue and expenditure of the Prime Forestry Group

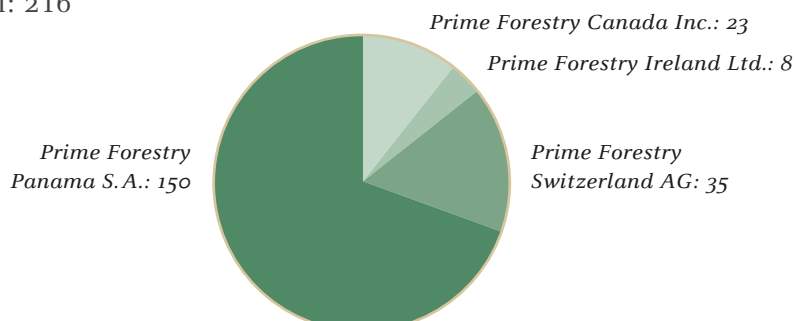


3. 9. 2002 – 31. 12. 2003
EUR

Revenue	
Sales proceeds trees	5,973,685
Maintenance reserve	-532,420
Proceeds reductions	-210,019
Total Revenue	5,231,246
Cost of goods sold	298,049
GROSS MARGIN	4,933,197
Personnel expenses	2,355,655
Other operating expenses	
Rent office	157,072
Maintenance, repairs	50,576
Leasing expenditures	1,911
Vehicle expenditures	53,394
Transportation expenses	6,658
Insurances, dues, fees	21,544
Energy and disposal costs	3,295
Management expenditures	658,515
Informatics expenditures	15,751
Promotion and marketing	732,288
Total Other operating expenses	1,701,004
Depreciation and amortization	228,549
TOTAL OPERATING EXPENSES	4,285,208
EBIT (Earning before interest and taxes)	647,989
Financial result	-112,817
Extraordinary profit/loss	-90,371
EBT (Earning before taxes)	444,801
Income and capital taxes	23,786
PROFIT FOR THE YEAR	421,015

Prime Forestry Group: Number of employees

Total: 216



Notes to the consolidated financial statements

Explanations and guidelines on consolidation

“Finance/controlling is both a challenge and a management tool. It must therefore be of the highest quality!”

General business developments

The aim of the Prime Forestry Group is to make an important ecological contribution in the sustainable production of exotic woods and hardwoods on FSC-certified plantations. This requires a particular size and the required number of hectares of planted and managed plantations. With its expansion plan, PFG aims to maintain at least 30,000 hectares of FSC-certified exotic wood and hardwood plantations within the space of the next eight to ten years.



The first successful development phase of the Prime Forestry Group is based on the following milestones achieved in 2002 and 2003:

Beginning of 2002	Formation and development of Kentwood Inc. in Panama by the founding families (Group function: production of sustainable hard- and exotic wood plantations)
August 2002	Formation and development of Prime Forestry Switzerland AG by the founding families (Group function: overall control of the Group, sales and marketing)
December 2002	Formation of Prime Forestry Canada Inc. in Toronto (Group function: sales office, 100% subsidiary)
March to June 2003	Renaming of Kentwood Inc. now known as Prime Forestry Panama S.A. and purchase of the shares by Prime Forestry Switzerland AG, 100% subsidiary
September 2003	Formation of Prime Forestry Ireland Ltd. in Dublin (Group function: sales office, 100% subsidiary)



General financial principles

The consolidated financial statements of Prime Forestry Switzerland AG, Zurich, for the financial year 2002/03 have been drawn up and audited in compliance with the provisions of Swiss company law. The company was incorporated on 3 September 2002. These consolidated financial statements cover the period from 3 September 2002 to 31 December 2003 (extended financial year). The balance sheet date for Prime Forestry Switzerland AG, all the companies in which participations are held and also for the consolidated financial statements is 31 December 2003. The reporting currency is the Swiss franc (CHF). The accounts of the Group companies are based on the respective national currencies. The consolidated financial statements are denominated in EUR. The financial statements of the Group companies are first converted into the reporting currency at the year-end rates and then also converted into EUR at the year-end rate. Year-end rates: USD 1.2367, CAD 0.9623, EUR 1.5599.



Consolidation method

These financial statements comprise the accounts of Prime Forestry Switzerland AG, Zurich, and of the companies over which Prime Forestry Switzerland AG exercises a determining influence (the Group). The full consolidation method is used. Assets and liabilities, together with expenditure and income, are recorded in full (100%). Liabilities, receivables, expenditure and income between the consolidated companies together with dividends of Group companies are eliminated at the consolidation stage. Prime Forestry Switzerland AG only has 100% holdings in associated companies.

Capital consolidation

Capital consolidation is based on the Anglo-Saxon purchase method. The cost of acquisition of a company is thereby offset against its own equity at the time of acquisition. Any goodwill arising on acquisition is stated as an asset in the year of acquisition and then amortized over ten years. Any badwill is offset against the Group's own equity capital.

Changes in the scope of consolidation

Companies acquired during the course of the year are included proportionately in the consolidated financial statements from the date of acquisition and all companies divested are proportionately excluded from the financial statements from the date of disposal. Prime Forestry Panama S.A. was purchased on 30 June 2003. However, Prime Forestry Panama S.A. was included in the consolidated financial statements with retroactive effect from 1 January 2003. The goodwill calculation is also based on the status as of 1 January 2003.

Scope of consolidation

This includes Prime Forestry Switzerland AG (business year: 3.9.2002–31.12.2003) and the following 100% subsidiaries:

- Prime Forestry Panama S.A., Panama, purchased on 30.6.2003 (business year: 1.1.2003–31.12.2003)
- Prime Forestry Canada Inc., Toronto, incorporated on 1.12.2002 (business year: 1.12.2002–31.12.2003)
- Prime Forestry Ireland Ltd., Dublin, incorporated on 30.9.2003 (business year: 30.9.2003–31.12.2003)

Accounting principles and constancy

Valuation is based on the book value principle, i.e. the annual statement of accounts of the individual companies is included at the book value for consolidation purposes. The relevant national statutory provisions governing the individual statement of accounts are therefore used as the valuation criteria.

Trade accounts receivable

This item contains accounts receivable from ordinary business activities. Valuation adjustment was carried out by the formation of 15% contingency reserves.

Non-current assets

Tangible fixed assets are reported in the balance sheet at their calculated residual values. Depreciations on tangible fixed assets were linear over the useful economic life of the asset. The usual Swiss federal depreciation rates were applied. The item “Real estate” contains the land in our own possession and posted in the balance sheet at its purchase price, together with the teak plantations still owned that were posted in the balance sheet at cost. Inventories of trees sold on to third parties are not carried in the assets. Land ownership posted in the balance sheet is not depreciated. Intangible assets (goodwill) are examined for their continuing value and are usually subject to linear depreciation over ten years.

Long-term liabilities

Loans from third parties and shareholders are posted under this item.

Long-term provisions

For the tree inventories sold to our tree partners, the maintenance costs per plantation have been deferred until the first thinning (seven years) in order to guarantee the continuation of maintenance in each case.

In the first three years, this amounts to USD 625 per hectare per year, and USD 375 for the remaining four years. To the tree owners, this represents security and continuity in the management of their trees. The provisions will be increased annually on the basis of the inventories of trees sold and reduced by the annual maintenance costs.

Equity

Effective from the end of December 2003, Prime Forestry Switzerland AG’s share capital was increased from CHF 1,000,000 to CHF 3,000,000. This strengthened the financial basis with regard to further growth.

Employee benefits

Contributions are paid according to specific national legislation and posted unchanged in the income statement as expenditure.



Report of the Group auditors

on the audit of the Group's consolidated financial statement

As a statutorily prescribed auditing company, BDO Visura has conducted the audit of Prime Forestry Switzerland AG and its subsidiaries in accordance with recognized and prescribed standards. The corresponding unabridged report by the Group auditors is given below.



BDO Visura
Auditing

6002 Lucerne, Landenbergstrasse 34
Tel. 041 368 12 12, fax 041 368 12 30
<http://www.bdo.ch>

Report of the group auditors
to the general meeting of
Prime Forestry Switzerland Ltd., Zurich

As auditors of the group, we have audited the consolidated financial statements of Prime Forestry Switzerland Ltd. for the period from 3 September 2002 to 31 December 2003. These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements comply with the Swiss law and the consolidation and valuation principles as set out in the notes.

We recommend that the consolidated financial statements submitted to you be approved.

Lucerne, 22 April 2004

BDO Visura

Hans Vogel
Swiss Certified Accountant

pp.a. Guido Fritter
Auditor in charge
Swiss Certified Accountant

Enclosures

- Consolidated financial statements (balance sheet, income statement, notes)

Prime Forestry Group

People and addresses

Board of Directors of Prime Forestry Switzerland AG:

HUBERT N. STEINER
Chairman of the Board
+41 (0)41 269 11 00
hsteiner@primeforestry.com

DR. CAROL FRANKLIN ENGLER
(from 23 April 2004)
Vice President of the Board
+41 (0)1 700 16 45
cfranklin@primeforestry.com

KURT E. MEIER
Executive Director of the Board
+41 (0)1 511 20 20
kmeier@primeforestry.com

PETER MOECKLI
Member and Secretary to the Board
+41 (0)1 511 20 24
pmoeckli@primeforestry.com

Management of Prime Forestry Switzerland AG:

KURT E. MEIER
Chief Executive Officer
+41 (0)1 511 20 20
kmeier@primeforestry.com

PETER MOECKLI
Chief Financial Officer
+41 (0)1 511 20 24
pmoeckli@primeforestry.com

RICHARD BREUER*
Chief Operating Officer
+41 (0)1 511 20 25
rbreuer@primeforestry.com

JUERG RATKOVIC (from 1 April 2004)
Head of Investment Marketing
+41 (0)1 511 20 23
jratkovic@primeforestry.com

DOMINIQUE Y. LEUBA
Head of Forestry Operations
+507 998 17 57
dleuba@primeforestry.com

*Until 23 April 2004, Vice President of the Board of Prime Forestry Switzerland AG.
Now: Chairman of the Board of Prime Forestry Panama S.A.

Addresses:

PRIME FORESTRY SWITZERLAND AG
Uetlibergstrasse 132
P.O. Box
CH-8045 Zurich
Switzerland
Tel. +41 (0)1 511 20 00
Fax +41 (0)1 511 20 10
info@primeforestry.com

PRIME FORESTRY CANADA INC.
Madison Centre
4950 Yonge Street
Suite 900
Toronto, Ontario, CANADA M2N 6K1
Tel. +1 416 646 5266
Fax +1 416 646 5267
infoCanada@primeforestry.com

PRIME FORESTRY IRELAND LTD.
Olympic House
Pleasant's Street
Office #5
Dublin 8, Ireland
Tel. +353 1 479 3800
Fax +353 1 479 3850
infoireland@primeforestry.com

PRIME FORESTRY PANAMA S. A.
Ave Héctor J. Santacoloma
Edificio Plaza Palermo a lado de Banco
Universal
Santiago de Veraguas, República de Panamá
Tel. +507 998 17 57
Fax +507 998 55 32
infoPanama@primeforestry.com



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