



REPORT OF THE DIRECTORS

(Amounts expressed in United States dollar unless otherwise stated)

The Directors have the pleasure of presenting the annual report together with the audited accounts of Pacific Plywood Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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 Group's turnover for the year ended 31st December, 2004 is analysed as follows:

	\$'000
a. Sales and distribution of merchandise by product categories	
Flooring	36,945
Structural	33,115
Moisture resistant plywood	31,139
Weather and boil proof plywood	25,649
Jamb and mouldings	21,295
Veneer	772
Others	607
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	149,522
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b. Sales and distribution of merchandise by geographical areas*	
Japan	59,085
The People's Republic of China	38,900
North America	21,698
Europe	16,482
South East Asia	9,557
Others	3,800
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	149,522
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* Sales and distribution of merchandise by geographical areas is determined on the basis of the location where the merchandise is delivered.

Details of segment information are set out in Note 24 to the accompanying accounts.



(Amounts expressed in United States dollar unless otherwise stated)

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 2004 are set out in the consolidated profit and loss account on page 28 of this annual report.

The Directors do not recommend the payment of a dividend.

RESERVES

The Group's loss attributable to shareholders of approximately \$4,499,000 is retained and carried forward. Other movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 20 to the accompanying accounts.

DONATIONS

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

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in Note 12 to the accompanying accounts.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts are set out in Notes 16 and 27 to the accompanying accounts.

COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments and contingent liabilities are set out in Notes 25 and 26 to the accompanying accounts.

PENSION SCHEME

Details of pension schemes are set out in Note 28 to the accompanying accounts.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 19 to the accompanying accounts.



(Amounts expressed in United States dollar unless otherwise stated)

DISTRIBUTABLE RESERVES

As at 31st December, 2004, the Company did not have any distributable reserve, as the lower of amount calculated under section 79B of the Hong Kong Companies Ordinance and the relevant legislations applicable in Bermuda, available for distribution to the shareholders.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 14 to 15 of this annual report.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December, 2004.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

The Company has a share option scheme, approved by shareholders at the General Meeting on 21st June, 2002 to terminate the old option scheme. Under this scheme, the Board may grant options to any participant who, in the absolute discretion of the Board, has made valuable contribution to the business of the Group. The subscription price will be a price determined by the Board and at least the highest of: (a) the closing price of the shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of grant of the option, which must be a business day; (b) the average closing price of the shares as stated in Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the shares. The total number of shares which may be issued upon exercise of options must not exceed 30% of the number of shares in issue from time to time and in addition, 10% of the number of shares in issue as at the date of approval of the option scheme.



(Amounts expressed in United States dollar unless otherwise stated)

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES *(Continued)*

Details of the share options issued under the old option scheme and outstanding as at 31st December, 2004 were as follows:

Name	Date of grant	Exercise period	Subscription price per share	Number of shares to be issued under options granted under share option scheme			
				Beginning of year	Granted during the year	Lapsed during the year	End of year
Mr. Budiono Widodo	31/5/1996	1/12/1996 to 30/11/2006	HK\$0.260	88,000,000	–	–	88,000,000
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	40,800,000	–	–	40,800,000
Mr. Peng Chiu Ching	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	31,000,000	–	–	31,000,000
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	24,500,000	–	(8,000,000)	16,500,000
Others	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.129	47,000,000	–	(47,000,000)	–
				<u>231,300,000</u>	<u>–</u>	<u>(55,000,000)</u>	<u>176,300,000</u>

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or its holding company a party to any arrangements to enable any of the Company's Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.



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DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Mr. Budiono Widodo, *Chairman*

Mr. Liao Yun Kuang, *President*

Mr. Sardjono Widodo, *Managing Director*

Mr. Peng Chiu Ching

Mr. Yu Chien Te Appointed on 28th June, 2004

Non-Executive Directors

Mr. Chen Chung I

Mr. Pipin Kusnadi

Mr. Sudjono Halim Appointed on 28th June, 2004

Mr. Marzuki Usman

Mr. Ngai Kwok Chuen

Mr. Kusnadi Widjaja Appointed on 28th June, 2004

Mr. Peng Chiu Ching's service as the Managing Director of the Company has been terminated pursuant to a Directors' meeting held on 2nd March, 2005. Mr. Peng Chiu Ching remained as an Executive Director of the Company.

Mr. Sardjono Widodo was appointed as the Managing Director of the Company with effect from 2nd March, 2005.

In accordance with the Bye-laws of the Company, Mr. Sudjono Halim, Mr. Ngai Kwok Chuen, Mr. Kusnadi Widjaja, Mr. Peng Chiu Ching, Mr. Marzuki Usman and Mr. Yu Chien Te will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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



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DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31st December, 2004, the Directors and chief executive of the Company and their associates had the following beneficial interests in the equity of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares with par value of HK\$0.025 each.

	Personal Interest	Corporate Interest*	Total	% of Total Shares Outstanding
Mr. Budiono Widodo	248,276,000	1,974,720,000	2,222,996,000	39.83%
Mr. Yu Chien Te	58,873,200	Nil	58,873,200	1.05%

* As at 31st December, 2004, SMI International Limited ("SIL") held 1,974,720,000 shares (2003 – 1,974,720,000 shares) of the Company. Mr. Budiono Widodo, a director of the Company, held 39.82% of the outstanding shares of SIL.

Save as disclosed herein and the Section "Arrangement to purchase shares and debentures", as at 31st December, 2004, none of the Directors, the chief executive of the Company or their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.



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DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Budiono Widodo, (a Commissioner of P.T. Sumatra Timber Utama Damai ("P.T. STUD")) Chairman of the Company, and Mr. Sardjono Widodo, (a Commissioner of P.T. STUD) Managing Director of the Company, have personal and corporate interests of approximately 4.26% and 5.20% in P.T. STUD respectively.

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

During the year ended 31st December, 2004, P.T. STUD recorded a turnover of \$104.17 million, which was analysed by product range as follows:

	<i>\$'million</i>
Container flooring	72.41
Industrial plywood	27.78
Film face plywood	3.98
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Total	104.17
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The core business of P.T. STUD is the manufacture and sales of industrial plywood and other secondary plywood products. The principal business of the Group is the manufacture and distribution of plywood, veneer and consumer-related wood products. Therefore, the business of P.T. STUD does not and will not compete with that of the Group.

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



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SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2004, the persons interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Long position in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Mr. Budiono Widodo	Beneficial owner and held by controlled corporation	2,222,996,000	39.83%
SMI International Limited *	Beneficial owner	1,974,720,000	35.38%
Delta Cempaka Pte. Ltd. **	Beneficial owner	449,245,000	8.05%
Mr. Simon Eddy	Held by controlled corporation	449,245,000	8.05%
Mr. Ng Soat Hong	Held by controlled corporation	449,245,000	8.05%
Mr. Tjong Jauw Sing	Beneficial owner	421,905,593	7.56%

* *SMI International Limited is owned by Mr. Budiono Widodo for 39.82% and its interest in the issued share capital of the Company is included in the interests held by Mr. Budiono Widodo.*

** *Delta Cempaka Pte. Ltd. is owned by Mr. Simon Eddy and Mr. Ng Soat Hong each for 50% and its interest in the issued share capital of the Company is included in the interests held by Mr. Simon Eddy and Mr. Ng Soat Hong.*

MANAGEMENT CONTRACTS

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



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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2004, the five largest customers of the Group accounted for approximately 49.38% of the Group's total turnover and the five largest suppliers accounted for approximately 20.71% of the Group's total purchases (not including purchases of capital nature). In addition, the largest customer of the Group accounted for approximately 15.73% of the Group's total turnover while the largest supplier accounted for approximately 4.98% of the Group's total purchases. At no time during the year have the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or five largest suppliers.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31st December, 2004, which do not constitute connected transactions under the Listing Rules, are disclosed in Note 29 to the accompanying accounts.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules applicable before 1st January, 2005 throughout the year covered by this annual report except that all the non-executive Directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Company's Bye-law 99.

AUDIT COMMITTEE

The Board of Directors has established an Audit Committee in year 1998 and has formulated its written terms of reference in accordance with the requirements of the Stock Exchange. The Audit Committee, which includes three independent Non-Executive Directors, is to review with management the accounting policies adopted by the Group and to discuss auditing and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Board of Directors confirms that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31st December, 2004.



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AUDITORS

The accompanying accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Arthur Andersen & Co. when it resigned as the Company's auditor on 30th June, 2002.

On behalf of the Board of Directors

BUDIONO WIDODO

Chairman

Hong Kong, 19th April, 2005