1. GROUP ORGANISATION AND OPERATIONS

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.

The Company is an investment holding company. Its subsidiaries are principally engaged in the manufacture, distribution and sale of plywood, veneer, jamb and moulding, structural, flooring and wood related products.

The average number of employees in the Group was 4,970 in 2001 and 4,605 in 2000. The registered office of the Group is located at Cedar House, 41 Cedar Avenue, Hamilton, HM12, Bermuda.

The ultimate holding company of the Company is SMI International Limited, a company incorporated in the British Virgin Islands.

2. GOING-CONCERN

As at 31st December, 2001, the Group had a working capital deficiency of approximately $16,531,000 (2000 – $5,848,000) and outstanding bank borrowings of approximately $78,831,000 (2000 – $78,600,000) of which approximately $17,606,000 (2000 – $8,336,000) would be due for repayment within the next twelve months.

Having regard to this background, in order to improve the Group's financial position, immediate liquidity, cash flows and operations, the directors have adopted various measures to reduce the Group's cash outflows by minimising capital expenditures and adopting other cost-cutting measures.

2. GOING-CONCERN *(Continued)*

In addition, the directors are currently in negotiation with one of the Group's principal bankers for a rescheduling of the repayment terms of the bank loans granted to one of the Group companies amounting to approximately $50,416,000. Based on the negotiations up to the date of this report, the Group has obtained in-principle approval from the bank to reschedule the loan repayments of the aforementioned bank loan ("rescheduling arrangement"). The rescheduling arrangement has been submitted to the bank's board of directors for final approval. The directors of the Group are of the opinion that final approval will be obtained. Under the rescheduling arrangement, the bank loan will be repayable commencing on 31st December, 2003. The bank has also agreed in-principle to revise the pricing of the aforementioned loan from 1 month Singapore Interbank Offered Rate ("SIBOR") plus 3.5% per annum to 1 month SIBOR plus 2.5% per annum. The final legal documentation and other detailed terms of the rescheduling arrangement are yet to be finalised. Save as the above, the directors of the Group are of the opinion that there will not be material changes to the terms and conditions of the rescheduled loan compared to those currently in force.

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 therefore the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. The financial statements 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. PRINCIPAL ACCOUNTING POLICIES

a. Basis of presentation

The financial statements have been prepared on the historical cost convention as modified by the valuation of property, plant and equipment, and in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Adoption of SSAP

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

SSAP 26	Segment reporting
SSAP 30	Business combinations
SSAP 31	Impairment of assets

SSAP 26 establishes principles for reporting financial information by segment to help users of financial statements to better understand an enterprise and make more informed judgements about an enterprise as a whole. This change in accounting policy has been applied retrospectively.

SSAP 30 prescribes the accounting treatment for business combinations. In addition, it requires goodwill arising from an acquisition to be capitalised and amortised over its estimated useful life.

The transitional provisions of the standard encourage the Group to restate goodwill (negative goodwill) that was eliminated against reserves previously, when it first adopts the standard. As a result, the change in accounting policy has been applied retrospectively.

SSAP 31 prescribes the accounting for and disclosure of impairment of assets. It requires that the recoverable amount of an asset should be estimated whenever there is an indication that the asset may be impaired or previous impairment may no longer exist or may have decreased. It also requires that an impairment loss be recognised whenever the carrying amount of an asset exceeds its recoverable amount. This change in accounting policy has been applied prospectively.

Pacific Plywood Holdings Limited | (Amounts expressed in United States dollars unless otherwise stated)

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

b. Adoption of SSAP *(Continued)*

The effects on the financial statements from the adoption of the above accounting standards are tabulated below:

	2001		2000	
	Loss before taxation	**Opening Balance of Retained Profit**	Loss before taxation	Opening Balance of Retained Profit
SSAP 30	**(4,281)**	**(7,814)**	(18,146)	21,472
SSAP 31	**(55,577)**	**–**	–	–
Total	**(59,858)**	**(7,814)**	(18,146)	21,472

Unless otherwise stated, the 2000 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new accounting standards above.

c. Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

c. Basis of consolidation *(Continued)*

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are included in the income statement 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 and liabilities acquired. Positive goodwill arises where the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired. Negative goodwill arises where the Group's share of the aggregate fair values of the identifiable net assets acquired exceeds the consideration given.

Positive goodwill is capitalised and amortized on straight-line method over its estimated useful life. The carrying amount of goodwill is assessed annually and when factors indicating an impairment are present. If an impairment is present, goodwill are reported at the lower of carrying amount or recoverable amount.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

f. Goodwill *(Continued)*

Negative goodwill is recognised in the income statement as follows:

a) to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Company's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.

b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

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.

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.

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

h. Revenue recognition *(Continued)*

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 to the extent that it is probable that a liability or asset will crystallize.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

j. Property, plant and equipment and depreciation

Property, plant and equipment, other than investment properties, are stated at cost (or valuation) less accumulated depreciation and accumulated impairment losses. 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 beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the property, plant and equipment.

Property, plant and equipment of one subsidiary are stated at valuation performed by independent valuer upon the acquisition of this subsidiary. The devaluation of such property, plant and equipment was recognised as goodwill and expensed in corresponding years.

Valuation by independent valuer is performed at a maximum interval of 3 years or as deemed necessary.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost (or valuation) 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%

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

j. Property, plant and equipment and depreciation *(Continued)*

The useful lives of assets and depreciation method are reviewed periodically.

Construction-in-progress ("CIP") consists mainly of plant and properties under construction and machinery and equipment pending installation. CIP is stated at cost less accumulated impairment losses. This 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 CIP until the assets are completed and ready for their intended use.

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

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.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

k. Inventories *(Continued)*

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. Trade and other receivables

Trade and other receivables are stated at their cost, after provision for doubtful account.

m. Cash and cash equivalents

Cash represents cash on hand and deposits with bank (or other financial institutions) which are repayable on demand.

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. 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.

n. Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

3. *PRINCIPAL ACCOUNTING POLICIES (Continued)*

n. Borrowing costs *(Continued)*

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use (in which case they are capitalised as part of the cost of that asset). Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

o. 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. The Group recognises finance leases and hire purchase contracts as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

p. Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

q. Employee retirement benefits

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

r. 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 cumulative translation adjustments in reserves.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

s. Impairment of assets

Property, plant and equipment, investment in subsidiaries and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income statement for items of assets carried at cost and treated as a revaluation decrease for assets that are carried at revalued amounts to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same assets. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of the asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase.

t. Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

u. Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

v. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

w. Segment

The Group reports its primary segment information by geographical locations of assets and secondary segment by products. Details of the Group's segment information are set out in Note 32 to the accompanying financial statements.

Segment revenue, segment expenses and segment performance include intersegment transfers. Such transfers are accounted for on an arms-length basis. Those transfers are eliminated on consolidation.

4. TURNOVER

Turnover and revenue by major category:

	2001	2000
	$'000	*$'000*
Sales and distribution by major products		
Moisture resistant plywood	**42,100**	43,147
Structural	**29,299**	20,610
Jamb and mouldings	**17,714**	16,021
Weather and boil proof plywood	**14,349**	16,851
Flooring	**10,116**	19,378
Veneer	**3,613**	5,226
Others	**549**	8,779
Total turnover	**117,740**	130,012
Rental income	**–**	279
Service fee and management fee income	**–**	1,591
Interest income	**44**	127
Other revenue	**152**	196
Total turnover and revenue	**117,936**	132,205

Turnover by geographical locations:

	2001	2000
	$'000	*$'000*
Japan	**64,172**	59,395
United States of America	**17,661**	16,856
Europe	**17,514**	20,328
The People's Republic of China	**10,414**	25,425
Others	**7,979**	8,008
Total turnover	**117,740**	130,012

5. OPERATING LOSS

Operating loss was determined after charging and crediting the following items:

	2001 **$'000**	2000 $'000
After charging:		
Cost of inventories sold (excluding provision to reduce inventories to net realisable value)	**101,797**	109,619
Staff cost (excluding directors)		
– salary and wages	**3,374**	3,349
– contributions to defined contribution pension plan	**290**	245
Provision to reduce inventories to net realisable value	**–**	2,062
Provision for/Write-off of trade and other receivables	**–**	1,777
Provision for amount due from a related company	**–**	693
Operating lease rentals of premises	**392**	537
Depreciation of property, plant and equipment		
– owned assets	**11,897**	10,881
– assets held under finance leases and hire purchase contracts	**64**	103
Net loss on disposal of property, plant and equipment	**454**	114
Net exchange loss	**310**	3
Realised loss on disposal of an investment (Note 31.d)	**215**	–
Auditors' remuneration	**250**	250
After crediting:		
Interest income from bank deposits	**44**	127
Rental income less outgoings	**–**	264
Reversal of provision for trade and other receivables	**494**	–
Reversal of provision for amount due from a related party	**259**	–
Service fee and management fee income	**–**	1,591

6. FINANCE COST

	2001 $'000	2000 $'000
Interest on		
– bank borrowings	**5,820**	7,664
– other loan	**709**	503
– finance leases and hire purchase contracts	**35**	81
	6,564	8,248

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments pursuant to Section 161 of the Companies Ordinance are set out as below:

	2001 $'000	2000 $'000
Fees for executive directors	**–**	–
Fees for non-executive directors	**51**	90
Other emoluments for executive directors		
– Basic salaries and allowances	**514**	594
– Other allowances	**6**	41
– Others #	**104**	130
	675	855

Amount represents consultancy fee paid to a company of which Mr. Lau Kam Hung, an executive director of the Company, is also a director (Note 27.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.

Pacific Plywood Holdings Limited (Amounts expressed in United States dollars unless otherwise stated)

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(Continued)

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

	Number of directors	
	2001*	2000
Executive directors		
– Nil to $129,200 (Nil to HK$1,000,000)	**3**	3
– $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)	**–**	–
– $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**	7
	11	12

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

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(Continued)

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

	2001	2000
	$'000	*$'000*
Basic salaries and allowances	**763**	693
Bonus	**39**	34
Contributions to pension scheme	**8**	–
Other allowances	**–**	–
Others	**104**	130
	914	857

Two (2000 – 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.

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:

	Number of individuals	
	2001*	2000
Nil to $129,200 (Nil to HK$1,000,000)	**3**	3
$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)	**–**	–
$258,401 to $323,000 (HK$2,000,001 to HK$2,500,000)	**–**	–
$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 comprises:

	2001	2000
	$'000	*$'000*
Current taxation		
– Hong Kong profits tax	**–**	800
– Overseas income tax	**–**	36
Reversal of tax provision *	**(1,862)**	–
Deferred taxation *(Note 22)*	**(369)**	319
	(2,231)	1,155

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% (2000 – 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.

* *Tax provision of approximately $1,862,000 for an ex-subsidiary company was reversed upon its disposal during the year.*

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, 2001, Manuply had aggregate unutilised tax allowances of approximately $37,201,000 (2000 – $30,066,000), which are subject to the approval of 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. Changchun Winpro Wood Industries Co., Ltd., 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, 2001.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately $88,940,000 (2000 – $1,159,000) dealt with in the financial statements of the Company (Note 26).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately $61,014,000 (2000 – $28,696,000) and on the weighted average number of 5,580,897,243 shares (2000 – 5,580,897,243 shares) in issue during the year.

No diluted loss per share for the years ended 31st December, 2001 and 2000 is presented as the dilutive potential ordinary shares were anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment are as follows:

	Consolidated								
	2001								2000
	Land and buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	CIP $'000	Total $'000	Total $'000
Cost or valuation									
Beginning of year	45,942	573	157,299	2,219	2,252	1,562	18,920	228,767	219,159
Attributable to subsidiaries disposed	(322)	(4)	(98)	(19)	–	–	–	(443)	–
Additions	4,011	135	1,395	593	139	–	3,267	9,540	7,056
Disposals	(609)	(248)	(292)	(34)	(164)	–	(12)	(1,359)	(1,123)
Transfer	7,039	–	10,449	36	–	–	(17,524)	–	–
Others	(5,866)	–	–	–	–	–	–	(5,866)	4,186
Translation adjustment	(1,021)	(22)	8	(37)	–	–	1	(1,071)	(511)
End of year	49,174	434	168,761	2,758	2,227	1,562	4,652	229,568	228,767
Representing:									
At cost	40,303	434	143,017	2,758	1,972	1,562	4,652	194,698	193,227
At valuation	8,871	–	25,744	–	255	–	–	34,870	35,540
	49,174	434	168,761	2,758	2,227	1,562	4,652	229,568	228,767
Accumulated depreciation									
Beginning of year	4,763	314	33,733	1,184	1,178	231	–	41,403	30,703
Attributable to subsidiaries disposed	(322)	(4)	(98)	(19)	–	–	–	(443)	–
Provision for the year	1,269	39	10,012	381	229	31	–	11,961	10,984
Disposals	(68)	(248)	(84)	(33)	(138)	–	–	(571)	(382)
Translation adjustment	(219)	(3)	(2)	(10)	–	–	–	(234)	98
End of year	5,423	98	43,561	1,503	1,269	262	–	52,116	41,403
Accumulated impairment loss									
Beginning of year	–	–	–	–	–	–	–	–	–
Provision for the year *(Note 12)*	8,541	–	40,724	–	31	–	3,498	52,794	–
End of year	8,541	–	40,724	–	31	–	3,498	52,794	–
Net book value									
End of year	35,210	336	84,476	1,255	927	1,300	1,154	124,658	187,364
Beginning of year	41,179	259	123,566	1,035	1,074	1,331	18,920	187,364	188,456

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Company				
	2001				2000
	Leasehold improvements	**Furniture, fittings and equipment**	**Motor vehicles**	**Total**	Total
	$'000	***$'000***	***$'000***	***$'000***	*$'000*
Cost					
Beginning of year	**248**	**85**	**251**	**584**	584
Disposals	**(248)**	**(33)**	**–**	**(281)**	–
End of year	**–**	**52**	**251**	**303**	584
Accumulated depreciation					
Beginning of year	**248**	**70**	**100**	**418**	327
Provision for the year	**–**	**9**	**26**	**35**	91
Disposals	**(248)**	**(33)**	**–**	**(281)**	–
End of year	**–**	**46**	**126**	**172**	418
Net book value					
End of year	**–**	**6**	**125**	**131**	166
Beginning of year	**–**	**15**	**151**	**166**	257

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

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

		2001	2000
		$'000	*$'000*
Malaysia	– Long-term lease	**14,016**	14,165
Singapore	– Freehold land	**13,788**	15,029
PRC	– Medium-term lease *(note 1)*	**3,240**	7,509
	– Others *(note 2)*	**4,166**	4,476
		35,210	41,179

note 1 Land and buildings located in Changchun, the PRC with a net book value of approximately $3,203,000 (2000 – $3,254,000) are 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 $Nil (2000 – $Nil) are 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.*

* *Full impairment losses of approximately $5,864,000 have been provided as at 31st December 2001. As at 31st December 2000, the cost of such land and buildings were recorded in CIP.*

The remaining amount of $37,000 (2000 – $4,255,000) 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.

note 2 The amount of approximately $4,166,000 (2000 – $4,476,000) 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.

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

(b) Certain property, plant and equipment of the Group with a net book value of approximately $108,011,000 (2000 – $118,659,000) are pledged as security for certain of the Group's banking facilities (Note 30.a).

(c) Certain plant and machinery of the Group with a net book value of approximately $889,000 (2000 – $909,000) included above were purchased under finance leases or hire purchase contracts.

(d) Property, plant and equipment of one subsidiary were appraised by Sallmanns (Far East) Ltd., an independent professional valuer, upon the acquisition of this subsidiary in 1999. These assets were appraised on the replacement cost basis. As a result of the appraisal, the devaluation of such property, plant and equipment of approximately $4 million was recognized as goodwill and expensed in corresponding years.

12. IMPAIRMENT LOSSES

Effective 1st January, 2001, the Group adopted SSAP 31 – Impairment of Assets, which became operative for financial statements relating to periods beginning on or after 1st January, 2001, requiring the Group to state the carrying amount of its assets at no more than their recoverable amount.

Management forecasts have indicated that the performance of the Group's PRC subsidiaries was below originally planned. Detailed discounted future cashflow analyses had therefore been prepared to determine whether there was any impairment of assets for those subsidiaries. The impaired assets, including property, plant and equipment and other non-current assets, had been written down to their recoverable value. For the year ended 31st December, 2001, the Group had recorded impairment losses for property, plant and equipment and other non-current assets amounting to approximately $52,794,000 (Note 11) and $2,783,000 (Note 14) respectively in the income statement.

13. INVESTMENT IN SUBSIDIARIES

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

	2001	2000
	$'000	*$'000*
Unlisted shares, at cost	**29,649**	29,649
Due from subsidiaries	**110,889**	110,543
Due to a subsidiary	**(4,763)**	(3,106)
	135,775	137,086
Less: provision for permanent diminution in value	**(88,352)**	–
	47,423	137,086

The outstanding balances with subsidiaries are unsecured, non-interest bearing and will not be repayable or payable before 1st January, 2003.

The underlying value of the investment in subsidiaries, in the opinion of the directors, not less than the Company's carrying value as at 31st December, 2001.

Details of the subsidiaries as at 31st December, 2001 are as follows:

Name	Place of incorporation/ operations	Issued and fully paid Share capital	Percentage of equity interest held Directly	Percentage of equity interest held 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	$29,600,000(b)	–	100%	Manufacture and sale of wood products

(Amounts expressed in United States dollars unless otherwise stated) | Annual Report 2001

13. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Issued and fully paid Share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
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	$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	$2,510,000	–	100%	Trading of veneer and plywood
Glowing Schemes Sdn. Bhd.	Malaysia	RM1,200,000	–	100%	Inactive
Jilin Newco Wood Industries Co., Ltd.	People's Republic of China	RMB306,125,332(d)	–	75%	Manufacture and sale of 3-ply parquet, plywood and fancy veneer
Manuply Wood Industries (S) Sdn. Bhd.	Malaysia	RM55,000,000	–	100%	Manufacture and sale of veneer and plywood

Pacific Plywood Holdings Limited | (Amounts expressed in United States dollars unless otherwise stated)

13. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Issued and fully paid Share capital	Percentage of equity interest held Directly	Indirectly	Principal activities
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"). Changchun Winpro 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 ("Dalian Global") 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 $29,600,000. 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.

13. INVESTMENT IN SUBSIDIARIES *(Continued)*

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 306,125,000 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, 2001.

14. OTHER NON-CURRENT ASSETS

Other non-current assets represent advances to the PRC joint venture partners of Dalian Yizhi 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.

Full impairment losses of approximately $2,783,000 have been provided as at 31st December 2001 (Note 12).

15. INVENTORIES

Inventories, representing lumber, veneer, jamb, moulding products and plywood, comprise of:

	Consolidated	
	2001	2000
	$'000	*$'000*
Raw materials	**6,545**	8,054
Work-in-progress	**5,361**	3,062
Finished goods	**6,435**	9,737
	18,341	20,853
Less: Provision for slow-moving and obsolete inventories	**(200)**	(200)
	18,141	20,653

The amount of inventories (included above) carried at net realisable value was approximately $4,389,000 (2000 – $10,821,000).

As at 31st December, 2001, inventories of approximately $11,319,000 (2000 – $12,713,000) were subject to floating charges as collateral for certain of the Group's banking facilities (Note 30.b).

16. TRADE RECEIVABLES

The aging analysis of trade receivables as at 31st December, 2001 is as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
0-30 days	**6,154**	6,063
31-60 days	**2,431**	515
61-90 days	**111**	711
91-180 days	**104**	1,625
181-360 days	**74**	1,367
Over 360 days	**3,340**	3,976
	12,214	14,257
Less: Provision for bad and doubtful trade receivables	**(3,622)**	(4,575)
	8,592	9,682

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, 2001, trade receivables of approximately $ Nil (2000 – $1,080,000) were pledged as security for certain of the Group's banking facilities (Note 30.b).

17. BANK BORROWINGS – CURRENT

Bank borrowings, secured, comprise of the following:

	Consolidated	
	2001	2000
	$'000	*$'000*
Bank overdrafts	**–**	1,506
Trust receipts loans	**1,815**	–
Short-term bank loans	**7,257**	6,441
Current portion of long-term bank loans (*Note 20*)	**8,534**	389
	17,606	8,336

The short-term bank borrowings bear interest at commercial banking rates ranging from 3.125% to 8.4% (2000 – 5.12% to 11.00%) per annum and were secured by pledges of certain of the Group's property, plant and equipment and corporate guarantees given by the Company and the Chinese joint venture partner of Jilin Newco (Note 30).

18. TRADE PAYABLES

The aging analysis of trade payables as at 31st December, 2001 is as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
0-30 days	**6,064**	7,585
31-60 days	**3,328**	3,499
61-90 days	**2,661**	3,322
91-180 days	**4,247**	2,109
181-360 days	**46**	425
Over 360 days	**632**	221
	16,978	17,161

19. ACCRUALS AND OTHER PAYABLES

Included in accruals and other payables is a loan of $4,200,000 (2000 – $5,100,000) from a national asset management company set up by the Malaysian government.

As at the date of this report, 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 $4,200,000 (2000 – $5,100,000) were classified as current liabilities at the balance sheet date.

The above loan bears interest at SIBOR plus 2% per annum and is secured by a personal guarantee given by a director (Notes 27.b and 30.d).

20. LONG-TERM BANK LOANS

Long-term bank loans, secured, comprise of the following:

	Consolidated	
	2001	2000
	$'000	*$'000*
Bank loans repayable within a period		
– not exceeding one year	**8,534**	389
– more than one year but not exceeding two years	**12,855**	8,558
– more than two years but not exceeding five years	**38,602**	38,662
– beyond five years	**9,768**	23,044
	69,759	70,653
Less: Amount due within one year included in current liabilities (*Note 17*)	**(8,534)**	(389)
	61,225	70,264

20. LONG-TERM BANK LOANS *(Continued)*

The bank loans bear interest at commercial banking rates ranging from 5.50% to 10.2% (2000 – 5.50% to 10.18%) 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 (Note 30).

21. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

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

	Consolidated	
	2001	2000
	$'000	*$'000*
Future minimum payments payable within a period		
– not exceeding one year	**632**	237
– more than one year, but not exceeding five years	**94**	182
	726	419
Less: Amounts payable within one year included under accruals and other payables	**(632)**	(237)
	94	182

22. DEFERRED TAXATION

Movements of deferred taxation are as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
Beginning of year	**382**	63
(Reversal of) Provision for net timing differences *(Note 8)*	**(369)**	319
End of year	**13**	382

Deferred taxation represents the taxation effect of timing differences relating to accelerated depreciation for taxation purposes. There was no significant unprovided deferred taxation as at 31st December, 2001.

23. SHARE CAPITAL

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

	2001		2000	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***$'000***	*'000*	*$'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

24. 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.

Movements in share options during the year were as follows:

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	% of total issued shares
		Number of shares to be issued under options				
31st May, 1996	HK$0.260*	176,000	–	–	176,000	3.15%
26th August, 1999	HK$0.129**	143,300	–	–	143,300	2.57%
		319,300	–	–	319,300	5.72%

* *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.*

25. WARRANTS

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.

Movement in warrants during the year was as follows:

Date of issue	Subscription price per share	Beginning of year '000	Granted during the year '000	Exercised during the year '000	End of year '000
		Number of shares to be issued under warrants			
23rd March, 2000	HK$0.18	570,000	–	–	570,000

26. RESERVES

Movements of reserves during the year were:

	2001							2000
	Share premium $'000	Contributed surplus (Note a) $'000	Warrant subscription reserve $'000	Cumulative translation adjustments $'000	Capital reserve $'000	Retained profit (Accumulated losses) $'000	Total $'000	Total $'000
Consolidated								
Beginning of year								
– As previously reported	90,652	-	1,400	(4,056)	-	600	88,596	86,878
– Cumulative effect on prior year adjustment *(Note 33)*	-	-	-	-	7,814	(7,814)	-	29,286
– As restated	90,652	-	1,400	(4,056)	7,814	(7,214)	88,596	116,164
Proceeds from issue of warrants *(Note 25)*	-	-	-	-	-	-	-	1,465
Warrant issuance expenses *(Note 25)*	-	-	-	-	-	-	-	(65)
Loss for the year								
– As previously reported	-	-	-	-	-	(61,014)	(61,014)	(10,550)
– Cumulative effect in prior year adjustment *(Note 33)*	-	-	-	-	-	-	-	(18,146)
– As restated	-	-	-	-	-	(61,014)	(61,014)	(28,696)
Translation adjustments	-	-	-	176	-	-	176	(272)
End of year	90,652	-	1,400	(3,880)	7,814	(68,228)	27,758	88,596
Company								
Beginning of year	90,652	21,122	1,400	-	-	3,524	116,698	116,457
Proceeds from issue of warrants *(Note 25)*	-	-	-	-	-	-	-	1,465
Warrant issuance expenses *(Note 25)*	-	-	-	-	-	-	-	(65)
Loss for the year *(Note 9)*	-	-	-	-	-	(88,940)	(88,940)	(1,159)
End of year	90,652	21,122	1,400	-	-	(85,416)	27,758	116,698

Note a. 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.

As at 31st December 2001, the Company did not have any reserves available for distribution to the shareholders.

27. 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 $104,000 (2000 – $130,000) 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.

b. 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 (Notes 19, 20 and 30.d).

28. COMMITMENTS AND CONTINGENT LIABILITIES

a. Capital commitments

As at 31st December, 2001, the Group had capital commitments amounting to approximately $84,000 (2000 – $664,000) for purchase of equipment which had been authorised and contracted for.

b. Operating lease commitments

As at 31st December, 2001, the Group had lease commitments amounting to approximately $2,143,000 (2000 – $2,652,000) in respect of land and buildings under various non-cancellable operating lease agreements extending to December 2023. The amount of commitments payable within the next twelve months is analysed as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
Leases expiring		
– within one year	**–**	–
– within two to five years	**362**	317
– beyond five years	**65**	65
	427	382

28. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

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 are analysed as follows:

	Consolidated	
	2001	2000
	$'000	*$'000*
Payable during the following period:		
– within one year	**606**	459
– within two to five years	**2,433**	2,277
– beyond five years	**5,896**	6,603
	8,935	9,339

d. Contingent liabilities

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

	Consolidated		**Company**	
	2001	2000	**2001**	2000
	$'000	$'000	**$'000**	$'000
Discounted bills with recourse	**1,215**	452	**–**	–
Corporate guarantee given to banks for banking facilities granted to subsidiaries	**–**	–	**69,759**	78,969
	1,215	452	**69,759**	78,969

As at 31st December, 2001, the Company had guaranteed the payment of rentals in respect of the office premises of a subsidiary.

29. 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 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, 2001, 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	
	2001	2000
	$'000	*$'000*
Pension expense		
Gross employer's contribution	**290**	245

30. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2001, the Group had aggregate banking facilities of approximately $93,328,000 (2000 – $103,003,000) from several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately $8,355,000 (2000 – $17,881,000). 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 $108,011,000 (2000 – $118,659,000) (Note 11);

b. Floating charges on certain of the Group's inventory of approximately $11,319,000 (2000 – $12,713,000), trade receivables of approximately $Nil (2000 – $1,080,000) and bank balances of approximately $230,000 (2000 – $1,203,000) (Notes 15 and 16);

c. Corporate guarantees given by the Company (Notes 17 and 20) and the Chinese Joint Venture partner of Jilin Newco (Note 17); and

d. A personal guarantee given by a director of the Company (Notes 19, 20 and 27.b).

31. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2001 **$'000**	2000 $'000
Loss before taxation	**(70,874)**	(28,131)
Interest income	**(44)**	(127)
Interest expense	**6,564**	8,248
Reversal of bad debt provision	**(753)**	–
Amortization of goodwill	**–**	7,322
Impairment of goodwill	**4,281**	10,824
Provision for impairment losses	**55,577**	–
Depreciation of property, plant and equipment	**11,961**	10,984
Net loss on disposal of property, plant and equipment	**454**	114
Net loss on disposal of subsidiaries	**215**	–
Decrease in inventories	**2,512**	5,631
Decrease in trade receivables	**1,843**	4,181
Decrease in prepayments	**194**	1,291
Increase in other receivables	**(936)**	(1,775)
Decrease in amount due from a related company	**72**	680
(Decrease) Increase in trade payables	**(183)**	5,111
Decrease in accruals and other payables	**(2,371)**	(6,558)
Decrease in amount due to a related company	**–**	(615)
Net cash inflow from operating activities	**8,512**	17,180

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

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

	Warrant subscription reserve	Short-term and long-term bank loans	Other loan *(Note 19)*	Finance leases and hire purchase contracts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
As at 1st January, 2000	–	77,434	5,500	280	83,214
Issue of warrants *(Note 25)*	1,465	–	–	–	1,465
Warrant issuance expenses *(Note 25)*	(65)	–	–	–	(65)
New finance leases	–	–	–	261	261
New bank loans	–	758	–	–	758
Repayment of bank loan by a director	–	(1,098)	–	–	(1,098)
Repayment of other loan	–	–	(400)	–	(400)
Repayment of principal portion of finance leases	–	–	–	(122)	(122)
As at 31st December, 2000	1,400	77,094	5,100	419	84,013
New bank loans	–	3,215	–	–	3,215
Repayment of loans	–	(1,478)	(900)	–	(2,378)
New finance leases	–	–	–	544	544
Repayment of principal portion of finance leases	–	–	–	(237)	(237)
As at 31st December, 2001	**1,400**	**78,831**	**4,200**	**726**	**85,157**

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

c. Significant non-cash transactions

During the year, the Group entered into finance leases of approximately $544,000 in respect of the acquisition of property, plant and equipment.

d. Disposal of a subsidiary:

	2001 ***$'000***
Net assets disposed	
Due from shareholder	1,320
Other receivables	31
Cumulative translation adjustments	184
	1,535
Loss on disposal of a subsidiary *(Note 5)*	(215)
	1,320
Represented by:	
Assignment of amount due from shareholder	1,320

e. Analysis of cash and cash equivalents:

	Consolidated	
	2001 ***$'000***	2000 *$'000*
Cash and bank balances	**1,856**	2,955
Bank overdrafts	**–**	(1,506)
	1,856	1,449

32. *SEGMENTAL INFORMATION*

Primary segment by geographical locations of operation:

	2001					
	the PRC	**Hong Kong**	**Singapore**	**Malaysia**	**Elimination**	**Consolidated**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover						
– External	47,603	4,915	–	65,222	–	117,740
– Inter-segment	–	–	–	139	(139)	–
Total turnover	47,603	4,915	–	65,361	(139)	117,740
Result						
Segment result	(5,168)	(233)	(28)	1,565	–	(3,864)
Impairment of property, plant and equipment and other non-current assets	(55,577)*	–	–	–	–	(55,577)
Unallocated corporate expenses						(4,869)
Operating loss						(64,310)
Finance costs						(6,564)
Taxation						2,231
Loss before minority interests						(68,643)
Assets						
Segment assets	44,993	2,913	15,892	177,002	(82,684)	158,116
Unallocated corporate assets						267
						158,383
Liabilities						
Segment liabilities	97,597	787	15,860	78,132	(82,684)	109,692
Unallocated corporate liabilities						1,896
						111,588
Other information						
Impairment losses recognized in the income statement	55,577	–	–	–	–	55,577
Capital expenditures	1,428	–	662	2,616	–	4,706
Unallocated capital expenditures						–
						4,706
Depreciation	4,104	–	507	7,315	–	11,926
Unallocated depreciation						35
						11,961

* *Impairment of assets mainly comprise of Jilin Newco, approximately $32,400,000, Dalian Yizhi, approximately $14,800,000, Dalian Global, approximately $6,400,000 and Changchun Winpro, approximately $2,000,000.*

32. SEGMENTAL INFORMATION *(Continued)*

	2000					
	the PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Turnover						
– External	44,870	7,563	144	77,435	–	130,012
– Inter-segment	–	387	683	1,720	(2,790)	–
Total turnover	44,870	7,950	827	79,155	(2,790)	130,012
Result						
Segment result	(7,922)	(247)	(2,600)	10,192	–	(577)
Unallocated corporate expenses						(19,306)
Operating loss						(19,883)
Finance costs						(8,248)
Taxation						(1,155)
Loss before minority interests						(29,286)
Assets						
Segment assets	105,084	2,850	20,734	178,830	(77,697)	229,801
Unallocated corporate assets						312
						230,113
Liabilities						
Segment liabilities	91,349	3,300	19,713	77,423	(77,697)	114,088
Unallocated corporate liabilities						2,663
						116,751
Other information						
Impairment losses recognized in the income statement	–	–	–	–	–	–
Capital expenditures	1,668	–	381	5,007	–	7,056
Unallocated capital expenditures						–
						7,056
Depreciation	3,523	–	593	6,776	–	10,892
Unallocated depreciation						92
						10,984

32. SEGMENTAL INFORMATION *(Continued)*

Secondary segment by products:

	2001				2000			
	Turnover	Operating profit (loss)	Assets	Capital expenditures	Turnover	Operating profit (loss)	Assets	Capital expenditures
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Moisture resistant plywood	**42,100**	**278**	**65,062**	**1,740**	43,147	3,860	57,290	2,448
Structural	**29,299**	**(930)**	**31,161**	**618**	20,610	294	19,143	693
Flooring	**10,116**	**(1,753)**	**5,854**	**176**	19,378	(61)	58,316	1,220
Weather and boil proof plywood	**14,349**	**518**	**21,447**	**564**	16,851	2,218	23,893	1,089
Jamb & mouldings	**17,714**	**34**	**16,556**	**134**	16,021	(1,187)	7,261	129
Veneer	**3,613**	**(211)**	**410**	**–**	5,226	(48)	1,369	49
Others	**549**	**36**	**2,928**	**77**	8,779	(2,549)	29,379	345
Unallocated	**–**	**(62,282)**	**14,965**	**1,397**	–	(22,410)	33,462	1,083
Total	**117,740**	**(64,310)**	**158,383**	**4,706**	130,012	(19,883)	230,113	7,056

33. PRIOR YEAR ADJUSTMENT

During the year, the Company changed its accounting policy with respect to goodwill to comply with new SSAP 30 (Note 3.b). This change in accounting policy has been accounted for retrospectively. The comparative statements for 2000 have been restated to conform to the changed policy. The effect of the change is to decrease the profit of the Company for the year ended 31st December, 2000 by approximately $18,146,000. Beginning retained profits and reserve for the year ended 31st December, 2001 has been increased (decreased) by approximately ($7,814,000) and $7,814,000 respectively (2000: $21,472,000 and $7,814,000 respectively) which is the amount of the adjustment relating to prior periods.

34. COMPARATIVE FIGURES

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

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 15th May, 2002.