1. GROUP ORGANISATION

Pacific Plywood Holdings Limited (the "Company") was incorporated in Bermuda on 9th May, 1994. Its shares were listed on The Stock Exchange of Hong Kong Limited on 20th November, 1995.

2. BASIS OF PRESENTATION

As at 31st December, 2000, the Group had a working capital deficiency of approximately $5,848,000 (1999 – $17,504,000) and outstanding bank borrowings of approximately $78,600,000 (1999 – $84,075,000).

Having regard to this background, in order to improve its financial position, immediate liquidity, cash flows and operations, the Directors have adopted various measures including the following:

a. The Directors have obtained agreement in principle to reschedule the loan repayments of the bank loans within the Group companies. Under the rescheduling arrangements, the bank loans will be repayable commencing on 30th June, 2002. The final legal documentation and other detailed terms of the bank loan restructuring, primarily relating to collateral, are still to be finalised.

b. The Group has also started to reduce its cash outflows by minimising capital expenditures and adopting other cost-cutting measures.

In the opinion of the Directors, the Group's cash flow position and results of operations will be improved in the coming year because of the effects of the above measures, and the Group will be able to adequately finance its operations. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of measurement

The financial statements have been prepared on the historical cost basis.

b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (the "Group"). Significant intra-group transactions and balances have been eliminated on consolidation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

c. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, with income from subsidiaries recorded to the extent of dividends received and receivable.

d. Contractual joint venture

A contractual joint venture is an entity established between the Group and one or more other parties for a pre-determined period of time, with the rights and obligations of the joint venture partners governed by a contract. Where the Group is able to govern and control the financial and operating policies governing the economic activities of the contractual joint venture, such venture is considered as a de facto subsidiary, and is accounted for as a subsidiary of the Group.

e. Equity joint venture

An equity joint venture is a joint venture in which the joint venture partners' profit sharing ratios and shares of net assets upon the expiration of the joint venture period are in proportion to their equity interests set out in the joint venture agreements. An equity joint venture is accounted for as a subsidiary if the Group owns more than a 50% interest therein or governs and controls its financial and operating policies and its board of directors.

f. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group's share of the aggregate fair values of the identifiable net assets acquired. Positive goodwill arises where the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired and is eliminated immediately against reserves. Negative goodwill arises where the Group's share of the aggregate fair values of the identifiable net assets acquired exceeds the consideration given and is credited directly to reserves.

g. Turnover

Turnover represents the net invoiced value of merchandise sold after allowances for returns and discounts and deduction of value added tax.

Sales in the People's Republic of China (the "PRC") are subject to value added tax at a rate of 17% of sales value.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

h. Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group and is recognised on the following basis:

i. Sales of merchandise

Sales of merchandise are recognised when merchandise is delivered and title has passed to customers.

ii. Service fee and management fee income

Service fee and management fee income is recognised when the related service is rendered.

iii. Rental income

Rental income is recognised when rental is receivable.

iv. Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

i. Taxation

Companies within the Group provide for profits tax on the basis of their profits for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

j. **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. Leasehold land is depreciated over the remaining period of the respective lease. The annual rates are as follows:

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

Construction-in-progress consists mainly of factories and office buildings under construction and machinery and equipment pending installation. Construction-in-progress is stated at cost, which includes land costs, construction expenditures incurred, costs of machinery and other direct costs capitalised during the construction and installation period. No depreciation is provided for construction-in-progress until the construction work is completed.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Assets held under finance leases or hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

The carrying amount of property, plant and equipment is assessed annually and when factors indicating an impairment are present. The Group determines the recoverable amount of property, plant and equipment by measuring discounted future cash flows. If an impairment is present, the property, plant and equipment are reported at the lower of carrying amount or recoverable amount.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

k. Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is based on the weighted average method of costing and includes costs of raw materials, direct labour, an appropriate proportion of production overheads and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

l. Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purpose of the consolidated statement of cash flows, cash equivalents also include advances from banks repayable within three months from the date of the advance.

m. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

n. Leases and hire purchase contracts

Finance leases and hire purchase contracts represent those contracts under which substantially all the risks and rewards of ownership of assets are transferred to the Group. Property, plant and equipment held under finance leases or hire purchase contracts are initially recorded at the present value of the minimum payments at the inception of the leases or hire purchase contracts, with an equivalent liability categorised as appropriate under current or non-current liabilities. Interest, which represents the difference between the minimum payments at the inception of the leases or hire purchase contracts and the corresponding fair value of the assets acquired, is allocated to accounting periods over the period of the relevant leases or hire purchase contracts to produce a constant rate of charge on the outstanding balances.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

n. Leases and hire purchase contracts *(Continued)*

Operating leases represent those leases under which substantially all of the risks and rewards of ownership of the assets remain with the lessors. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the relevant leases.

o. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

p. Foreign currency translation

In the financial statements of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. All exchange differences are dealt with in the individual companies' income statements.

The Group prepares consolidated financial statements in United States dollars. For consolidation purposes, assets and liabilities of subsidiaries with functional currencies other than United States dollars are translated into United States dollars at the applicable rates of exchange in effect at the balance sheet date, and revenue and expense items are translated into United States dollars at the average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in reserves.

4. TURNOVER

Turnover and revenue by major category is as follows:

	Consolidated	
	2000	1999
	$'000	$'000
		(Note 31)
Sales and distribution of merchandise		
Moisture resistant plywood	**43,147**	56,262
Structural	**20,610**	26,596
Flooring	**19,378**	1,464
Weather and boil proof plywood	**16,851**	22,786
Jamb and mouldings	**16,021**	17,555
Veneer	**5,226**	10,920
Others	**8,779**	4,259
Total turnover	**130,012**	139,842
Rental income	**279**	382
Service fee and management fee income	**1,591**	423
Interest income	**127**	56
Other revenue	**196**	182
Total turnover and revenue	**132,205**	140,885

Turnover by geographical location is as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Japan	59,395	60,579
The People's Republic of China	25,425	21,416
Europe	20,328	27,976
United States of America	16,856	18,141
Others	8,008	11,730
Total turnover	130,012	139,842

5. OPERATING (LOSS) PROFIT

Operating (loss) profit in the consolidated income statement was determined after charging or crediting the following items:

	2000 **$'000**	1999 $'000
After charging:–		
Cost of inventories sold (excluding provision to reduce inventories to net realisable value)	**109,619**	109,520
Staff costs (including directors' emoluments)	**5,834**	6,122
Provision to reduce inventories to net realisable value	**2,062**	565
Provision for/Write-off of trade and other receivables	**1,777**	747
Provision for amount due from a related company	**693**	–
Operating lease rentals of premises	**537**	855
Depreciation of property, plant and equipment		
– owned assets	**10,881**	9,507
– assets held under finance leases and hire purchase contracts	**103**	133
Net loss on disposal of property, plant and equipment	**114**	4
Net exchange loss	**3**	–
Amortisation of timber concession right	**–**	1,363
Auditors' remuneration	**250**	280
After crediting:–		
Net exchange gain	**–**	18
Interest income from bank deposits	**127**	56
Rental income less outgoings	**264**	361
Service fee and management fee income	**1,591**	423

6. FINANCE COST

	Consolidated	
	2000	1999
	$'000	$'000
Interest on		
– bank borrowings repayable within one year	**942**	1,735
– bank borrowings repayable over five years	**6,722**	5,655
– other loan	**503**	263
– finance leases and hire purchase contracts	**81**	39
	8,248	7,692

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	Consolidated	
	2000	1999
	$'000	$'000
Fees for executive directors	**–**	–
Fees for non-executive directors	**90**	47
Other emoluments for executive directors		
– Basic salaries and allowances	**594**	778
– Other allowances	**41**	157
– Others#	**130**	126
Other emoluments for non-executive directors	**–**	–
	855	1,108

Amount represents consultancy fee paid to a company of which Mr. Lau Kam Hung, an executive director of the Company, is also a director (See Note 25.a).

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

7. **DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** *(Continued)*

b. Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	Consolidated	
	2000*	1999
Executive directors		
– Nil to $129,200 (Nil to HK$1,000,000)	**3**	2
– $129,201 to $193,800 (HK$1,000,001 to HK$1,500,000)	**1**	–
– $193,801 to $258,400 (HK$1,500,001 to HK$2,000,000)	**–**	–
– $258,401 to $323,000 (HK$2,000,001 to HK$2,500,000)	**–**	1
– $323,001 to $387,600 (HK$2,500,001 to HK$3,000,000)	**–**	–
– $387,601 to $452,200 (HK$3,000,001 to HK$3,500,000)	**–**	–
– $452,201 to $516,800 (HK$3,500,001 to HK$4,000,000)	**1**	1
Non-executive directors		
– Nil to $129,200 (Nil to HK$1,000,000)	**7**	3
	12	7

* *The band analysis is stated after annualising the emoluments paid for those directors who joined, or resigned from, the Group during the year.*

c. Details of emoluments paid to the five highest paid individuals (including directors and employees) are:

	Consolidated	
	2000	1999
	$'000	$'000
Basic salaries and allowances	**693**	1,067
Bonus	**34**	–
Contributions to pension scheme	**–**	15
Other allowances	**–**	157
Others	**130**	126
	857	1,365

Three (1999 – three) of the five highest paid individuals were directors of the Company, whose emoluments have been included in *Note 7.a*.

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group or as compensation for loss of office.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

d. Analysis of emoluments paid to the five highest paid individuals (including directors and employees) by number of individuals and emolument ranges is as follows:

	Consolidated	
	2000*	1999
Nil to $129,200 (Nil to HK$1,000,000)	**3**	1
$129,201 to $193,800 (HK$1,000,001 to HK$1,500,000)	**1**	1
$193,801 to $258,400 (HK$1,500,001 to HK$2,000,000)	**–**	1
$258,401 to $323,000 (HK$2,000,001 to HK$2,500,000)	**–**	1
$323,001 to $387,600 (HK$2,500,001 to HK$3,000,000)	**–**	–
$387,601 to $452,200 (HK$3,000,001 to HK$3,500,000)	**–**	–
$452,201 to $516,800 (HK$3,500,001 to HK$4,000,000)	**1**	1
	5	5

* *The band analysis is stated after annualising the emoluments paid for those individuals who joined, or resigned from, the Group during the year.*

8. TAXATION

a. Taxation in the consolidated income statement comprises:

	Consolidated	
	2000	1999
	$'000	$'000
Current taxation		
– Hong Kong profits tax	**800**	264
– Overseas income tax	**36**	72
Deferred taxation *(Note 21)*	**319**	5
	1,155	341

The Company is exempt from taxation in Bermuda until the year ending 28th March, 2016. Hong Kong profits tax was provided at the rate of 16% (1999 – 16%) on the estimated assessable profits arising in or derived from Hong Kong. Overseas taxation, representing tax charges on the estimated assessable profits of subsidiaries operating outside Hong Kong, has been calculated at the rates of taxation applicable in the countries in which the relevant subsidiaries operate.

(Amounts expressed in United States dollars unless otherwise stated)

8. TAXATION *(Continued)*

b. No current taxation was provided by Manuply Wood Industries (S) Sdn. Bhd. ("Manuply"), a wholly-owned subsidiary of the Group since it has unutilised tax allowances to offset future profit after the expiry of its "pioneer" status on 30th April, 1998. As at 31st December, 2000, Manuply had aggregate unutilised tax allowances of approximately $30,066,000 (1999 – $28,577,000), which are subject to approval by the Malaysia Inland Revenue Board.

c. The joint venture enterprises established in the PRC are subject to PRC income taxes at a rate of 33% (30% state unified income tax and 3% local income tax). However, they are exempt from state unified income tax for two years starting from the first year of profitable operations after offsetting prior years' tax losses brought forward from the previous five years and then are subject to a 50% reduction in state unified income tax for the next three years. The first two profitable years for Changchun Winpro Wood Industries Co., Ltd. were the years ended 31st December, 1996 and 1997; and it was in a loss position for the years ended 31st December, 1998, 1999 and 2000. Dalian Global Wood Products Company Limited, Dalian Yizhi Wood Industries Company Limited and Jilin Newco Wood Industries Co., Ltd. were in a loss position during the year ended 31st December, 2000.

9. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss) profit attributable to shareholders includes a loss of approximately $1,159,000 (1999 – $1,785,000) dealt with in the financial statements of the Company.

10. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the consolidated loss attributable to shareholders of approximately $10,550,000 (1999 – profit of $3,435,000) and on the weighted average number of 5,580,897,243 shares (1999 – 4,961,341,573 shares) in issue during the year.

No diluted loss per share for the year ended 31st December, 2000 is presented as the dilutive potential ordinary shares were anti-dilutive. The calculation of diluted earnings per share for the year ended 31st December, 1999 is based on the consolidated profit attributable to shareholders of approximately $3,435,000 and the weighted average number of 4,964,130,867 shares.

Reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share for the year ended 31st December, 1999:

Weighted average number of shares used in calculating basic earnings per share	4,961,341,573
Adjustment for potential dilutive effect in respect of share options	2,789,294
Weighted average number of shares in calculating diluted earnings per share	4,964,130,867

11. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were:

	Consolidated								
	2000								1999
	Land and buildings $'000	Leasehold improve-ments $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	Construction-in-progress $'000	Total $'000	Total $'000
Cost									
Beginning of year	55,088	463	138,146	1,892	2,573	1,859	19,138	219,159	167,942
Attributable to subsidiaries acquired *(Note 24.b)*	4,186	–	–	–	–	–	–	4,186	34,092
Additions	622	117	4,645	335	44	–	1,293	7,056	17,335
Disposals	–	–	(41)	(177)	(366)	–	(539)	(1,123)	(181)
Transfer	266	–	230	–	–	–	(496)	–	–
Translation adjustment	(538)	(7)	24	(4)	1	–	13	(511)	(29)
End of year	59,624	573	143,004	2,046	2,252	1,859	19,409	228,767	219,159
Accumulated depreciation									
Beginning of year	3,251	236	24,897	1,080	1,082	157	–	30,703	20,670
Attributable to subsidiaries acquired	–	–	–	–	–	–	–	–	551
Provision for the year	1,263	79	9,073	301	237	31	–	10,984	9,640
Disposals	–	–	(26)	(155)	(201)	–	–	(382)	(151)
Translation adjustment	101	(1)	(1)	(1)	–	–	–	98	(7)
End of year	4,615	314	33,943	1,225	1,118	188	–	41,403	30,703
Net book value									
End of year	55,009	259	109,061	821	1,134	1,671	19,409	187,364	188,456
Beginning of year	51,837	227	113,249	812	1,491	1,702	19,138	188,456	147,272

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Company				
	2000				1999
	Leasehold improve-ments $'000	**Furniture, fittings and equipment $'000**	**Motor vehicles $'000**	**Total $'000**	Total $'000
Cost					
Beginning of year	**248**	**85**	**251**	**584**	583
Additions	**–**	**–**	**–**	**–**	1
End of year	**248**	**85**	**251**	**584**	584
Accumulated depreciation					
Beginning of year	**197**	**55**	**75**	**327**	233
Provision for the year	**51**	**15**	**25**	**91**	94
End of year	**248**	**70**	**100**	**418**	327
Net book value					
End of year	**–**	**15**	**151**	**166**	257
Beginning of year	**51**	**30**	**176**	**257**	350

All land and buildings held by the Group are situated outside Hong Kong and the details of the net book values are as follows:

		2000 $'000	1999 $'000
Malaysia	– Long-term lease	**15,951**	15,998
Singapore	– Medium-term lease	**–**	175
	– Freehold land	**15,029**	15,960
PRC	– Medium-term lease#	**14,415**	10,403
	– Others*	**9,614**	9,301
		55,009	51,837

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

\# *Land and buildings located in Changchun, the PRC with a net book value of approximately $3,254,000 (1999 – $3,364,000) is held under a land use right with a term of 40 years expiring in October 2036.*

Land and buildings located in Jilin Province, the PRC with a net book value of approximately $7,122,000 (1999 – $4,002,000) is held under a land use right with a term of 30 years expiring in December 2025. Such land use right is subject to renewal in January 2003 upon payment of a land use right fee of approximately $10,000 per annum from year 2003 to year 2007 and approximately $19,000 per annum from year 2008 to year 2025.

The remaining amount of $4,039,000 (1999 – $3,037,000) represents land and building costs of the factory premises of the Group in Jilin Province, the PRC, for which the Group is in the process of applying for the formal land use right certificate.

* *The amount of approximately $9,614,000 (1999 – $9,301,000) represents land and building costs of factory premises of the Group in Dalian, the PRC, located on land which was contributed by the PRC joint venture partner of Dalian Global Wood Products Company Limited.*

The title in respect of the leasehold land of approximately $2,427,000 (1999 – $2,800,000) held by the Malaysian subsidiary has yet to be registered in the name of that company. The subsidiary is in the process of applying for the formal registration.

Certain property, plant and equipment of the Group with a net book value of approximately $118,659,000 (1999 – $111,979,000) are pledged as security for certain of the Group's banking facilities (See Note 28.a).

Certain plant and machinery with a net book value of approximately $909,000 (1999 – $416,000) included above were purchased under finance leases or hire purchase contracts.

12. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprises:

	2000	1999
	$'000	$'000
Unlisted shares, at cost	**29,649**	29,649
Due from subsidiaries	**110,543**	110,231
Due to a subsidiary	**(3,106)**	(3,133)
	137,086	136,747

The outstanding balances with subsidiaries are unsecured, non-interest bearing and will not be repayable or payable before 1st January, 2002.

The underlying value of the investments in subsidiaries is, in the opinion of the directors, not less than the Company's carrying value as at 31st December, 2000.

(Amounts expressed in United States dollars unless otherwise stated)

12. INVESTMENT IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries as at 31st December, 2000 are:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
Ankan Holdings Limited	British Virgin Islands	$45,000	100%	–	Investment holding
Changchun Winpro Wood Industries Co., Ltd.	People's Republic of China	RMB52,700,000 *(a)*	–	82.25%	Manufacture and sale of plywood
Dalian Global Wood Products Company Limited	People's Republic of China	$12,000,000 *(b)*	–	100%	Manufacture and sale of wood products
Dalian Yizhi Wood Industries Company Limited	People's Republic of China	$12,000,000 *(c)*	–	100%	Manufacture and sale of sawn timber-full operations not yet commenced during the year
Daunting Services Limited	British Virgin Islands/ Singapore	$1	–	100%	Trading of lumber
Dragon Venture Holdings Limited	British Virgin Islands	$10,000,000 *(d)*	–	100%	Investment holding
Farship International Limited	British Virgin Islands	$2 *(a)*	–	100%	Investment holding
Georich Trading Limited	British Virgin Islands/Hong Kong	$10,000	–	100%	Trading of veneer and plywood
Glory Wood Products (Pte) Limited	Singapore	S$7,500,000	–	100%	Trading of machinery spare parts
Glowing Schemes Sdn. Bhd.	Malaysia	RM1,200,000	–	100%	Inactive
Jilin Newco Wood Industries Co., Ltd.	People's Republic of China	RMB267,714,379 *(d)*	–	75%	Manufacture and sale of 3-ply parquet, plywood and fancy veneer

(Amounts expressed in United States dollars unless otherwise stated)

12. INVESTMENT IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries as at 31st December, 2000 are: *(Continued)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
Manuply Wood Industries (S) Sdn. Bhd.	Malaysia	RM55,000,000	–	100%	Manufacture and sale of veneer and plywood
Pacific Plywood Limited	Samoa/Hong Kong	$1	–	100%	Trading of plywood and other wood products
Skyway Enterprises Limited	Samoa	$1,000,000 *(c)*	–	100%	Investment holding
SMI Global Corporation (formerly known as Ondo & Company)	United States of America	$1,000	–	100%	Trading of wood products
SMI Management & Co. Pte. Ltd.	Singapore	S$8,000,000	–	100%	Property holding and provision of management service

a. *The Group holds the entire issued share capital of Farship International Limited ("Farship"), a company incorporated in the British Virgin Islands, which owns 82.25% of Changchun Winpro Wood Industries Co., Ltd. Changchun Winpro Wood Industries Co., Ltd. is an equity joint venture established in the PRC to be operated for thirty years from November 1994.*

b. *Dalian Global Wood Products Company Limited is a contractual joint venture established in the PRC to be operated for twenty years up to November 2015 and with a registered capital of $12,000,000. All of the registered capital had been paid and verified up to the date of the approval of the financial statements ("financial statement approval date").*

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 of the joint venture.

c. *The Group holds the entire issued share capital of Skyway Enterprises Limited ("Skyway"), a company incorporated in Samoa. Skyway owns Dalian Yizhi Wood Industries Company Limited ("Dalian Yizhi") in the PRC. Dalian Yizhi is a contractual joint venture established in the PRC to be operated for twenty years up to February 2015 and with a registered capital of $12,000,000. All of the registered capital had been paid and verified up to the financial statement approval date.*

Under the joint venture agreement and supplemental joint venture agreements, the PRC joint venture partners of Dalian Yizhi are entitled to receive pre-determined annual fees but are not entitled to otherwise share in the profit of the joint venture.

d. *The Group holds the entire issued share capital of Dragon Venture Holdings Limited ("Dragon Venture"), a company incorporated in the British Virgin Islands, which owns 75% of Jilin Newco Wood Industries Co., Ltd. ("Jilin Newco"). Jilin Newco is an equity joint venture established in the PRC to be operated for thirty years up to December 2025 and with a registered capital of RMB 359,010,000. Approximately RMB 267,714,000 had been paid and verified up to the financial statement approval date.*

e. *None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2000.*

13. OTHER NON-CURRENT ASSETS

Other non-current assets represent advances to the PRC joint venture partners of Dalian Yizhi Wood Industries Company Limited for the construction of staff quarters. Such receivables will be offset against the future rentals for land and buildings charged by the PRC joint venture partners.

14. INVENTORIES

As at 31st December, 2000, inventories, representing lumber, veneer, jamb, moulding products and plywood, comprise:

	Consolidated	
	2000	1999
	$'000	$'000
Raw materials	**8,054**	7,392
Work-in-progress	**3,062**	3,504
Finished goods	**9,737**	15,588
	20,853	26,484
Less: Provision for slow-moving and obsolete inventories	**(200)**	(200)
	20,653	26,284

The amount of inventories (included above) carried at net realisable value was approximately $10,821,000 (1999 – $2,852,000).

As at 31st December, 2000, inventories of approximately $12,713,000 (1999 - $18,483,000) were pledged as security for certain of the Group's banking facilities (See Note 28.b).

15. TRADE RECEIVABLES

The aging analysis of trade receivables as at 31st December, 2000 is as follows:

	Consolidated	
	2000	1999
	$'000	$'000
0 – 30 days	**6,063**	11,080
31 – 60 days	**515**	840
61 – 90 days	**711**	1,094
91 – 180 days	**1,625**	820
181 – 360 days	**1,367**	29
Over 360 days	**901**	–
	11,182	13,863
Less: Provision for bad and doubtful trade receivables	**(1,500)**	–
	9,682	13,863

Management of the Group performs ongoing credit and collectibility evaluations of each customer. Provisions for potential credit losses are maintained and such losses in aggregate have not exceeded management's estimates. The Group offers an average credit term of 30 to 180 days to its trade customers.

As at 31st December, 2000, trade receivables of approximately $1,080,000 (1999 – $3,609,000) were pledged as security for certain of the Group's banking facilities (See Note 28.b).

16. BANK BORROWINGS

Bank borrowings, which are all secured, comprise:

	Consolidated	
	2000	1999
	$'000	$'000
		(Note 31)
Bank overdrafts	**1,506**	6,286
Trust receipts loans	**–**	355
Short-term bank loans	**6,441**	15,277
Current portion of long-term bank loans *(See Note 19)*	**389**	–
	8,336	21,918

16. BANK BORROWINGS *(Continued)*

The short-term bank loans bear interest at commercial banking rates ranging from 5.12% to 11.00% (1999 – 5.72% to 9.60%) per annum and were secured by pledges of certain of the Group's property, plant and equipment and corporate guarantees given by the Company (See Note 28).

The Group's short-term bank borrowings were also secured by floating charges on certain of the Group's current assets (See Note 28.b).

17. TRADE PAYABLES

The aging analysis of trade payables as at 31st December, 2000 is as follows:

	Consolidated	
	2000	1999
	$'000	$'000
0 – 30 days	**7,585**	6,367
31 – 60 days	**3,499**	2,210
61 – 90 days	**3,322**	1,047
91 – 180 days	**2,109**	2,231
181 – 360 days	**425**	86
Over 360 days	**221**	109
	17,161	12,050

18. ACCRUALS AND OTHER PAYABLES

a. Included in accruals and other payables is a loan of $5,100,000 (1999 – $5,500,000) from a national asset management company set up by the Malaysian government.

As of the financial statement approval date, the loan from the national asset management company was overdue. The Group is working with the national asset management company to reschedule the repayment terms, however, the detailed terms and legal documents have not yet been finalised. Therefore, both the overdue and long-term portions of approximately $5,100,000 (1999 –$5,500,000) were classified as current liabilities at the balance sheet date.

The above loan bears interest at 2% above the Singapore Interbank Offered Rate per annum and is secured by a personal guarantee given by a director (See Note 25.d).

b. Also included in accruals and other payables is an amount of $710,000 (1999 – $2,291,000) due to a shareholder, which is unsecured, non-interest bearing and without pre-determined repayment terms.

19. LONG-TERM BANK LOANS

Long-term bank loans, secured, comprise:

	Consolidated	
	2000	1999
	$'000	$'000
Bank loans repayable within a period		
– not exceeding one year	**389**	–
– more than one year but not exceeding two years	**8,558**	–
– more than two years but not exceeding five years	**38,662**	33,003
– beyond five years	**23,044**	29,154
	70,653	62,157
Less: Amount due within one year included in current liabilities *(See Note 16)*	**(389)**	–
	70,264	62,157

As at 31st December, 2000, certain of the Group's bank loans were overdue. The directors have obtained agreement in principle from the major banker whose loans totalled approximately $62,155,000 to reschedule the loan repayments. Under these arrangements, the bank loans will be repayable commencing on 30th June, 2002. Therefore, the outstanding borrowings from that bank have been classified as non-current liabilities at the balance sheet date in accordance with the rescheduled arrangements. The final legal documentation and other detailed terms of the bank loan restructuring, primarily relating to collateral, are still to be finalised.

The bank loans bear interest at commercial banking rates ranging from 5.50% to 10.18% (1999 – 8.25% to 9.25%) per annum and are secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and a personal guarantee given by a director of the Company (See Note 28).

20. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

Obligations under finance leases and hire purchase contracts, net of finance charges, comprise:

	Consolidated	
	2000	1999
	$'000	$'000
Future minimum payments payable within a period		
– not exceeding one year	**237**	151
– more than one year, but not exceeding two years	**182**	110
– more than two years, but not exceeding five years	**–**	19
	419	280
Less: Amounts payable within one year included under accruals and other payables	**(237)**	(151)
	182	129

21. DEFERRED TAXATION

Movements of deferred taxation were:

	Consolidated	
	2000	1999
	$'000	$'000
Beginning of year	**63**	58
Provision for net timing differences (Note 8)	**319**	5
End of year	**382**	63

Deferred taxation represented the taxation effect of timing differences relating to accelerated depreciation for taxation purposes. There was no significant unprovided deferred taxation as at 31st December, 2000.

22. SHARE CAPITAL

Details of the Company's share capital are as follows:

	2000		1999	
	Number of shares '000	**Nominal value $'000**	Number of shares '000	Nominal value $'000
Authorised – shares of HK$0.025 each	**8,000,000**	**25,806**	8,000,000	25,806
Issued and fully paid or credited as fully paid – shares of HK$0.025 each	**5,580,897**	**18,037**	5,580,897	18,037
Beginning of year	**5,580,897**	**18,037**	4,363,510	14,113
Issuance of new ordinary shares for the acquisition of Dragon Venture	–	–	768,142	2,478
Issuance of new ordinary shares for settlement of other payables	–	–	449,245	1,446
	5,580,897	**18,037**	5,580,897	18,037

23. SHARE OPTIONS

The Company has a share option scheme, under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

23. SHARE OPTIONS *(Continued)*

Movements in share options during the year were as follows:

		Number of shares to be issued under options			
Date of grant	Subscription price per share	Beginning of year '000	Granted during the year '000	Exercised during the year '000	End of year '000
31st May, 1996	HK$0.260 *	176,000	–	–	176,000
26th August, 1999	HK$0.129 **	143,300	–	–	143,300
		319,300	–	–	319,300

* *Such share options are exercisable within a period of ten years from 1st December, 1996*

** *Such share options are exercisable within a period of ten years from 14th March, 2000.*

24. RESERVES

Movements of reserves during the year were:

	2000					1999
	Share premium $'000	Contributed surplus *(Note c)* $'000	Warrant subscription reserve $'000	Cumulative translation adjustments $'000	Total $'000	Total $'000
Consolidated						
Beginning of year	90,652	–	–	(3,784)	86,868	69,109
Issuance of new ordinary shares	–	–	–	–	–	17,687
Proceeds from issue of warrants *(Note a)*	–	–	1,465	–	1,465	–
Warrant issuance expenses *(Note a)*	–	–	(65)	–	(65)	–
Translation adjustments	–	–	–	(272)	(272)	72
End of year	90,652	–	1,400	(4,056)	87,996	86,868
Company						
Beginning of year	90,652	21,122	–	–	111,774	94,087
Issuance of new ordinary shares	–	–	–	–	–	17,687
Proceeds from issue of warrants *(Note a)*	–	–	1,465	–	1,465	–
Warrant issuance expenses *(Note a)*	–	–	(65)	–	(65)	–
End of year	90,652	21,122	1,400	–	113,174	111,774

24. RESERVES *(Continued)*

a. *On 23rd March, 2000, the Company issued 570,000,000 unlisted warrants at HK$0.02 each, resulting in net proceeds of approximately $1,400,000 after deduction of related issuance expenses of approximately $65,000. Such warrants are exercisable at an exercise price of HK$0.18 per share on the basis of one warrant for one ordinary share of the Company at any time from 23rd March, 2000 to 30th September, 2002 inclusive.*

b. *The Group acquired Dragon Venture in 1999 when certain of its land and buildings were recorded at their then net book values of approximately $4,766,000. During the year, the Group valued such land and buildings at fair value as at the date of acquisition. According to the independent valuation performed by Sallmanns (Far East) Ltd., independent qualified valuers, the open market value of such land and buildings as at the date of acquisition (i.e. fair value of assets acquired by the Group) was approximately $8,952,000. The increase in fair value attributable to the Group of approximately $3,140,000 represented an increase in fair value of assets acquired and thus a decrease in goodwill, which was eliminated against reserves in 1999. The Group credited the amount to reserves in current year as an adjustment to goodwill.*

   The vendor of Dragon Venture guaranteed that the consolidated net profit of Dragon Venture for the year ended 31st December, 2000 would not be less than $8,000,000 and would reimburse the Group any shortfall, effectively decreasing the consideration of the acquisition. Dragon Venture reported consolidated net profit of approximately $12,000 for the year ended 31st December, 2000. Because of the shortfall from the guaranteed amount, the Group recorded the difference of approximately $8,000,000 as a reduction in the cost of the investment in subsidiary as an adjustment to goodwill in the current year.

c. *The contributed surplus of the Company represents the difference between the nominal amount of the Company's shares issued and the book value of the underlying net assets of the subsidiaries acquired as a result of the group reorganisation in 1995. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders.*

d. *The Company's reserves as at 31st December, 2000 available for distribution to shareholders are approximately $24,646,000 (1999 – $25,805,000).*

25. RELATED PARTY TRANSACTIONS

A related party is a company in which one or more of the directors or shareholders of the Group have direct or indirect beneficial interests in the company or are in a position to exercise significant influence on the company. Parties are also considered to be related if they are subject to common control or common significant influence. Significant transactions and balances with related parties during the year are summarised below:

a. During the year, the Group paid fees of approximately $130,000 (1999 – $166,000) to Shine Faith Consultants Limited, a company of which Mr. Lau Kam Hung, an executive director of the Company, is also a director, for consultancy services provided during the year ended 31st December, 2000.

b. During the year, the Group received management fee income of approximately $486,000 (1999 – $423,000) from SIL Management Pte Limited, a company in which Mr. Chen Chung I, a non-executive director of the Company, has a beneficial interest.

25. RELATED PARTY TRANSACTIONS *(Continued)*

c. During the year, a director repaid certain bank loans of approximately $1,098,000 on behalf of the Group (See Note 29.c).

d. Certain bank loans and a loan from a national asset management company set up by the Malaysian government are secured by a personal guarantee given by a director of the Company (See Notes 18.a & 28.d).

e. The outstanding balances with a related company, a director and a shareholder (See Note 18.b) are unsecured, non-interest bearing and without pre-determined repayment terms.

Details of the amount due from a related company are as follows:

	Balance as at 1st January, 2000	**Balance as at 31st December, 2000**	**Maximum balance outstanding during the year**
	$'000	$'000	$'000
SIL Management Pte Limited	**752**	**72**	752

26. COMMITMENTS AND CONTINGENT LIABILITIES

a. Capital commitments

As at 31st December, 2000, the Group had capital commitments amounting to approximately $664,000 (1999 – $943,000) for purchase of land and forklifts which had been authorised and contracted.

26. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

b. Operating lease commitments

As at 31st December, 2000, the Group had lease commitments amounting to approximately $2,652,000 (1999 – $4,195,000) in respect of land and buildings under various non-cancellable operating lease agreements extending to December 2025. The amount of commitments payable within the next twelve months is analysed as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Leases expiring		
– within one year	**–**	23
– within two to five years	**317**	255
– beyond five years	**65**	200
	382	478

c. Other commitments

Under the joint venture agreement for the establishment of Dalian Global Wood Products Company Limited, the Group has committed to pay pre-determined annual fees to the PRC joint venture partner for the period from May 1997 to May 2015. In addition, under the supplemental joint venture agreement for the establishment of Dalian Yizhi Wood Industries Company Limited, the Group has committed to pay pre-determined annual fees to the PRC joint venture partners for the period from January 1997 to January 2017. The total commitments for these pre-determined fees as at 31st December, 2000 are analysed as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Payable during the following period:		
– within one year	**459**	459
– within two to five years	**2,277**	2,275
– beyond five years	**6,603**	7,058
	9,339	9,792

26. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

d. Contingent liabilities

Contingent liabilities (not provided for in the financial statements) comprised:

	Consolidated		Company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Discounted bills with recourse	**452**	1,039	**–**	–
Corporate guarantee given to banks for banking facilities granted to subsidiaries	**–**	–	**78,969**	74,922
	452	1,039	**78,969**	74,922

As at 31st December, 2000, the Company had guaranteed the payment of rentals in respect of the office premises of a subsidiary.

27. 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 20% of their covered payroll to the Central Provident Funds (the "Funds"). The only obligation of the Group with respect to the Central Provident Funds is the required contributions to the Funds and there is no forfeiture of contributions under the schemes. All the PRC employees of the Group are entitled to a monthly pension payable by an independently managed retirement plan sponsored by the government. The individual pension is calculated according to the applicable formula specified in the insurance policies of the plan. The Group is required to contribute to the plan at a rate of 19% to 21.5% of basic salary of the PRC employees in addition to the 2% to 3% of the basic salary contributed by the employees. The Group's subsidiary in the United States of America is required to contribute 7.5% of the basic salary of the employees to the federal government of the United States of America for social security purposes. With the introduction of the Mandatory Provident Scheme, a defined contribution scheme managed by an independent trustee, by the Hong Kong Government on 1st December, 2000, each of the Hong Kong subsidiaries and their employees make monthly contributions to the scheme at 5% of the employees' cash income as defined under the Mandatory Provident Fund legislation. Contributions of both the Hong Kong subsidiaries and their 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 Hong Kong subsidiaries and their employees made their first contributions in January 2001. The Group has no further obligations for pension payments or any post-retirement benefits beyond the contributions mentioned above. As at 31st December, 2000, there was no material forfeited contribution available to offset the Group's future contributions. The aggregate amount of pension expense incurred by the Group is as follows:

	Consolidated	
	2000	1999
	$'000	$'000
Pension expense		
Gross employer's contribution	**436**	442

28. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2000, the Group had aggregate banking facilities of approximately $103,003,000 (1999 – $92,067,000) from several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately $17,881,000 (1999 – $421,000). The aggregate facilities were secured by:

a. Pledges of certain of the Group's property, plant and equipment with a net book value of approximately $118,659,000 (1999 – $111,979,000) (See Note 11);

b. Floating charges on certain of the Group's inventory of approximately $12,713,000 (1999 – $18,483,000), trade receivables of approximately $1,080,000 (1999 – $3,609,000) and bank balances of approximately $1,203,000 (1999 – $1,119,000) (See Notes 14 & 15);

28. BANKING FACILITIES AND PLEDGE OF ASSETS *(Continued)*

c. Corporate guarantees given by the Company (See Notes 16 and 19); and

d. A personal guarantee given by a director of the Company (See Notes 18, 19 and 25.d).

29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of (loss) profit before taxation to net cash inflow from operating activities:

	2000	1999
	$'000	$'000
(Loss) Profit before taxation	**(9,985)**	3,327
Interest income	**(127)**	(56)
Interest expense	**8,248**	7,692
Depreciation of property, plant and equipment	**10,984**	9,640
Amortisation of timber concession right	**–**	1,363
Net loss on disposal of property, plant and equipment	**114**	4
Decrease (Increase) in inventories	**5,631**	(7,227)
Decrease (Increase) in trade receivables	**4,181**	(117)
Decrease in prepayments	**1,291**	511
(Increase) Decrease in other receivables	**(1,775)**	894
Decrease (Increase) in amount due from a related company	**680**	(752)
Increase in trade payables	**5,111**	4,096
(Decrease) Increase in accruals and other payables	**(6,558)**	4,342
(Decrease) Increase in amount due to a related company	**(615)**	615
Net cash inflow from operating activities	**17,180**	24,332

29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

b. Analysis of changes in financing during the year is as follows:

	Share capital and share premium $'000	Warrant subscription reserve $'000	Short-term and long-term bank loans $'000	Other loan $'000	Finance leases and hire purchase contracts $'000	Total $'000
As at 1st January, 1999	87,078	–	61,875	–	276	149,229
Issue of shares for acquisition of Dragon Venture	11,200	–	–	–	–	11,200
Issue of shares for settlement of other payables	10,411	–	–	–	–	10,411
New bank loans	–	–	3,821	–	–	3,821
Attributable to acquisition of subsidiaries	–	–	–	6,800	34	6,834
Repayment of other loan	–	–	–	(1,300)	–	(1,300)
New finance leases	–	–	–	–	155	155
Repayment of principal portion of finance leases	–	–	–	–	(185)	(185)
Conversion of bank overdrafts into bank loans	–	–	11,738	–	–	11,738
As at 31st December, 1999	108,689	–	77,434	5,500	280	191,903
Issue of warrants *(Note 24.a)*	–	1,465	–	–	–	1,465
Warrant issuance expenses *(Note 24.a)*	–	(65)	–	–	–	(65)
New finance leases	–	–	–	–	261	261
New bank loans	–	–	758	–	–	758
Repayment of bank loan by a director *(See Note c)*	–	–	(1,098)	–	–	(1,098)
Repayment of other loan	–	–	–	(400)	–	(400)
Repayment of principal portion of finance leases	–	–	–	–	(122)	(122)
As at 31st December, 2000	**108,689**	**1,400**	**77,094**	**5,100**	**419**	**192,702**

29. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

c. Significant non-cash transactions

(i) During the year, the remaining consideration payable of $8,000,000 (included in accruals and other payables) in relation to the acquisition of Dragon Venture in 1999 was offset against the cost of the investment in subsidiary (See Note 24.b).

(ii) During the year, a director repaid certain bank loans of approximately $1,098,000 on behalf of the Group (See Note 25.c).

(iii) During the year, the Group entered into finance leases of approximately $261,000 in respect of the acquisition of equipment.

d. Analysis of cash and cash equivalents:

	Consolidated	
	2000	1999
	$'000	$'000
Cash and bank balances	**2,955**	3,357
Bank overdrafts	**(1,506)**	(6,286)
Trust receipts loans	**–**	(355)
	1,449	(3,284)

30. ULTIMATE HOLDING COMPANY

The Directors of the Company consider SMI International Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company.

31. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the current year presentation.