Pacific Plywood Holdings Limited
太平洋實業控股有限公司
Stock Code: 0767

Annual Report 2007

Contents

Corporate Information

Executive Directors
Dr. WIDODO Budiono, *Chairman*
Mr. WIDODO Sardjono, *Managing Director*
Mr. LIAO Yun Kuang, *President*
Mr. YU Chien Te

Non-Executive Directors
Mr. USMAN Marzuki
Mr. WIDJAJA Kusnadi
Mr. SIAH Chong Huat
Mr. HALIM Sudjono
Mr. KUSNADI Pipin

Company Secretary
Mr. LAU Kin Wah, *CPA*

Qualified Accountant
Mr. PHUA Sian Chin, *FCPA, Australia*

Audit Committee Members
Mr. USMAN Marzuki, *Chairman*
Mr. WIDJAJA Kusnadi
Mr. SIAH Chong Huat

Remuneration Committee Members
Mr. LIAO Yun Kuang, *Chairman*
Mr. USMAN Marzuki
Mr. WIDJAJA Kusnadi

Auditor
PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong

Principal Bankers
Malayan Banking Berhad
DBS Bank

Public Relations Consultant
Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
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Share Registrar And Transfer Office
Computershare Hong Kong Investor Services Limited
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183 Queen's Road East
Wanchai
Hong Kong

Registered Office
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Bermuda

Principal Office
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Wanchai
Hong Kong

Chairman's Statement

To our shareholders :

The global stock market had been on a roller coaster ride in 2007 and economic uncertainties loomed especially in the second half of the year. The sub-prime mortgage issue in the United States, new Chinese export policies, new Russian log export policies, new Japanese building code and approval policies, etc. all affected the industry and inevitably the Group as well.

Budiono Widodo
Chairman

In the first half of the year, the Group expected its business to stay strong for the year. However, with China and Russia changing policies affecting the Group business and the surfacing of other unfavourable circumstances, the Group was presented with a more difficult market environment in the second half of the year. Fortunately, 2007 was a good year for the property market in Singapore resulting in the reversal of impairment provisions for our office there. Together with the reversal of other provisions, the Group recorded profit better than that of 2006.

During the year, the Group achieved a turnover of US$132.0 million a drop of 14% against last year. The drop was attributable to a significant shrink in demand for the Group's products in the Japanese market and the sub-prime problem in the US. The slow housing market in Japan in the second half of the year was the result of introduction of a new building code and approval policy requiring new projects to be re-examined thus delaying construction. The fact that Japanese customers rushed to stock up before China and Russia change their export policies also squeezed demand for the Group's products in the third and fourth quarters of the year.

Our operations in China were seriously affected by changes in policies especially the reduction of rebate for exports that began in the middle of the year and the increase in export duty for Russian logs. The constantly strengthening RMB against the US dollar was also unfavorable for our export activities.

Going forward, the Group will consolidate its operations, change its strategies to cope with the new policies and also strive to reduce reliance on a single market or source of raw materials. We will continue to work with our strategic partners in various markets to ensure we can continue to secure good prices for our products and ensure steady demand for our products. On the manufacturing front, we will continue to strive to provide excellent customer service and deliver quality products to our customers. We will also continue to look to produce more high-value products. The Group will also continue to look for new wood materials and new machineries, etc. to facilitate optimization of production costs. The Group will also focus on cultivating team spirit within the organization, improving the technical and management skills of staff by providing them with proper training programmes, encouraging innovation and a continuous learning culture among all employees, and speeding up alignment of its to changes in the market and economy.

With the stock market on the up trend at the beginning of the year, we conducted fund raising exercises to strengthen the Group's finances. We mounted two placement exercises and issued about US$8,300,000 worth of new shares. These proceeds have been used for the Group's general working capital purpose.

Chairman's Statement

The Group also took a giant step forward toward attaining our own raw material source. In August 2007, it entered into an agreement that has given it a possible interest in close to 40,000 acres of forest in Sabah, Malaysia. We expect to start operations in 2008. The Group sees good business potential in this project and will continue to groom and expand this lifeline business in the future.

We look forward to an exciting year ahead with the support of a leaner workforce and more aggressive management. Related strategies are in place and we expect them to bring improvement to our business. Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to the management and our staff for their dedication and invaluable efforts. We would also like to thank our shareholders, investors and customers for their continuing support and trust.

Budiono Widodo
Chairman
Hong Kong, 11th April, 2008

Management Discussion and Analysis

Business Review

Manufacturing Business

Our Malaysian plant continued to operate at close to 80% of its capacity during the year under review. Although the plant's output volume lowered slightly, it was able to produce higher value products and boost market coverage. Currently, the plant exports to Japan, Korea, the PRC and Europe, with each market accounting for about 16% of the export and Southeast Asia accounting for about 24%. Volume to other markets also increased to about 12% of the total sales volume. Compared with the previous years, the Malaysian plant was less reliant on the Japanese market which, incidentally, cut down on imports particularly during the second half year.

There was upward pressure on raw material prices during the year with oil prices continuing to rise close to US$100 per barrel. Glue costs increased by close to 30% and log prices was up by about 10%. Fortunately, through our continued efforts to improve recovery of materials and cost cutting measures, the plant was able to mitigate some of these increases. The plant is constantly looking into using cheaper and more environmental friendly materials to produce plywood and also various ways and methods of sourcing such materials. We are also looking forward to having an interest in some logging concessions in Sabah, Malaysia. By then, we will be able to get veneers and logs from our concessions to compliment current log supplies from Sarawak, Malaysia.

Our Dalian plant, however, was subject to a more difficult operating environment. The Chinese government reduced export rebate to 5% instead of the original 13%. The Russian government increased log export tax from 6.5% to 20%, and comes 1st April, 2008, this will increase to 25% and by 1st January, 2009 to 80%. The strengthening Renminbi also affected the plant's performance. The plant operated under heavy pressure in the entire second half of 2007, however, efforts were made to counter the adverse operating conditions and we should be able to cope with such conditions by 2008.

During the year, the total production volume of the Dalian plant dropped to about 51,000 M3 compared to 79,000 M3 last year. The drastic drop in production volume was the result of tight raw materials supply especially after the Russian increased export tax for logs and also because of the slack in major markets namely Japan and the US. The Japanese market was hit by a slow housing sector dampened by the change in construction policy, while the US market was hit by the sub-prime mortgage crisis. Against the adverse backdrop, the Dalian plant had to reduce production and step up search for more value added products that it could put out. With new products scheduled to be introduced in 2008, we have confidence that the plant's business will gradually improve.

Market Overview

This year saw a change in our market mix. Shipments to Japan made up only about 20% of the Group's total sales compared to 34% last year. As we continue to build a more balance market portfolio to lessen reliance on any one market, shipment volume to other markets improved. The depressed Japan market imported about 17% less plywood as compared with 2006. It purchased about 20% less wood materials from Malaysia and about 25% less from Indonesia. We expect the Japanese market to improve only some time in the middle of 2008.

The Korean market, however, has been stable. Shipment volume to the market actually went up from less than 2% of our total export in 2006 to about 11% in 2007. The Korean market is quite similar to that of the Japanese market with its main demand being 6' x 3' boards. Our main exports to Korea were WBP plywood as well as structural plywood. Another market that returned stable performance was the PRC flooring market. With the Indonesian mills having to shoulder very high production cost, the market turned to Malaysia for flooring supplies thus presented business to the Group. We are confident of improving sales volume of flooring to the market in 2008.

Management Discussion and Analysis

For our customers in South East Asia, we continue to produce special plywood and other high value items like furniture parts, auto parts, fan blades, etc. There was an improvement in our exports to this region from 17% in 2006 to about 20% of our total export volume in 2007. We will look into producing such plywood for other markets, mainly Europe and the US and hope we can continue to be a plywood manufacturer boasting ability to cater to the niche markets. To this end, we will constantly seek to improve our technical and manufacturing capabilities, our knowledge of plywood making and wood species, and research and development teams in our various manufacturing plants.

Prospects

Looking to the future, we will continue to focus on markets with better economic prospects and potential like Korea, South East Asia and Europe. We will also continue to maintain excellent relationship with our customers and strategic ties with major purchasing houses in Japan as well as other countries.

Internally, we will focus on consolidating our capacities and resources, and at the same time, grow our business through exploiting and capitalizing on any opportunities for market and product expansion, especially in relation to special plywood and niche markets. To maximize productivity and offer an optimum product mix, we will continuously improve product quality, lower costs, increase recovery of materials and improve customer service. We are determined to enhance our performance and create additional value for our shareholders.

Financial Review

Liquidity and financial resources

The Group maintained its financial performance during the year 2007. The profit attributable to shareholders was approximately US$1.3 million. As at 31st December, 2007, the Group had net current assets of approximately US$1.6 million as compared to net current liabilities of approximately US$2.9 million as at 31st December, 2006. The increase in net current assets resulted from the issue of new shares during the year.

The Group will continue its efforts to streamline its operation as well as adopt prudent financial management. The Group is confident that, bearing unforeseen unfavourable market conditions, this trend would continue in 2008.

Liao Yun Kuang   Budiono Widodo   Sardjono Widodo

Management Discussion and Analysis

Capital structure

During the year ended 31st December, 2007, the Company issued in aggregate 211,600,000 new shares by way of placing and received gross proceeds of approximately HK$65.5 million, equivalent to approximately US$8.3 million. Such proceeds have been used for general working capital purposes.

Significant investments, acquisitions and disposals

In August 2007, a subsidiary of the Company entered into a sale and purchase agreement to acquire the entire issued capital of a special purpose company, which has entered into a MOU with an independent third party Malaysian company to invest in a 49% interest of a 40,000 acres logging concession in Malaysia at the consideration of US$2 million. A refundable deposit of US$1.5 million was paid at the time when the sale and purchase agreement was entered into. This acquisition is expected to be completed before August 2008.

The management believed that the acquisition enables the Group access to stable supplies of logs which is the key raw material as well as diversification into upstream timber logging and forestry business.

Employees

As at 31st December, 2007, the Group had 4,059 staff, 3,551 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 468 at facilities in Dalian, the PRC. In-house training programmes were provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

Details of charges on assets

Bank loans and other banking facilities of the Group were secured by pledges of certain property, plant and equipment and leasehold land with a net book value of approximately US$70.5 million, floating charges on certain inventories of approximately US$13.2 million, trade receivables of approximately US$4.6 million, bank balances of approximately US$1.1 million, other assets of approximately US$1.5 million, corporate guarantees given by the Company and personal guarantees given by a Director of the Company.

Future plans for material investment or capital assets

At completion of the acquisition of the special purpose company, the Group is required to pay the balance of consideration payable of US$0.5 million. The management also expects that further capital investments will be required for the operation of the concession.

Management Discussion and Analysis

Gearing ratio

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio within 50% to 80%. The gearing ratios at 31st December, 2007 and 2006 were as follows:

	2007 US$'000	2006 US$'000
Total borrowings	**68,793**	72,736
Less: Cash and cash equivalents	**(5,744)**	(3,235)
Net debt	**63,049**	69,501
Total equity	**36,520**	26,040
Total capital	**99,569**	95,541
Gearing ratio (net debt to total capital)	**63%**	73%

The decrease in the gearing ratio during 2007 resulted primarily from the issuance of new shares and the scheduled repayments of bank loans and borrowings when due.

Foreign exchange exposures

The Group has operations in the PRC and Malaysia with significant number of the transactions conducted in Chinese Renminbi and Malaysian Ringgits. While the functional and presentation currency of the Company is United States Dollars, the Group is exposed to foreign exchange risk primarily from these currencies. The Group has not used any forward contracts to hedge such exchange risk because it is considered as not cost-effective.

Contingent liabilities

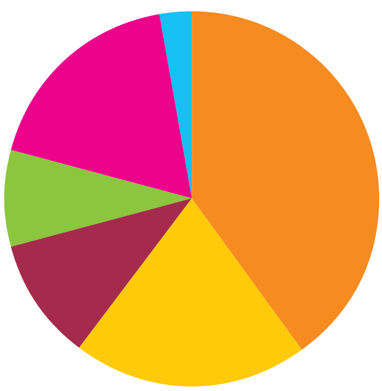
As at 31st December, 2007, the Group had no material contingent liabilities.

Sardjono Widodo

Managing Director

Hong Kong, 11th April, 2008

2007 Sales By Product Categories



- 40.0% Weather and boil proof plywood
- 20.5% Moisture resistant plywood
- 18.0% Flooring
- 10.5% Jamb and mouldings
- 8.4% Structural
- 2.6% Others

2007 Sales By Geographical Areas*

- 20.4% Japan
- 17.8% The People's Republic of China
- 17.0% South East Asia
- 15.7% Europe
- 11.3% Korea
- 11.0% North America
- 6.8% Others

* Sales and distribution of merchandise by geographical areas is determined on the basis of the location to where the merchandise is delivered.

Biographical Details of Directors and Senior Management

Executive Directors

Dr. Budiono Widodo, aged 64, is a founder and the Chairman of the Group and is responsible for strategic development of the Group. He is also a director of each of the subsidiaries of the Company except Glowing Schemes Sdn. Bhd. He started in the forestry business in Indonesia in 1979 and has over 27 years of experience in the timber industry, starting as a log exporter and then becoming a plywood manufacturer and trader. Apart from the plywood business, he is also engaged in other industries including property and hotels.

Mr. Sardjono Widodo, aged 40, is the Managing Director of the Group and a son of Dr. Budiono Widodo. He is also a director of each of the subsidiaries of the Company except Glowing Schemes Sdn. Bhd. He holds a Diploma in Mechanical Engineering and has been in the wood industry for over 12 years.

Mr. Liao Yun Kuang, aged 55, is the President of the Group. He is also a director of each of the subsidiaries of the Company. He holds a Bachelor Degree in Business Administration from Tam Kang University in Taiwan. Prior to joining the timber industry, Mr. Liao has worked for two large conglomerates in Taiwan and has more than 25 years experience in general management.

Mr. Yu Chien Te, aged 54, is a Vice President of the Group. He is also a director of Dalian Global Wood Products Co., Ltd. He graduated in Electrical Engineering in Taiwan and has more than 20 years of experience in the plywood and wood-related industry.

Non-executive Directors

Mr. Marzuki Usman, aged 65, holds a Master Degree in Economics from University of Gajah Mada as well as Duke University in Durham, North Carolina, USA. He was the Minister of Tourism (Arts and Culture) in Indonesia from May 1998 to October 1999. From May 1999, he also assumed the job as Minister for Investment and head of Agency for Investment Coordination Board until October 1999.

Mr. Pipin Kusnadi, aged 62, is the commissioner for over 10 companies in Jakarta and has been in the wood industry since 1991.

Mr. Kusnadi Widjaja, aged 53, is a certified member of the Capital Market Professional Standards in Jakarta, Indonesia. He has more than 15 years of experience in the field of finance and securities trading and investment management. He is currently a Special Assistant to the Chief Executive Office of an Indonesian group of companies with extensive business interests in logging and shipping.

Mr. Sudjono Halim, aged 45, a son-in-law of Dr. Budiono Widodo, graduated with a Master Degree in Business Administration from the California State University in Los Angeles, USA. He also holds a Bachelor Degree in Electronic and Electrical Engineering from the University of Southern California in Los Angeles, USA. He has more than 15 years business experience in corporate financing, securities, trading, investment and manufacturing in Indonesia and Singapore.

Mr Siah Chong Huat, aged 46, holds a Bachelor Degree in Science (Economics) specializing in Management Studies from the University of London. He also holds a Diploma in Building Services Engineering from Ngee Ann Polytechnic, Singapore. He has over 20 years of business experience in building materials and building-related industries where he has held executive positions in various companies operating in such industries.

Biographical Details of Directors and Senior Management

Company Secretary

Mr. Lau Kin Wah, aged 42, is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong. He joined the Group on 1st October, 1998.

Management and Senior Staff

Mr. Phua Sian Chin, aged 58, is the Chief Financial Officer of the Group and Qualified Accountant of the Company. He holds a Bachelor Degree in Accountancy from the University of Singapore and is a FCPA, Singapore and FCPA, Australia. He had held regional financial head positions with well-known multinational companies involved in the manufacturing and distribution of marine, industrial and pharmaceutical chemicals, garments, electrical and electronic products. He was also the financial head for property development, investment and management groups in Singapore and Indonesia for over 6 years. He joined the group on 14th February, 2000.

Mr. Su Wen Chang, aged 54, is a Vice President of the Group. He graduated in electrical engineering in Taiwan. Prior to joining the Group in 1992, he worked in the timber industry in Taiwan, Singapore and Indonesia for nearly 20 years. Mr. Su joined the Group on 16th March, 1992.

Mr. Goh Lian Seng, aged 43, is the Chief Planning Officer of the Group. He graduated from University of Malaya, Malaysia in April 1990 majoring in accounting. He also holds a Master Degree in Business Administration from University of Birmingham, United Kingdom in 2001. He is also a member of Malaysia Institute of Accountants (MIA) and Malaysia Institute of Certified Public Accountants (MICPA). He joined one of the top accounting firms as an auditor for six years before he joined the Group as a financial analyst. He joined the Group on 1st July, 1996.

Mr. Sim Kok Leong, aged 44, is the Group Finance Vice General Manager. He holds a Master Degree in Business Administration from the University of Dubuque and a Bachelor Degree in Business Administration from the National University of Singapore. He has more than 10 years of international banking exposure, and was with one of the top 20 international banks before he joined the Group on 11th October, 1999.

Miss Kon Siew Foon, aged 43, is the Senior Accounting Manager of the Group. She graduated from University of Malaya, Malaysia in 1990 majoring in accounting. Upon graduation, she worked as an auditor for 2 years. She joined the Group on 2nd May, 1992.

Mr. Chen De Jung, aged 42, is the Chief Administrative Officer of the Group. He graduated from Connecticut University in USA with a Master Degree in Business Administration in 1996. Upon graduation, he worked in one of the largest telecommunication companies in USA. He joined the Group on 31st October, 1996.

Financial Summary

(Amounts expressed in United States dollar unless otherwise stated)

Income Statements

The following is a summary of the audited consolidated results of Pacific Plywood Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the respective years as hereunder stated.

	For the year ended 31st December,				
	2007	2006	2005	2004	2003
	$'000	$'000	$'000	$'000	$'000
Revenue	**131,963**	153,101	136,144	149,522	136,589
(Loss)/Profit before income tax	**(533)**	458	(8,143)	(7,428)	(7,833)
Income tax credit/(charge)	**1,801**	–	239	2,929	(323)
Profit/(Loss) before minority interest	**1,268**	458	(7,904)	(4,499)	(8,156)
Minority interest	**–**	–	–	–	–
Profit/(Loss) attributable to equity holders of the Company	**1,268**	458	(7,904)	(4,499)	(8,156)
Dividends	**–**	–	–	–	–

Financial Summary

(Amounts expressed in United States dollar unless otherwise stated)

Balance Sheets

The following is a summary of the audited consolidated balance sheets for the Group as at the respective dates as hereunder stated.

	As at 31st December,				
	2007	2006	2005	2004	2003
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	**73,852**	74,371	81,005	88,391	100,277
Leasehold land	**2,958**	2,989	3,020	3,051	3,082
Deferred income tax assets	**5,021**	4,716	4,402	14,610	11,797
Deposit for acquisition of an investment	**1,500**	–	–	–	–
Current assets	**45,845**	39,241	39,444	40,344	40,725
Current liabilities	**(44,237)**	(42,097)	(47,398)	(43,815)	(54,903)
Long-term borrowings	**(48,197)**	(53,096)	(57,078)	(60,870)	(54,610)
Other non-current liabilities	**(222)**	(69)	(62)	(64)	(159)
Deferred income tax liabilities	**–**	(15)	(14)	(10,487)	(10,617)
	36,520	26,040	23,319	31,160	35,592
Representing:					
Ordinary shares	**4,278**	3,598	18,037	18,037	18,037
Reserves	**31,242**	21,442	4,282	12,123	16,555
Minority interest in equity	**1,000**	1,000	1,000	1,000	1,000
Shareholders' equity	**36,520**	26,040	23,319	31,160	35,592

Corporate Governance Report

The Board believes that a high standard of corporate governance is crucial to the development of the Group. In addition to complying with statutory and regulatory standards, the Group is committed to maintain a high standard of corporate governance with emphasis on transparency, accountability and fairness.

The Board is composed of a group of professionals and businessmen with different expertise in skill and experience. In order to ensure independence and objectivity in the management, non-executive Directors represent a majority of the Board.

Board of Directors

The board is responsible for establishing the strategic direction and the overall management of the Groups business. Day-to-day operation, particularly, certain manufacturing operational management is however, delegated to the management.

The number of board meeting held during the year ended 31st December, 2007 and the directors respective attendance record are summarized as follows:

	Number of meeting attended *(12 meetings in total)*
Executive Directors	
Budiono Widodo, Chairman	12
Sardjono Widodo, Managing Director	11
Liao Yun Kuang, President	12
Yu Chien Te	9
Non-executive Directors	
Sudjono Halim	4
Pipin Kusnadi	5
Chen Chung I (retired on 21st June, 2007)	1
Independent non-executive Directors	
Marzuki Usman	6
Kusnadi Widjaja	5
Ngai Kwok Chuen (resigned on 29th November, 2007)	3

Regular Board meetings are convened and held by the Company and Directors are given adequate notice to attend such regular Board meetings or other Board meetings. Directors are also provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors. Minutes of regular Board meetings, other Board meetings or other committees meetings are recorded in sufficient detail. Draft of these minutes are circulated to all Directors for their comments before they are finalized for signatures and records.

Corporate Governance Report

During the period from 22nd June, 2002 to 28th June, 2004, Mr. Ngai Kwok Chuen was a non-executive director of the Company and he was re-designated as an independent non-executive director since 28th June, 2004. The Board considered Mr. Ngai to be independent because he had been only a non-executive director for a short period of time before his re-designation and he possessed the necessary quality to act as an independent non-executive director. Mr. Ngai resigned as an independent non-executive director on 29th November, 2007. Under code provision A.3, the Board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) and under rule 3.10, the Board must include at least three independent non-executive directors.

Due to the resignation of Mr. Ngai Kwok Chuen on 29th November, 2007, the Board only had two independent non-executive directors since then, Mr. Siah Chong Huat was appointed as an independent non-executive director of the Company to fill this causal vacancy on 18th January, 2008.

As disclosed in the section of Biographical Details of Directors and Senior Management, Mr. Sardjono Widodo, Managing Director and Mr. Sudjono Halim, a non-executive director are the son and son-in-law of Dr. Budiono Widodo, Chairman respectively.

Chairman and Chief Executive Officer

Under code provision A.2.1, the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual.

In addition to his duties as the Chairman, Dr. Budiono Widodo is also responsible for the strategic planning and overseeing certain aspects of the Group's operation. Such duties overlap with those of Mr. Sardjono Widodo, the Chief Executive Officer, who is his son. Nevertheless, the Board considers that this will not impair the balance of power and authority of the Board and management of the Group. The balance of power and authority is ensured by the operation of the Board, which comprises nine directors. All of them are experienced businessmen or professionals and they meet regularly to review the Group's performance. For decisions which may have significant effect on the Group's business, all directors presence is secured as far as possible. The Board therefore has confidence in Dr. Budiono Widodo and trusts that his rich experience in plywood industry will contribute significantly to the Group's business.

Non-executive Directors

All the non-executive directors of the Company are appointed for a specific term of one year but they are also subject to retirement by rotation in accordance with the Company's Bye-laws.

Code of Conduct on Directors' Securities Transactions

The Company has adopted the terms as contained in the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 of the Listing Rules) as the Company's code of conduct for securities transactions and dealings (Model Code). All existing directors of the Company, upon specific enquiry, have confirmed that they have complied with the Model Code during the year ended 31st December, 2007.

Remuneration of Directors

The Remuneration Committee was duly constituted 29th June, 2005 and comprises an executive director, Mr. Liao Yun Kuang (chairman) and two independent non-executive directors, Mr. Marzuki Usman and Mr. Kusnadi Widjaja.

Corporate Governance Report

The primary role of the Remuneration Committee under its terms of reference is to support and advise the Board in fulfilling the Board's responsibility to the shareholders of the Company to (a) establish remuneration policies and structure of directors and senior management; (b) review and approve performance-based remuneration by reference to the goals, objectives and performance of the Group; and (c) to determine the specific remuneration packages and or compensation for all executive Directors and senior management; and (d) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31st December, 2007, the Remuneration Committee met once with full attendance to review and consider the terms under the service contracts signed between the Company and each of the executive Directors and remuneration package of the non-executive Directors of the Company.

Nomination of Directors

The Board will meet to discuss nomination of directors when circumstances required. Upon receipt of a nomination from the members of the Board, a Board meeting will then be convened to consider and discuss the nomination. Academic and professional qualifications, business experience, expertise and knowledge as well as other requirements under the Listing Rules will be assessed to determine if the nomination is suitable.

Auditor's Remuneration

During the year ended 31st December, 2007, the Group engaged PricewaterhouseCoopers to perform audit and audit related services at a fee of approximately US$340,000, which include the service fee of approximately US$20,000 for an engagement to apply certain agreed-upon procedure to the Groups 2007 interim financial statements.

Audit Committee

The Audit Committee comprises three independent non-executive directors, Mr. Marzuki Usman (chairman), Mr. Kusnadi Widjaja and Mr. Siah Chong Huat (appointed on 18th January, 2008 to fill the causal vacancy arising from the resignation of Mr. Ngai Kwok Chuen).

The number of committee meetings held during the year ended 31st December, 2007 and the committee members' respective attendance record are summarized as follows:

	Number of meeting attended *(2 meetings in total)*
Marzuki Usman *(Chairman)*	2
Kusnadi Widjaja	2
Ngai Kwok Chuen (resigned on 29th November, 2007)	1

The Audit Committee has adopted terms of reference which are in line with the Code and the Corporate Governance Code issued by the Stock Exchange.

The main duties of the Audit Committee are as follows:

a. To review with the internal and external auditors the adequacy and effectiveness of the Group's internal control and service systems and practices;

b. To consider the appointment of the external auditors, its remuneration and any questions of resignation or dismissal;

c. To discuss with the external auditors before the audit commences, the nature and scope of the audit;

Corporate Governance Report

d. To review the half year and annual financial statements before submission to the board, focusing particularly on:

- Any changes in accounting policies and practices;
- Significant adjustment resulting from audit;
- The going concern assumption;
- Significant and unusual events;
- Compliance with accounting standards or any other legal requirements

e. To discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss;

f. To perform any other functions as may be agreed by the Audit Committee and the Board.

During the year ended 31st December, 2007, the Audit Committee met to review the annual financial statements for the year ended 31st December, 2006 and the interim financial information for the six months ended 30th June, 2007.

Internal controls

The Group has in place a group Internal Audit function, which assists the Audit Committee with assessment on the adequacy and integrity of the systems of internal control. Internal audit function reports directly to the Audit Committee. Internal audit function undertakes the audit of the Groups operating units, reviewing the units compliance to internal control procedures, highlighting weaknesses and making appropriate recommendations for improvements.

The Board notes that all internal control systems contain inherent limitations and no system of internal control could provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human error losses, fraud and other irregularities.

During the year, the Audit committee and the board of directors have reviewed the effectiveness of the existing system of internal control and found no material weaknesses that have resulted in any material losses or major breakdown that would require disclosure in this annual report. Management will continue to review and take measures to strengthen the internal control environment.

Communication with Shareholders

The Board maintains an on-going dialogue with shareholders through annual general meetings or special general meetings and shareholders are encouraged to participate.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31st December 2007.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 8 to the accompanying consolidated financial statements.

The Group's sales for the year ended 31st December, 2007 is analysed as follows:

		US$'000
a.	**Sales and distribution of merchandise by product categories**	
	Weather and boil proof plywood	52,787
	Moisture resistant plywood	27,058
	Flooring	23,710
	Jamb and mouldings	13,793
	Structural	11,020
	Others	3,595
		131,963

		US$'000
b.	**Sales and distribution of merchandise by geographical areas***	
	Japan	26,912
	The People's Republic of China	23,470
	South East Asia	22,436
	Europe	20,739
	Korea	14,969
	North America	14,462
	Others	8,975
		131,963

* Sales and distribution of merchandise by geographical areas is determined on the basis of the location to where the merchandise is delivered.

Details of segment information are set out in note 6 to the accompanying consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 27.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 15 to the accompanying consolidated financial statements.

Report of the Directors

Donations

There was no charitable and other donations made by the Group during the year.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 9 to the accompanying consolidated financial statements.

Ordinary shares

Details of the movements in ordinary shares of the Company are set out in note 14 to the accompanying consolidated financial statements.

Distributable reserves

Distributable reserves of the Group and the Company during the year are set out in Note 15 to the accompanying consolidated financial statements.

As at 31st December 2007, approximately US$20,123,000 (2006: US$19,049,000) of the Company's reserves was available for distribution to its shareholders.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's Bye-laws and there was no restriction against such rights under the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 11 to 12 of this annual report.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Share options

In compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange, the Company has adopted a share option scheme ("the Scheme") , as approved by shareholders at the Annual General Meeting on 21st June, 2002. Details of the Scheme have been set out in the "Letter from the Board" dated 13th May, 2002. Under the Scheme, the Company may grant options to any participant who, in the absolute discretion of the Board, has made valuable contribution to the business of the Group. The subscription price will be a price determined by the Board and at least the highest of: (a) the closing price of the shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of grant of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the shares. The total number of shares which may be issued upon exercise of options must not exceed 30% of the number of shares in issue from time to time and in addition, 10% of the number of shares in issue as at the date of approval of the option scheme.

Report of the Directors

Details of the share options issued under the old option scheme in 1999 and outstanding as at 31st December, 2007 were as follows.

Name	Date of Grant	Exercise Period	Exercise price per share	Number of shares to be issued under options granted under share option scheme Beginning and end of year
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	7,425,600
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	3,003,000
				10,428,600

Directors

The Directors during the year and up to the date of this report were:

Executive Directors

Dr. Budiono Widodo, *Chairman*
Mr. Sardjono Widodo, *Managing Director*
Mr. Liao Yun Kuang, *President*
Mr. Yu Chien Te

Non-Executive Directors

Mr. Chen Chung I (retired on 21st June, 2007)
Mr. Pipin Kusnadi
Mr. Sudjono Halim

Independent Non-Executive Directors

Mr. Marzuki Usman
Mr. Ngai Kwok Chuen (resigned on 29th November, 2007)
Mr. Kusnadi Widjaja
Mr. Siah Chong Huat (appointed on 18th January, 2008)

In accordance with Bye-laws 99 of the Company's Bye-laws and Code Provision A.4 under Appendix 14 to the Listing Rules, Mr Marzuki Usman, Mr. Siah Chong Huat, Mr. Liao Yun Kuang, and Mr. Yu Chien Te will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Rules Governing the listing of Securities on the Stock Exchange ("Listing Rules") and the Company still considers such Directors to be independent.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Report of the Directors

Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, any of its fellow subsidiaries or its parent company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executives' interests in the shares

At 31st December, 2007, the interests and short positions of each Director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO were as follows:

	Personal Interest	Corporate Interest Note 1	Trust Interest Note 2	Total	% of Total Shares Outstanding
Dr. Budiono Widodo	24,827,600	24,827,600	394,944,000	444,599,200	33.48%
Mr. Sardjono Widodo	Nil	Nil	394,944,000	394,944,000	29.74%
Mr. Yu Chien Te	5,887,320	Nil	Nil	5,887,320	0.44%

Notes:

1. As at 31st December, 2007, Wealth Summit Holdings Limited held 24,827,600 shares of the Company. Dr. Budiono Widodo, a director of the Company, held 100% of the outstanding shares of Wealth Summit Holdings Limited.

2. As at 31st December, 2007, Bank of East Asia (Trustee) Limited, being the trustee of the Peace Trust, held indirectly 394,944,000 shares of the Company. Dr. Budiono Widodo and Mr. Sardjono Widodo are named beneficiaries of The Peace Trust.

Save as disclosed herein and the Section "Share options", as at 31st December, 2007, none of the Directors, the chief executive of the Company or their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.

Directors' interests in competing business

Dr. Budiono Widodo, (a Commissioner of P.T. Sumatra Timber Utama Damai ("P.T. STUD")) Chairman of the Company, and Mr. Sardjono Widodo, (a Commissioner of P.T. STUD) Managing Director of the Company, have personal and corporate interests of approximately 2.82% and 3.31% in P.T. STUD respectively.

P.T. STUD is a prominent manufacturer in the container flooring segment and its management team comprises professionals, associates and family members of Dr. Budiono Widodo.

During the year ended 31st December, 2007, P.T. STUD recorded a sales of US$71.90 million, which was analysed by product range as follows:

	US$'million
Container Flooring	32.0
Industrial Plywood	28.0
Film Face Plywood	11.9
Total	71.9

Report of the Directors

The core business of P.T. STUD is the manufacture and sales of industrial plywood and other secondary plywood products. The principal business of the Group is the manufacture and distribution of plywood, veneer and consumer-related wood products. Therefore, the business of P.T. STUD does not and will not compete with that of the Group.

In addition, Dr. Budiono Widodo and Mr. Sardjono Widodo are not involved in the day-to-day operations of the business of P.T. STUD. Furthermore, P.T. STUD has given an undertaking in favour of the Group that it will not compete with the Group by manufacturing those plywood products which are currently produced, or are likely to be produced in the future, by the Group, but excluding products which are currently produced by P.T. STUD. Dr. Budiono Widodo has also undertaken to use his best efforts to procure P.T. STUD to comply with its undertaking, as long as he is the controlling shareholder (as defined under the Listing Rules) of both the Company and P.T. STUD.

Substantial shareholders' Interests and/or Short Positions in the Shares, Underlying Shares of the Company

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that as at 31st December, 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and chief executives.

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Dr. Budiono Widodo	Beneficial owner, held by controlled corporation and beneficiary of a trust	444,599,200	33.48%
Aroma Pinnacle Inc Note 1	Held by controlled corporation	394,944,000	29.74%
Bank of East Asia (Trustees) Limited as the trustee of the Peace Trust Note 1	Held by controlled corporation	394,944,000	29.74%
Peace Avenue Group Limited Note 2	Held by controlled corporation	394,944,000	29.74%
Mr. Sardjono Widodo	Beneficiary of a trust	394,944,000	29.74%
Precious Win Group Limited	Beneficial owner	197,472,000	14.87%
SMI International Limited	Beneficial owner	197,472,000	14.87%

Notes:

1. Reference to 394,944,000 shares of the Company relate to the same block of shares in the Company which represent the total number of shares of the Company held indirectly by Peace Avenue Group Limited (as explained in note 2 below).

2. Precious Win Group Limited and SMI International Limited are owned by Peace Avenue Group Limited for 65.25% and 39.82% respectively and their interests in the issued share capital of the Company are included in the interests held by Peace Avenue Group Limited.

Report of the Directors

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major suppliers and customers

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	8.00%
– five largest suppliers combined	20.31%
Sales	
– the largest customer	16.72%
– five largest customers combined	44.40%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Connected transactions

Significant related party transactions entered by the Group during the year ended 31st December, 2007, which do not constitute connected transactions under the Listing Rules, are disclosed in Note 31 to the accompanying consolidated financial statements.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Board of Directors confirms that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31st December, 2007.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

BUDIONO WIDODO
Chairman
Hong Kong, 11th April, 2008

Report of the Auditor

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

Independent Auditor's Report
To the shareholders of Pacific Plywood Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Plywood Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 25 to 72, which comprise the consolidated and company balance sheets as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report of the Auditor

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. As explained in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from the failure of such measures. Details of the circumstances relating to this material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern are described in Note 2 to the consolidated financial statements.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11th April, 2008

Balance Sheets

As at 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

		Group		Company	
		2007	2006	**2007**	2006
	Note	**$'000**	$'000	**$'000**	$'000
ASSETS					
Non-current assets					
Investments in subsidiaries	*8*	**–**	–	**30,529**	28,129
Leasehold land	*7*	**2,958**	2,989	**–**	–
Property, plant and equipment	*9*	**73,852**	74,371	**2**	3
Deferred income tax assets	*18*	**5,021**	4,716	**–**	–
Deposit for acquisition of an investment	*10*	**1,500**	–	**–**	–
		83,331	82,076	**30,531**	28,132
Current assets					
Inventories	*12*	**21,106**	18,542	**–**	–
Trade and other receivables	*11*	**18,995**	17,464	**59**	31
Cash and cash equivalents	*13*	**5,744**	3,235	**29**	165
Amounts due from subsidiaries	*8*	**–**	–	**2,769**	–
		45,845	39,241	**2,857**	196
Total assets		**129,176**	121,317	**33,388**	28,328
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Ordinary shares	*14*	**4,278**	3,598	**4,278**	3,598
Share premium		**7,652**	–	**7,652**	–
Other reserves	*15*	**4,928**	4,048	**20,581**	20,581
Retained earnings/(Accumulated losses)		**18,662**	17,394	**(458)**	(1,532)
		35,520	25,040	**32,053**	22,647
Minority interest in equity		**1,000**	1,000	**–**	–
Total equity		**36,520**	26,040	**32,053**	22,647

Balance Sheets

As at 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

		Group		Company	
		2007	2006	**2007**	2006
	Note	**$'000**	$'000	**$'000**	$'000
LIABILITIES					
Non-current liabilities					
Borrowings	*17*	**48,197**	53,096	**–**	–
Obligations under finance leases	*20*	**222**	69	**–**	–
Deferred income tax liabilities	*18*	**–**	15	**–**	–
		48,419	53,180	**–**	–
Current liabilities					
Amounts due to subsidiaries		**–**	–	**665**	5,029
Trade and other payables	*16*	**23,543**	20,573	**670**	652
Current income tax liabilities		**98**	1,884	**–**	–
Borrowings	*17*	**20,596**	19,640	**–**	–
		44,237	42,097	**1,335**	5,681
Total liabilities		**92,656**	95,277	**1,335**	5,681
Total equity and liabilities		**129,176**	121,317	**33,388**	28,328
Net current assets/(liabilities)		**1,608**	(2,856)	**1,521**	(5,485)
Total assets less current liabilities		**84,939**	79,220	**32,053**	22,647

The notes on pages 30 to 72 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 11th April, 2008 and signed on behalf of the Board by:

BUDIONO WIDODO
Chairman

SARDJONO WIDODO
Managing Director

Consolidated Income Statement

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

		Year ended 31st December	
		2007	2006
	Note	**$'000**	$'000
Revenue	*6*	**131,963**	153,101
Cost of sales	*21*	**(113,056)**	(125,690)
Gross profit		**18,907**	27,411
Distribution costs	*21*	**(11,633)**	(14,063)
Administrative expenses	*21*	**(10,208)**	(10,204)
Other gains – net	*19*	**3,907**	233
Loss on disposal of subsidiaries		**–**	(1,766)
Write-back on impairment losses on property, plant and equipment	*9*	**3,362**	3,990
Operating profit		**4,335**	5,601
Finance costs	*23*	**(4,868)**	(5,143)
(Loss)/Profit before income tax		**(533)**	458
Income tax credit	*24*	**1,801**	–
Profit for the year		**1,268**	458
Attributable to:			
Equity holders of the Company		**1,268**	458
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in United States cent per share)			
– basic	*26*	**0.10**	0.06
– diluted	*26*	**0.10**	0.06
Dividends		**–**	–

The notes on pages 30 to 72 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

		Attributable to the Company's equity holders					
	Note	Ordinary shares $'000	Share premium $'000	Other reserves $'000	(Accumulated losses)/ Retained earnings $'000	Minority interest in equity $'000	Total $'000
At 1st January, 2006		18,037	90,652	4,121	(90,491)	1,000	23,319
Capital reduction	*14 & 15*	(16,234)	–	16,234	–	–	–
Issuance of new shares	*14*	1,795	–	–	–	–	1,795
Share premium cancellation	*15*	–	(90,652)	90,652	–	–	–
Adjustment of accumulated losses	*15*	–	–	(107,427)	107,427	–	–
Profit for the year		–	–	–	458	–	458
Disposal of subsidiaries	*15(a)*	–	–	(23)	–	–	(23)
Currency translation differences	*15(a)*	–	–	491	–	–	491
At 31st December, 2006		3,598	–	4,048	17,394	1,000	26,040
At 1st January, 2007, as per above		3,598	–	4,048	17,394	1,000	26,040
Issuance of new shares	*14*	680	7,652	–	–	–	8,332
Profit for the year		–	–	–	1,268	–	1,268
Currency translation differences	*15(a)*	–	–	880	–	–	880
At 31st December, 2007		**4,278**	**7,652**	**4,928**	**18,662**	**1,000**	**36,520**

The notes on pages 30 to 72 are an integral part of these consolidated financial statements

Consolidated Cash Flow Statement

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

	Note	Year ended 31 December 2007 $'000	2006 $'000
Cash flows from operating activities			
Cash generated from operations	27	7,475	10,898
Interest paid		(4,868)	(5,143)
Net cash generated from operating activities		2,607	5,755
Cash flows from investing activities			
Proceeds from disposals of property, plant and equipment	27	2,075	126
Interest received		43	31
Purchase of property, plant and equipment		(3,657)	(1,671)
Deposit for acquisition of an investment	10	(1,500)	–
Proceeds from disposals of subsidiaries		–	353
Net cash used in investing activities		(3,039)	(1,161)
Cash flows from financing activities			
Proceeds from issuance of new shares		8,332	1,795
Proceeds from borrowings		1,727	3,147
Repayments of borrowings		(6,950)	(8,938)
Repayment of principal portion of finance leases		(193)	(76)
Net cash generated from/(used in) financing activities		2,916	(4,072)
Net increase in cash and cash equivalents		2,484	522
Cash and cash equivalents at beginning of year		3,235	2,642
Exchange gains on cash		25	71
Cash and cash equivalents at end of year	13	5,744	3,235

The notes on pages 30 to 72 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

1. General information

Pacific Plywood Holdings Limited ("the Company") was incorporated in Bermuda on 9th May, 1994. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The Company is an investment holding company. Its subsidiaries (together with the Company hereafter collectively referred to as "the Group") are principally engaged in the manufacture, distribution and sale of plywood, veneer, jamb and moulding, structural, flooring and other wood related products.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 20th November, 1995.

These consolidated financial statements are presented in United States dollars ("$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 11th April, 2008.

2. Going concern

As at 31st December, 2007, the outstanding bank borrowings amounted to approximately $68,793,000 (2006: $72,736,000), out of which approximately $20,596,000 (2006: $19,640,000) was due for repayment and renewal within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Group will maintain its strong business relationship with its bankers to gain their continuing support and is actively discussing with its bankers for the renewal of short term banking facilities when they fall due in 2008. The Directors are confident that the short term banking facilities will be renewed. With the ongoing support from its bankers and major customers, the Group should be able to generate sufficient cashflows from future operations to cover its operating costs and to meet its financing commitments. Therefore the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31st December, 2007. The Directors are confident that the Group will continue to obtain the ongoing support from its bankers, and accordingly, the Directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis. The accounts do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention except that certain financial assets and financial liabilities are measured at fair value, as appropriate.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

3. Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

The following standards, amendments to standards and interpretations are mandatory for financial year ended 31st December, 2007.

HKAS 1 (Amendment)	Presentation to Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the above standards, amendments to standards and interpretations did not have any significant financial impact to the Group.

The following standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

HKAS 1 (Revised)	Presentation to Financial Statements
HKFRS 23 (Amendment)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Directors anticipate that the adoption of these standards, amendments to standards and interpretations in future periods will have no significant financial impact to the Group.

3.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31st December.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

3. Summary of significant accounting policies (Continued)

3.2 Consolidation (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

Inter-company transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.6). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting the Group has determined to report its primary segment information by geographical locations of operations and secondary segment by products. Details of the Group's segmental information are set out in Note 6 to the consolidated financial statements.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to property, plant and equipment.

3.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in United States dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

3. Summary of significant accounting policies (Continued)

3.4 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognized as a separate component of equity.

3.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives. The annual rates are as follows:

–	Buildings	2 – 10%
–	Leasehold improvements	Over the shorter of expected useful life and period of the lease
–	Plant and machinery	6 – 20%
–	Furniture, fittings and equipment	10 – 33%
–	Motor vehicles	12.5 – 20%
–	Jetty	2%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other gains – net, in the income statements.

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For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

3. Summary of significant accounting policies (Continued)

3.6 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortization and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated income statement.

3.7 Leasehold land

Prepayments made for leasehold land are stated at cost less accumulated amortization and accumulated impairment losses (if any). Prepayments mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a certain period from the date the respective right was granted. Amortization of leasehold land prepayments is calculated on a straight-line basis over the period of the lease.

3.8 Inventories

Inventories comprise raw materials, work-in-progress and finished goods and are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.9 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recorded as other gains in the income statement.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

3. Summary of significant accounting policies (Continued)

3.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.11 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities (including trade payables) are initially measured at fair value, and are subsequently measure at amortized cost, using the effective interest method. An equity instrument is any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs, net of tax, directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

3.12 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.13 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
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3. Summary of significant accounting policies (Continued)

3.14 Employee benefits

(a) Pension obligations

Group companies operate a number of defined contribution plans, the assets of which are generally held in separate administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Details of the Group's employee retirement benefits are set out in Note 30.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid.

The Group's contributions to defined contribution pension plans are charged to the consolidated income statement in the period to which the contributions relate.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

However, as the share options issued under the share option scheme adopted by the Company were all granted before 7th November, 2002, HKFRS 2 is not applicable to the share options outstanding as at 31st December, 2007 according to the transitional provisions of HKFRS 2.

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For the year ended 31st December, 2007
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3. Summary of significant accounting policies (Continued)

3.15 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

3.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sales of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

3.17 Leases (as the lessee)

(a) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance leases

Leases of assets in which the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognized in the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

3. Summary of significant accounting policies (Continued)

3.18 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

4. Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, concentration of customers risk and cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out by a corporate finance unit in Singapore (CFU) under the supervision and guidelines approved by the Executive Committee (ExCo). CFU identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The ExCo provides written guidelines for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of non-derivative financial instruments, and investing of excess liquidity.

(a) Market risk

(i) Currency risk

Foreign exchange risk arises when future commercial translation or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. The Group mainly operates in the PRC and Malaysia. The Group is exposed to foreign exchange risk primarily from Chinese Renminbi and Malaysian Ringgits with respect to United States Dollars.

Most of the PRC subsidiary's transactions are settled in Chinese Renminbi. The PRC subsidiary of the Group generates United States Dollars from sales in the overseas to meet its liabilities denominated in Chinese Renminbi and United States Dollars. The Group has not used any forward contracts or currency borrowings to hedge its exposure as the cost-benefit is considered not effective.

As at 31st December, 2006 and 2007, certain of the Group's borrowings were denominated in United States Dollars and Malaysian Ringgits, details of which have been disclosed in Note 17. Chinese Renminbi and Malaysian Ringgits experienced certain appreciation in recent years which is the major reason for the exchange gains for the PRC subsidiary whose major borrowings were denominated in United States Dollars and exchange losses for the Malaysian subsidiary whose creditors and trade facilities were denominated in Malaysian Ringgits recognized by the Group for the years ended 31st December 2006 and 2007. Further appreciation or depreciation of Chinese Renminbi and Malaysian Ringgits against United States Dollars will affect the Group's financial position and results of operations.

At 31st December, 2007, if Chinese Renminbi had strengthened by 10% against United States Dollars, with all other variables held constant, post-tax profit for the year would have been $920,000 higher, mainly as a result of foreign exchange gains on translation of United States Dollars denominated other payables balances; if Malaysian Ringgits had strengthened by 10% against United States Dollars, with all other variables held constant, post-tax profit for the year would have been $1,287,000 lower, mainly as a result of foreign exchange losses on translation of Malaysian Ringgits denominated borrowing balances.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Concentration of customers risk

During the years ended 31st December, 2007 and 2006, the Group's sales to top 5 customers accounted for approximately 44.40% and 56.56%, respectively of the total sales. Out of the top 5 customers, the Group's sales to the largest customer, an independent third party amounted to $22,064,000 (2006: $30,985,000) for the year ended 31st December, 2007. As at 31st December, 2007, trade receivable balance due from this customer amounted to $7,952,000 (2006: $7,860,000). The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 13, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in Note 17. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk. As at 31st December, 2007 and 2006, the Group's borrowings at variable rate were denominated in Malaysian Ringgits, Singapore Dollars and United States Dollars. The Group does not have non-current borrowings at fixed rate as at 31st December, 2007.

The Group analyzes and manages its interest rate exposure on an on-going basis taking into consideration refinancing, renewal of existing positions, alternative financing and hedging, with the primary objectives of limiting the extent to which net interest expense could be impacted from an adverse movement in interest rates.

(b) Credit risk

The carrying amounts of cash and cash equivalents and receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

Substantially all of the Group's cash and cash equivalents are held in major financial institutions, which management believes are of high credit quality.

The Group is exposed to a relatively high concentration of credit risk in terms of receivable as the Group's sales to its five largest customers were more than 40% of its total sales for the year ended 31st December, 2007. The Group normally grants credit terms of not more than 180 days to existing customers without collaterals. Aging analysis of the Group's trade receivables is disclosed in Note 11. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the Directors are of the opinion that adequate provision for uncollectible receivables has been made.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
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4. Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. Prudent liquidity risk management includes sufficient cash and the ability to close out market positions.

Due to tight liquidity as a result of its previous unfavourable financial performance, the Group will maintain its strong business relationship with its bankers to gain their continuing support and is actively discussing with its bankers for committed credit facilities and the renewal of short term banking facilities when they fall due.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
Group				
At 31st December, 2007				
Bank borrowings	20,596	5,318	16,039	26,840
Trade and other payables	23,543	–	–	–
At 31st December, 2006				
Bank borrowings	19,640	5,288	15,945	31,863
Trade and other payables	20,573	–	–	–

4.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

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For the year ended 31st December, 2007
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4. Financial risk management (Continued)

4.2 Capital risk management (Continued)

During the year ended 31st December, 2007, the Group's strategy, which was unchanged from 2006, was to maintain a gearing ratio within 50% to 80%. The gearing ratios at 31st December, 2007 and 2006 were as follows:

	2007	2006
	$'000	$'000
Total borrowings *(Note 17)*	**68,793**	72,736
Less: Cash and cash equivalents *(Note 13)*	**(5,744)**	(3,235)
Net debt	**63,049**	69,501
Total equity	**36,520**	26,040
Total capital	**99,569**	95,541
Gearing ratio (net debt to total capital)	**63%**	73%

The decrease in the gearing ratio during 2007 resulted primarily from the issuance of new shares (Note 14) and the scheduled repayments of bank loans and borrowings when due.

4.3 Fair value estimation

The carrying amounts of the Group's current financial assets, including cash and cash equivalents, trade and other receivables and the Group's current financial liabilities including trade and other payables and current borrowings approximate their fair values due to their short maturities.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Notes to the Consolidated Financial Statements

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5. Critical accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future event that believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Going concern

The Group's management's assessment of the going concern assumption involves making a judgment, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. Major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumption are set out in Note 2 to the consolidated financial statements.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Estimated impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have an indication of impairment, in accordance with the accounting policy stated in Note 3.6. The recoverable amounts of property, plant and equipment have been determined with reference to independent valuations or present value of future cash flows. These calculations and valuations require the use of judgment and estimates.

(d) Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade and bills receivables and other receivables. Provisions are applied to trade and bills receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimate. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and bills receivables and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(e) Estimated write-down of inventories to net realizable value

The Group writes-down inventories to net realizable value on an assessment of the realizability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be fully realizable. The identification of write-downs requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories in the year in which such estimate has been changed.

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6. Segmental information

Primary segment by geographical locations of operations:

	2007					
	The PRC $'000	Hong Kong $'000	Singapore $'000	Malaysia $'000	Elimination $'000	Consolidated $'000
Revenue						
– External	28,593	2,505	–	100,865	–	131,963
– Inter-segment	–	–	–	479	(479)	–
Total Revenue	28,593	2,505	–	101,344	(479)	131,963
Result						
Segment result	(4,102)	168	2,794	9,792		8,652
Unallocated corporate expenses						(4,317)
Operating profit						4,335
Finance costs						(4,868)
Income tax credit						1,801
Profit attributable to the equity holders of the Company						1,268
Assets						
Segment assets	31,458	600	16,627	72,652		121,337
Unallocated corporate assets						7,839
						129,176
Liabilities						
Segment liabilities	5,662	53	72	16,931		22,718
Unallocated corporate liabilities						69,938
						92,656
Other information						
Capital expenditure	1,149	–	26	2,892		4,067
Unallocated capital expenditures						–
						4,067
Depreciation	1,764	1	393	6,798		8,956
Amortization charge	–	–	–	31		31
Unallocated depreciation/amortization						29
						9,016

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6. Segmental information (Continued)

Primary segment by geographical locations of operations: (Continued)

	2006					
	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue						
– External	51,230	4,012	–	97,859	–	153,101
– Inter-segment	–	–	–	172	(172)	–
Total Revenue	51,230	4,012	–	98,031	(172)	153,101
Result						
Segment result	(4,415)	79	4,119	7,349		7,132
Unallocated corporate expenses						(1,531)
Operating profit						5,601
Finance costs						(5,143)
Income tax						–
Profit attributable to the equity holders of the Company						458
Assets						
Segment assets	31,111	557	13,356	71,378		116,402
Unallocated corporate assets						4,915
						121,317
Liabilities						
Segment liabilities	4,039	82	143	17,412		21,676
Unallocated corporate liabilities						73,601
						95,277
Other information						
Capital expenditure	548	–	28	1,237		1,813
Unallocated capital expenditures						–
						1,813
Depreciation	1,685	7	281	7,405		9,378
Amortization charge	–	–	–	31		31
Unallocated depreciation/amortization						1
						9,410

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6. Segmental information (Continued)

Secondary segment by products:

	2007				2006			
	Revenue $'000	Operating profit/(loss) $'000	Assets $'000	Capital expenditure $'000	Revenue $'000	Operating profit/(loss) $'000	Assets $'000	Capital expenditure $'000
Weather and boil proof plywood	52,787	5,124	36,526	1,454	60,482	4,542	38,964	675
Moisture resistant plywood	27,058	2,557	15,064	600	26,298	1,551	18,164	315
Flooring	23,710	2,211	11,636	463	15,952	1,159	7,166	124
Jamb and mouldings	13,793	(1,978)	15,243	557	23,208	574	13,959	76
Structural	11,020	(1,580)	14,469	528	22,548	283	16,110	88
Others	3,595	(475)	11,172	439	4,613	107	7,986	128
Unallocated	–	(1,524)	25,066	26	–	(2,615)	18,968	407
Total	131,963	4,335	129,176	4,067	153,101	5,601	121,317	1,813

7. Leasehold land – Group

The Group's interests in leasehold land represent prepaid operating lease payments and their net book value are analyzed as follows:

	2007 $'000	2006 $'000
Outside Hong Kong, held on:		
Malaysia – Leases of over 50 years	2,958	2,989

The leasehold land of the Group with a net book value of approximately $2,958,000 (2006: $2,989,000) has been pledged as security for certain banking facilities of the Group (Note 29(b)).

	2007 $'000	2006 $'000
At 1st January	2,989	3,020
Additions	–	370
Amortization of prepaid operating lease payment	(31)	(31)
Disposal of subsidiaries	–	(370)
At 31st December	2,958	2,989

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8. Investments in and amounts due from subsidiaries – Company

(a) Investments in subsidiaries

	Company	
	2007	2006
	$'000	$'000
Unlisted investments at cost	**30,529**	30,529
Less: Provision for impairment	**–**	(2,400)
	30,529	28,129

The following is a list of the principal subsidiaries at 31st December, 2007:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ paid up capital	Interest held
Ankan Holdings Limited	British Virgin Islands ("BVI")	Investment holding, BVI	$45,000	*100%
Ankan (China) Holdings Limited	BVI	Investment holding, BVI	$100	*100%
Dalian Global Wood Products Company Limited	PRC, co-operative joint venture *(Note 1)*	Manufacture and sale of wood products, The PRC	$29,600,000	**100%
Daunting Services Ltd	BVI	Dormant, BVI	$1	**100%
Glowing Schemes Sdn. Bhd.	Malaysia	Dormant, Malaysia	Malaysian Ringgits 1,200,000	**100%
Georich Trading Limited	BVI	Trading of veneer and plywood, Hong Kong	$2,510,000	*100%
Manuply Wood Industries (S) Sdn. Bhd. ("Manuply")	Malaysia	Manufacture and sale of veneer and plywood, Malaysia	Malaysian Ringgits 55,000,000	**100%
Pacific Plywood Limited	Samoa	Trading of plywood and other wood products, Hong Kong	$3,000,000	**100%

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8. Investments in and amounts due from subsidiaries – Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ paid up capital	Interest held
SMI Global Corporation	United States of America	Trading of wood products, United States of America	$1,000	**100%
SMI Management & Co. Pte. Ltd.	Singapore	Property holding and provision of management service, Singapore	Singapore Dollars 20,000,000	**100%
Sino Realm Investments Limited	BVI	Investment holding, BVI	$1	**100%

* *Shares held directly by the Company*
** *Shares held indirectly by the Company*

Note 1: A co-operative joint venture is a joint venture with the rights and obligations of the joint venture partners governed by the joint venture contract.

Dalian Global Wood Products Company Limited ("Dalian Global") is a co-operative joint venture established in the PRC with an operating period of 20 years up to November 2015.

Under the joint venture agreement, the PRC joint venture partner is entitled to receive a pre-determined annual fee but is not entitled to otherwise share in the profit and net assets of the joint venture (Note 28(b)). Such pre-determined annual fee is accounted for as expense in the consolidated income statement.

As the Group is able to govern and control the financial and operating policies governing the economic activities of Dalian Global, it is considered as a subsidiary and is accounted for as such.

(b) Amounts due from subsidiaries

The amounts due from subsidiaries are unsecured, interest free, denominated in United States Dollars and repayable on demand.

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9. Property, plant and equipment – Group

	Buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	Construction-in-progress ("CIP") $'000	Total $'000
At 1st January, 2006								
Cost	39,954	487	137,112	3,102	1,614	1,563	7	183,839
Accumulated depreciation	(8,629)	(252)	(72,020)	(2,416)	(1,028)	(388)	–	(84,733)
Accumulated impairment loss	(5,525)	–	(12,576)	–	–	–	–	(18,101)
Net book amount	25,800	235	52,516	686	586	1,175	7	81,005
Year ended 31st December, 2006								
Opening net book amount	25,800	235	52,516	686	586	1,175	7	81,005
Exchange differences	1,063	13	304	11	5	–	1	1,397
Disposal of subsidiaries	(2,858)	–	(1,015)	(18)	(37)	–	–	(3,928)
Additions	45	7	1,147	128	24	–	92	1,443
Disposals	–	–	(15)	(2)	(140)	–	–	(157)
Transfers	–	–	60	–	–	–	(60)	–
Depreciation	(903)	(62)	(8,141)	(152)	(90)	(31)	–	(9,379)
Write-back of impairment loss	3,579	–	411	–	–	–	–	3,990
Closing net book amount	26,726	193	45,267	653	348	1,144	40	74,371
At 31st December, 2006								
Cost	37,600	531	133,768	3,056	1,374	1,563	40	177,932
Accumulated depreciation	(8,613)	(338)	(78,226)	(2,403)	(1,026)	(419)	–	(91,025)
Accumulated impairment loss	(2,261)	–	(10,275)	–	–	–	–	(12,536)
Net book amount	26,726	193	45,267	653	348	1,144	40	74,371
Year ended 31st December, 2007								
Opening net book amount	**26,726**	**193**	**45,267**	**653**	**348**	**1,144**	**40**	**74,371**
Exchange differences	**1,194**	**8**	**629**	**22**	**11**	**–**	**9**	**1,873**
Additions	**–**	**–**	**1,661**	**82**	**–**	**–**	**2,324**	**4,067**
Disposals	**–**	**–**	**(829)**	**(5)**	**(2)**	**–**	**–**	**(836)**
Transfer	**–**	**–**	**(40)**	**40**	**–**	**–**	**–**	**–**
Depreciation	**(1,219)**	**(65)**	**(7,460)**	**(138)**	**(72)**	**(31)**	**–**	**(8,985)**
Write-back of impairment loss	**2,301**	**–**	**1,061**	**–**	**–**	**–**	**–**	**3,362**
Closing net book amount	**29,002**	**136**	**40,289**	**654**	**285**	**1,113**	**2,373**	**73,852**
At 31st December, 2007								
Cost	**39,140**	**561**	**131,167**	**3,053**	**1,376**	**1,563**	**2,373**	**179,233**
Accumulated depreciation	**(10,138)**	**(425)**	**(81,135)**	**(2,399)**	**(1,091)**	**(450)**	**–**	**(95,638)**
Accumulated impairment loss	**–**	**–**	**(9,743)**	**–**	**–**	**–**	**–**	**(9,743)**
Net book amount	**29,002**	**136**	**40,289**	**654**	**285**	**1,113**	**2,373**	**73,852**

Depreciation expense of $8,271,000 (2006: $8,722,000) has been charged in 'cost of sales', and $714,000 (2006: $657,000) in 'administrative expenses', respectively.

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9. Property, plant and equipment – Group (Continued)

Certain buildings of the Group with a net book value of approximately $3,811,000 (2006: $4,229,000) represented buildings of Dalian Global, which are located on land belongs to the Chinese joint venture partner of Dalian Global.

Certain property, plant and equipment of the Group with a net book value of approximately $67,570,000 (2006: $68,502,000) have been pledged as security for certain banking facilities of the Group (Note 17 and 29(a)).

Certain plant and equipment of the Group with a net book value of approximately $747,000 (2006: $340,000) were purchased under finance leases.

10. Deposit for acquisition of an investment

In August 2007, Ankan Holdings Limited, a wholly owned subsidiary of the Company, entered into a conditional agreement with an independent third party to purchase the entire issued share capital of Sevier Pacific Limited ("SPL"). SPL is a special purpose company and has entered into a memorandum of understanding ("MOU") with an independent third party Malaysian company to invest in a 49% interest of a 40,000 acres logging concession in Malaysia.

Completion of the agreement is subject to the successful acquisition by SPL of the 49% interest in a 40,000 acres logging concession in Malaysia pursuant to the MOU and it is expected that acquisition will be completed within 12 months from the date of the agreement.

Total consideration for the acquisition of SPL was $2,000,000. Upon execution of the agreement, the Group was required to pay a refundable deposit of $1,500,000 and the balance of $500,000 should be paid upon completion.

Since the refundable deposit of $1,500,000 was paid for the proposed acquisition of an investment, which was intended to be held for long-term. The deposit was accordingly classified as non-current assets.

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11. Trade and other receivables

(a) Group

	2007 $'000	2006 $'000
Trade receivables	13,957	17,001
Bill receivables	2,727	1,075
Less: provision for impairment of trade receivables	(660)	(2,981)
Trade receivables – net	16,024	15,095
Other receivables		
Value-added tax ("VAT") refund receivable	330	228
Prepayments	1,824	1,372
Other receivables	817	1,007
Less: provision for other receivables	–	(238)
Other receivables – net	2,971	2,369
Total trade and other receivables	18,995	17,464

The carrying amounts of trade and other receivables approximate their fair value.

As at 31st December, 2007, trade receivables amounting to approximately $4,649,000 (2006: $3,915,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 29(d)).

Certain subsidiaries of the Group negotiated bill receivable balances on a with recourse basis with banks for cash during the year ended 31st December, 2007 and the outstanding amount as at 31st December, 2007 was $2,635,000 (2006: $1,009,000). The transactions have been accounted for as collateralized borrowings (Note 17).

As at 31st December, 2007, prepayments and other receivables amounting to approximately $1,500,000 (2006: $1,321,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 29(e)).

Notes to the Consolidated Financial Statements

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11. Trade and other receivables (Continued)

(a) Group (Continued)

The majority of the Group's sales are on letter of credit or documents against payment. At 31st December, 2007 and 2006, the aging analysis of the trade receivables were as follows:

	2007 $'000	2006 $'000
0 – 30 days	8,867	8,603
31 – 60 days	2,033	2,050
61 – 90 days	1,257	2,538
91 – 180 days	762	401
181 – 360 days	17	26
Over 360 days	1,021	3,383
	13,957	17,001

The credit quality of trade receivables that are not impaired can be assessed by reference to historical information about counterparty default rates:

	2007 $'000	2006 $'000
Counterparties without external credit rating		
Group 1	1,198	50
Group 2	12,099	13,970
	13,297	14,020

Group 1 – new customers
Group 2 – existing customers

As of 31st December, 2007, trade receivables of $1,098,000 (2006: $1,486,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	2007 $'000	2006 $'000
Past due:		
Up to 3 months	520	983
3 to 6 months	200	75
6 months to 1 year	16	26
Over 1 year	362	402
	1,098	1,486

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For the year ended 31st December, 2007
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11. Trade and other receivables (Continued)

(a) Group (Continued)

As of 31st December, 2007, trade receivables of $660,000 (2006: $2,981,000) were impaired and provided for. The individually impaired receivables mainly relate to customers, which are in unexpected difficult economic situations. The aging analysis of these trade receivables is as follows:

	2007 $'000	2006 $'000
Over 6 months	660	2,981

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2007 $'000	2006 $'000
United States Dollars	15,532	7,225
Chinese Renminbi	275	7,870
Malaysian Ringgits	217	–
	16,024	15,095

Movements on the provision for impairment of trade receivables are as follows:

	2007 $'000	2006 $'000
At 1st January	2,981	3,771
Provision for receivable impairment	–	91
Receivables written off during the year as uncollectible	(15)	–
Disposal of a subsidiary	–	(640)
Unused amounts reversed	(2,315)	(295)
Exchange difference	9	54
At 31st December	660	2,981

Provision for impaired receivables has been included in administrative expense and release of provision for impaired receivables has been included in "other gains-net" in the income statement (Note 19). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
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11. Trade and other receivables (Continued)

(b) Company

	2007 $'000	2006 $'000
Prepayments	57	31
Other receivables	2	–
Less: provision for other receivables	–	–
Other receivables – net	59	31
Total trade and other receivables	59	31

12. Inventories – Group

	2007 $'000	2006 $'000
Raw materials	5,708	7,480
Work in progress	8,043	5,255
Finished goods	7,355	5,807
	21,106	18,542

The cost of inventories recognized as expense and included in 'cost of sales' amounted to $77,750,000 (2006: $83,380,000).

As at 31st December, 2007, inventories amounting to approximately $13,249,000 (2006: $11,645,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 29(c)).

The Group reversed approximately $118,000 (2006: $854,000) of a previous inventory write-down in the year of 2007. The amount reversed has been included in "other gains-net" in the consolidated income statement.

The Group made provision of $678,000 (2006: $25,000) for the year ended 31st December, 2007. The amount provided for has been included in "administrative expenses" in the consolidated income statement.

Notes to the Consolidated Financial Statements

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13. Cash and cash equivalents

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**5,744**	3,235	**29**	165
Denominated in:				
United States Dollars	**3,615**	1,566	**–**	–
Malaysian Ringgits	**1,110**	712	**–**	–
Singapore Dollars	**720**	288	**–**	–
Hong Kong Dollars	**206**	228	**29**	165
Chinese Renminbi	**93**	441	**–**	–
	5,744	3,235	**29**	165

Certain bank balances of the Group of approximately $1,138,000 (2006: $703,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 29(f)).

Cash and bank and short-term bank deposits

	Group		Company	
	2007	2006	**2007**	2006
	$'000	$'000	**$'000**	$'000
Credit rating*				
A–	**4,848**	2,557	**29**	165
BBB–	**32**	21	**–**	–
Without Rating	**864**	657	**–**	–
	5,744	3,235	**29**	165

** Source: from the website of Standard & Poor's at http://www2.standardandpoors.com*

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
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14. Ordinary shares – Group and Company

	Number of shares		Amount	
	2007	2006	**2007**	2006
	’000	’000	**$’000**	$’000
Authorised – Ordinary shares of HK$0.025 each	**8,000,000**	8,000,000	**25,806**	25,806
Issued and fully paid – Ordinary shares of HK$0.025 each	**1,327,779**	1,116,179	**4,278**	3,598

(a) Movement of Issued and fully paid ordinary shares

	Number of shares ’000	**Amount $’000**
At 1st January, 2006	5,580,897	18,037
Capital reduction *(note 14(b))*	(5,022,808)	(16,234)
Issuance of new shares *(note 14(c))*	558,090	1,795
At 31st December, 2006, as per above	1,116,179	3,598
Issuance of new shares *(note 14(d))*	211,600	680
At 31st December, 2007, as per above	1,327,779	4,278

(b) Capital reduction

On 19th July, 2006, shareholders of the Company approved (in a special general meeting of the Company) the Capital Reorganization of the Company, which involved (i) Share Consolidation by consolidating every 10 shares of HK$0.025 each into 1 consolidated share of HK$0.25 each; (ii) Capital Reduction by reducing the nominal value of the then issued consolidated shares from HK$0.25 to HK$0.025 each; (iii) Subdivision by subdividing each authorized but unissued consolidated share into 10 new shares of HK$0.025 each; as a result of the Capital Reorganization, the authorized share capital of the Company remains at HK$200,000,000 and was represented by 8,000,000,000 shares after capital reduction and subdivision (“the Shares”) and the issued share capital was approximately HK$13,952,000 (US$ 1,795,000 equivalent), represented by 558,089,724 shares of HK$0.025 each.

(c) Open Offer

In August 2006, the Company completed an open offer of 558,089,724 new shares to its existing shareholders on the basis of one new share for every one existing share held. As a result of this open offer, 558,089,724 new shares were issued and the Company received a gross proceeds of approximately HK$13,952,000 (US$1,795,000 equivalent). This amount was used as a general working capital of the Group as well as to repay part of the Group’s bank borrowings during 2006.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
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14. Ordinary shares – Group and Company (Continued)

(d) Issuance of new shares

In May 2007, the Company completed a placement of 111,600,000 new shares to independent third parties and received gross proceeds of HK$33,480,000 (US$4,244,000 equivalent). This amount was used as general working capital of the Group.

In October 2007, Precious Win Group Limited, indirectly owned by The Peace Trust, where Dr. Budiono Widodo, a Director and the chairman of Company and Mr. Sardjono Widodo, the managing Director of the Company, are named beneficiaries, completed a placement of 100,000,000 existing Shares to not less than six independent third parties at the Placing Price of HK$0.32 per Placing Share. Upon successful completion of the placement of existing shares, Precious Win Group Limited subscribed for 100,000,000 New Shares, which equal to the number of placing shares at HK$0.32 per Subscription Share. The gross proceeds of the Subscription of approximately HK$32,000,000 (US$4,088,000 equivalent) have been applied for general working capital of the Group.

(e) Share Options

In compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange, the Company has adopted a share option scheme (the "Scheme"), as approved by shareholders at the Annual General Meeting on 21st June, 2002. Details of the scheme have been set out in the "Letter from the Board" dated 13th May, 2002.

Under the Scheme, the Company may grant options to any participant, in the absolute discretion of the Board, who has made valuable contribution to the business of the Group. The subscription price will be a price determined by the Board and at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of the option, which must be a business day; (b) the average closing price of the shares as stated in Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the shares. The total number of shares which may be issued upon exercise of options must not exceed 30% of the number of shares in issue from time to time and in addition, 10% of the number of shares in issue at the date of approval of the option scheme.

Details of the share options granted under the old option scheme in 1999 and outstanding as at 31st December, 2007 were as follows:

				Number of shares to be issued under options granted under share option scheme
Name	**Date of Grant**	**Exercise Period**	**Exercise price per share**	**Beginning and End of year**
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	7,425,600
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	3,003,000
				10,428,600

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15. Other reserves

(a) Group

	Contributed surplus $'000	Translation $'000	Total $'000
At 1st January, 2006	7,814	(3,693)	4,121
Capital reduction	16,234	–	16,234
Share premium cancellation	90,652	–	90,652
Adjustment of accumulated losses	(107,427)	–	(107,427)
Disposal of subsidiaries	(23)	–	(23)
Currency translation differences	–	491	491
At 31st December, 2006	7,250	(3,202)	4,048
Currency translation differences	–	880	880
At 31st December, 2007	**7,250**	**(2,322)**	**4,928**

The contributed surplus of the Group as at 31st December, 2006 and 2007 represented i) the waiver in 1995 of an amount due to Directors and the difference between the net assets of the subsidiaries acquired pursuant to a group reorganization in 1995 over the nominal value of the Company's consideration in exchange therefore, and ii) the increase of the contributed surplus from capital reduction and share premium cancellation during the year ended 31st December, 2006, and iii) during the year ended 31st December, 2006, the decrease of the contributed surplus being set off against the accumulated losses of the Company as at 31st December, 2005.

(b) Company

	Contributed surplus $'000
At 1st January, 2006	21,122
Capital reduction	16,234
Share premium cancellation	90,652
Adjustment of accumulated losses	(107,427)
At 31st December, 2006 and 2007	**20,581**

The contributed surplus of the Company as at 31st December, 2006 and 2007 represented (i) the difference between the net assets of the subsidiaries acquired pursuant to a group reorganization in 1995 over the nominal value of the Company's consideration in exchange therefore (ii) increase from the capital reduction and share premium cancellation during the year ended 31st December, 2006, and (iii) decrease from the set off against the accumulated losses as at 31st December, 2005 of the Company during the year ended 31st December, 2006.

As at 31st December, 2007, approximately $20,123,000 (2006: $19,049,000) of the Company's reserves was available for distribution to its shareholders.

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16. Trade and other payables

(a) Group

	2007 $'000	2006 $'000
Trade payables	18,509	16,631
Customer deposits	–	50
Accrued expenses	2,759	1,764
Salary and welfare payable	1,415	1,362
Obligations under finance leases – current portion *(Note 20)*	201	128
Others	659	638
	23,543	20,573

At 31st December, 2007, the aging analysis of the trade payables were as follows:

	2007 $'000	2006 $'000
0–30 days	8,204	7,284
31–60 days	4,542	3,748
61–90 days	3,858	2,240
91–180 days	1,642	3,257
181–360 days	244	91
Over 360 days	19	11
	18,509	16,631

(b) Company

	2007 $'000	2006 $'000
Accrued expenses	148	211
Salary and welfare payable	522	441
	670	652

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17. Borrowings – Group

	2007 $'000	2006 $'000
Non-current		
Bank borrowings	48,197	53,096
Current		
Banker's acceptance and other banking facilities	10,587	11,352
Bank borrowings		
– short term bank borrowings	2,071	2,548
– current portion of long term bank borrowings	5,303	4,731
Collateralized borrowings *(Note 11)*	2,635	1,009
	20,596	19,640
Total borrowings	68,793	72,736

The long term bank borrowings bore interest at commercial banking rates ranging from 5.00% to 8.50% (2006: 4.75% to 8.50%) per annum and were secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and personal guarantees given by a Director of the Company.

The short term bank borrowings bore interest at commercial banking rates ranging from 3.63% to 6.98% (2006: 5.58% to 7.25%) per annum and were secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and personal guarantees given by a Director of the Company.

At 31st December, 2007, the Group's bank borrowings were repayable as follows:

	Bank borrowings	
	2007 $'000	2006 $'000
Within 1 year	5,303	4,731
Between 1 and 2 years	5,318	5,288
Between 2 and 5 years	16,039	15,945
Wholly repayable within 5 years	26,660	25,964
Over 5 years	26,840	31,863
	53,500	57,827
Less: Amount due within 1 year included in current liabilities	(5,303)	(4,731)
	48,197	53,096

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17. Borrowings – Group (Continued)

The effective interest rates for the borrowings at the balance sheet date were as follows:

	2007				2006			
	RMB	S$	$	RM	RMB	S$	$	RM
Bank borrowings	6.39%	5%	7%	8.5%	5.99%	4.75%	7.38%	8.5%
Trade facilities	–	–	7.13%	6.25%	–	–	7.68%	5.25%

The fair values of current borrowings approximately equal their carrying amounts, as the impact of discounting is not significant. The fair values of non-current borrowings approximated their carrying amounts and are based on cash flows discounted using a rate based on the borrowings rate of 5.00% to 8.50% (2006: 4.75% to 8.50%).

The carrying amounts of the borrowings were denominated in the following currencies:

	2007 $'000	2006 $'000
United States Dollars	52,451	51,850
Singapore Dollars	6,944	6,776
Malaysian Ringgits	7,327	11,562
Chinese Renminbi	2,071	2,548
	68,793	72,736

The Group has the following undrawn borrowing facilities:

	2007 $'000	2006 $'000
Floating rate		
– expiring within one year	490	620
– expiring beyond one year	8,462	7,425
	8,952	8,045

The facilities expiring within one year are annual facilities subject to review at various dates during 2008.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

18. Deferred income tax – Group

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	2007 $'000	2006 $'000
Deferred income tax assets	5,021	4,716
Deferred income tax liabilities	–	(15)
	5,021	4,701

Deferred income tax assets and liabilities of Manuply, prior to offsetting of balances within the same taxation jurisdiction are as follows:

	2007 $'000	2006 $'000
Deferred income tax assets	13,507	15,718
Deferred income tax liabilities	(8,486)	(11,002)
	5,021	4,716

The deferred income tax assets recognized in the consolidated balance sheet as at 31st December, 2007 related to Manuply which was profitable for both the years ended 31st December, 2006 and 2007. The Directors are of the view that Manuply will generate sufficient taxable profit in future to fully utilize the deferred income tax assets.

Movements of deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) are as follows:

	Tax losses and unused tax credits	
	2007 $'000	2006 $'000
Deferred income tax assets		
At 1st January	15,718	14,670
Exchange differences	1,436	1,048
Charged to consolidated income statement *(Note 24)*	(3,647)	–
At 31st December	13,507	15,718

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18. Deferred income tax – Group (Continued)

	Accelerated tax depreciation	
	2007	2006
	$'000	$'000
Deferred income tax liabilities		
At 1st January	**11,017**	10,282
Exchange differences	**1,131**	735
Credited to the consolidated income statement *(Note 24)*	**(3,662)**	–
At 31st December	**8,486**	11,017

Deferred income tax assets are recognized for tax losses and unused tax credits carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31st December, 2007, a subsidiary of the Group has tax losses of approximately $484,000 (2006: $501,000) and unused tax credits of approximately $51,465,000 (2006: $55,635,000) to be carried forward to offset against future taxable income. These tax losses and tax credits have no expiry date.

Deferred income tax liabilities represent the taxation effect of accelerated tax depreciation. As at 31st December, 2007, a subsidiary of the Group has taxable temporary differences of approximately $32,638,000 (2006: $39,345,000).

As at 31st December, 2007, major unprovided deferred income tax assets of the Group are as follows:

	2007	2006
	$'000	$'000
Relating to:		
– Unused tax credits	**–**	683
– Tax losses	**2,888**	2,422
– Impairment provision	**1,227**	1,625
– Reinvestment allowance	**3,358**	1,319
At 31st December	**7,473**	6,049

These unprovided deferred income tax assets are mainly generated from the Group's PRC and Malaysian subsidiaries. The tax losses of the PRC subsidiary can only be carried forward for 5 years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
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19. Other gains – net

	2007 $'000	2006 $'000
Net foreign exchange losses	(596)	(1,085)
Interest income	43	31
Write-back of provision for bad debts	2,553	295
Write-back of provision for inventories	118	854
Gain/(Loss) on disposal of property, plant and equipment	1,239	(31)
Others	550	169
	3,907	233

20. Obligations under finance leases – Group

As at 31st December, 2007, the Group's finance lease liabilities, net of finance lease charges, were repayable as follows:

	2007 $'000	2006 $'000
Future minimum payments payable within a period		
– not exceeding 1 year	201	128
– more than 1 year but not exceeding 2 years	145	69
– more than 2 years but not exceeding 5 years	77	–
	423	197
Less: Amounts payable within 1 year included under trade and other payables	(201)	(128)
	222	69

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For the year ended 31st December, 2007
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21. Expenses by nature

	2007 $'000	2006 $'000
Amortization of leasehold land *(Note 7)*	31	31
Auditors' remuneration	332	324
Changes in inventories of finished goods and work in progress	(5,000)	919
Depreciation, amortization and impairment charges *(Notes 9)*		
– owned assets	8,937	9,369
– assets held under finance leases	48	10
Directors' emoluments *(Note 22(a))*	915	913
Employee benefit expense (excluding Directors' emoluments) *(Note 22)*		
– Wages and salaries	2,801	2,959
– Social security and pension costs	228	346
Freight and other related charges	11,633	14,063
Operating lease expenses on land, buildings and machinery	470	543
Provision for impairment of receivables	–	91
Provision of inventories to net realizable value	678	25
Raw materials and consumables used	82,750	82,461
Staff secondment and consulting fees	1,620	1,800

22. Employee benefit expenses

	2007 $'000	2006 $'000
Wages and salaries	2,801	2,959
Social security and pension costs	228	346
	3,029	3,305
Number of employees	4,059	4,174

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For the year ended 31st December, 2007
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22. Employee benefit expenses (Continued)

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December, 2007 is set out below:

Name of Director	Fees $'000	Salary $'000	Employer's contributions to pension schemes $'000	Total $'000
Executive Directors				
Dr. Budiono Widodo	–	456	–	456
Mr. Sardjono Widodo	180	–	–	180
Mr. Liao Yun Kuang	72	69	3	144
Mr. Yu Chien Te	16	86	3	105
Non-Executive Directors				
Mr. Pipin Kusnadi	6	–	–	6
Mr. Sudjono Halim	6	–	–	6
Mr. Chen Chung I (retired on 21st June, 2007)	–	–	–	–
Independent non-Executive Directors				
Mr. Marzuki Usman	6	–	–	6
Mr. Ngai Kwok Chuen (resigned on 29th November, 2007)	6	–	–	6
Mr. Kusnadi Widiaya	6	–	–	6
	298	611	6	915

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For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

22. Employee benefit expenses (Continued)

(a) Directors' and senior management's emoluments (Continued)

The remuneration of every Director for the year ended 31st December, 2006 is set out below:

Name of Director	Fees $'000	Salary $'000	Employer's contributions to pension schemes $'000	Total $'000
Executive Directors				
Dr. Budiono Widodo	–	456	–	456
Mr. Sardjono Widodo	180	–	–	180
Mr. Liao Yun Kuang	72	65	3	140
Mr. Yu Chien Te	16	82	3	101
Non-Executive Directors				
Mr. Pipin Kusnadi	6	–	–	6
Mr. Chen Chung I	6	–	–	6
Mr. Sudjono Halim	6	–	–	6
Independent non-Executive Directors				
Mr. Marzuki Usman	6	–	–	6
Mr. Ngai Kwok Chuen	6	–	–	6
Mr. Kusnadi Widiaya	6	–	–	6
	304	603	6	913

No Directors waived any emoluments during the year ended 31st December, 2007 and 2006. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Director for the year ended 31st December, 2007 and 2006.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	2007 **$'000**	2006 $'000
Basic salaries and allowances	**288**	272
Bonuses	**44**	28
Contributions to pension schemes	**3**	3
	335	303

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007
(All amounts in United States dollar unless otherwise stated)

22. Employee benefit expenses (Continued)

(b) Five highest paid individuals (Continued)

The emoluments of these two (2006: two) individuals fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
– $128,217 to $192,325 (HK$ 1,000,001 to HK$ 1,500,000)	**2**	2

23. Finance costs

	2007	2006
	$'000	$'000
Interest expenses:		
– Bank borrowings	**4,448**	4,659
– Other bank borrowings wholly repayable within 5 years	**394**	473
– Element of finance leases	**26**	11
	4,868	5,143

24. Income tax

(i) Bermuda

The Company is exempt from taxation in Bermuda until 28th March, 2016.

(ii) Hong Kong

No Hong Kong profits tax has been provided for as the Group had no assessable profit arising in or derived from Hong Kong.

(iii) Malaysia

No taxation has been provided by Manuply because it had unutilized tax allowances to offset its estimated assessable profit for the year ended 31st December, 2007. The applicable income tax rate of Manuply is 27% (2006 – 28%).

(iv) The PRC

The Group's joint venture enterprise established in Dalian, the PRC is subject to PRC enterprise income tax ("EIT") on the taxable income as reported in its PRC statutory financial statements adjusted in accordance with relevant PRC income tax laws. The current applicable EIT rate of Dalian Global is 15% (15% preferential state income tax and 0% local income tax).

As approved by the tax authorities, Dalian Global is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses brought forward from the previous five years.

No taxation has been provided for as Dalian Global had no estimated assessable profit for the current year (2006: Nil).

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24. Income tax (Continued)

(iv) The PRC (Continued)

On 16th March, 2007, the PRC National People's Congress approved the New Corporate Income Tax Law and on 6th December, 2007, the PRC State Council approved the Detailed Implementation Regulations (hereinafter "the new CIT Law"). Dalian Global shall follow the requirement of the new CIT Law from 1st January, 2008. In accordance with the new CIT law and the circular of the State Council Guo Fa [2007] No. 39, the preferential tax policies enjoyed by Dalian Global the "two-year exemption and three-year half rate" policy shall be calculated commencing from the 2008 tax year. From 1st January, 2008, Dalian Global's EIT rate shall gradually be increased to the statutory tax rate of 25% within 5 years of the date on which the new CIT Law comes into effect.

(v) Others

Other overseas taxation has been calculated at the rates of taxation applicable in the countries in which the relevant subsidiaries operate.

	2007	2006
	$'000	$'000
Hong Kong profits tax		
– Income tax provision no longer required	**1,786**	–
Deferred income tax *(Note 18)*	**15**	–
	1,801	–

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2007	2006
	$'000	$'000
(Loss)/Profit before income tax	**(533)**	458
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,665**	128
Income not subject to tax	**(1,060)**	(723)
Tax incentive	**(2,360)**	(1,845)
Expenses not deductable for tax purpose	**–**	618
Utilization of previously unrecognized tax losses	**(179)**	(1,383)
Tax losses for which no deferred income tax asset was recognized	**1,919**	3,205
Income tax provision no longer required	**(1,786)**	–
Tax credit	**(1,801)**	–

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25. Profit/(Loss) attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a profit of approximately $1,073,000 (2006: a loss of $1,532,000).

26. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	2006
Profit attributable to equity holders of the Company (United States Dollar)	**1,268,000**	458,000
Weighted average number of ordinary shares in issue	**1,215,579,448**	744,119,632
Basic earnings per share (United States Cent per share)	**0.10**	0.06

There was no dilutive effect on earnings per share for the years ended 31st December, 2007 and 2006 since all outstanding share options were anti-dilutive.

27. Cash generated from operations

	2007 **$'000**	2006 $'000
(Loss)/Profit before income tax	**(533)**	458
Adjustments for:		
– Depreciation *(Note 9)*	**8,985**	9,379
– Amortization of leasehold land *(Note 7)*	**31**	31
– Finance costs *(Note 23)*	**4,868**	5,143
– Interest income from bank deposits	**(43)**	(31)
– Reversal of provision for impairment of receivables, net	**(2,553)**	(205)
– Provision/(Reversal) of inventories to net realizable value, net	**560**	(829)
– Reversal of impairment loss on property, plant and equipment	**(3,362)**	(3,990)
– Loss on disposal of subsidiaries	**–**	1,766
– (Gain)/Loss on disposal of property, plant and equipment	**(1,239)**	31
Changes in working capital:		
– Inventories	**(3,151)**	(310)
– Trade and other receivables	**1,014**	618
– Trade and other payables	**2,898**	(1,163)
Cash generated from operations	**7,475**	10,898

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27. Cash generated from operations (Continued)

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2007 $'000	2006 $'000
Net book amount *(Note 9)*	**836**	157
Profit/(Loss) on disposals of property, plant and equipment	**1,239**	(31)
Proceeds from disposals of property, plant and equipment	**2,075**	126

28. Commitments – Group

(a) Operating lease commitments – where the Group is the lessee

As at 31st December, 2007, the Group had future aggregate minimum lease payments in respect of land, buildings and machinery under various non-cancellable operating leases arrangements as follows:

	2007 $'000	2006 $'000
No later than 1 year	**216**	383
Later than 1 year and no later than 5 years	**31**	199
	247	582

(b) Other commitments

Under the agreement with the joint venture partner of Dalian Global, the Group has committed to pay pre-determined annual fees to the PRC joint venture partner up to May 2015.

	2007 $'000	2006 $'000
Payable during the following periods:		
– No later than 1 year	**520**	500
– Later than 1 year and no later than 5 years	**2,145**	2,110
– Later than 5 years	**1,323**	1,878
	3,988	4,488

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29. Banking facilities – Group

As at 31st December, 2007, the Group had aggregate banking facilities as follows:

	2007			
	Utilized	**Unutilized**	**Total facilities**	*Note*
	$'000	**$'000**	**$'000**	
– Bank loans	**55,571**	**–**	**55,571**	*(a) – (h)*
– Trade facilities	**14,883**	**8,952**	**23,835**	*(a) – (h)*
	70,454	**8,952**	**79,406**	

	2006			
	Utilized	Unutilized	Total facilities	*Note*
	$'000	$'000	$'000	
– Bank loans	60,375	–	60,375	*(a) – (h)*
– Trade facilities	14,531	8,045	22,576	*(a) – (h)*
	74,906	8,045	82,951	

The above facilities were secured by:

(a) Pledges of certain property, plant and equipment of the Group with a net book value of approximately $67,570,000 (2006 – $68,502,000) (Note 9);

(b) Pledges of certain leasehold land of the Group with a net book value of approximately $2,958,000 (2006 – $2,989,000) (Note 7);

(c) Floating charges on certain inventories of the Group with a net book value of approximately $13,249,000 (2006 – $11,645,000) (Note 12);

(d) Floating charges on certain trade receivables of the Group of approximately $4,649,000 (2006 – $3,915,000) (Note 11);

(e) Floating charges on certain prepayments and other receivables of the Group of approximately $1,500,000 (2006 – $1,321,000) (Note 11);

(f) Floating charges on certain bank balances of the Group of approximately $1,138,000 (2006 – $703,000) (Note 13).

(g) Corporate guarantees given by the Company; and

(h) Personal guarantees given by a Director of the Company to banks in respect of certain bank loans and trade facilities granted to the Group (Note 31(a));

Notes to the Consolidated Financial Statements

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30. Pension schemes

The employees of the Singapore and Malaysia subsidiaries are members of the Central Provident Funds operated by the governments of those countries. The subsidiaries are required to contribute a percentage in the range of 12% to 14.5% of their covered payroll to the Central Provident Funds (the "Funds"). The only obligation of the Group with respect to the Funds is the required contributions to the Funds and there is no forfeiture of contributions under the schemes.

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a social retirement plan for its PRC employees at a rate of 19% of the basic salary predetermined by the local government. The social retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the contributions.

The Group's subsidiary in the United States of America is required to contribute 7.65% of the basic salary of the employees to the federal government of the United States of America for social security purposes.

Under the Hong Kong Mandatory Provident Scheme, a defined contribution scheme managed by an independent trustee, the Group's subsidiary operates in Hong Kong and its employees each make monthly contributions to the scheme at 5% of the employees' cash income as defined under the Mandatory Provident Fund legislation. Contributions by both the Hong Kong subsidiary and its employees are subject to a maximum of HK$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation.

The aggregate amount of pension expense incurred by the Group is as follows:

	2007	2006
	$'000	$'000
Gross employer's contributions	**228**	346

31. Related-party transactions

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

(a) Personal Guarantees

During the year ended 31st December, 2007, a Director of the Company has provided personal guarantees to banks in respect of certain bank loans and trade facilities granted to the Group amounting to approximately $63,136,000 (2006 – $66,662,000) (Note 29(h)).

(b) Key Management Compensation

Key management compensation of the Group is disclosed in Note 22.

(c) Co-operative Joint Venture Partner

Under the co-operative joint venture agreement for the establishment of Dalian Global dated 2nd July 1995, the PRC joint venture partner was entitled to appoint two out of six Directors of Dalian Global. These two Directors, being Directors of the PRC joint venture partner, are also Directors of Dalian Global, and thus, the PRC joint venture partner is regarded as a related party.

Under the joint venture agreement, the Group committed to pay to the PRC joint venture partner pre-determined annual fees up to May 2015. During the year ended 31st December, 2007, the fee paid to the PRC joint venture partner under this arrangement amounted to $500,000 (2006: $478,000). (Note 28(b))