Interim Report 05

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Fulbond Holdings Limited

福邦控股有限公司

Directors' Report

On behalf of the Board of Directors (the "Board"), I am pleased to present the unaudited consolidated results of Fulbond Holdings Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 June 2005. The unaudited results have been reviewed by Deloitte Touche Tohmatsu.

Financial Results

The Group reported a drop in turnover to US$8,508,000 in the first six months of 2005, as compared with US$12,352,000 for the corresponding period in 2004. Gross profit was US$748,000, a decrease of 32.6%, compared with last year's US$1,109,000, while gross profit margin was kept at the almost same level as in the same period of 2004. During the review period, operating loss was US$1,584,000. The loss was incurred as a result of the relocation of one of the Group's subsidiaries and significant drop in value-added tax refund income. Loss for the six months ended 30 June 2005 attributable to equity holders of the parent increased to US$2,336,000 from last corresponding period's US$770,000.

Dividend

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2005. (2004: Nil).

Business Review

The Timber Business

Due to keen market competition and relocation of one of the subsidiaries, all of the Group's timber related products, including blockboard and particle board and door skin suffered operating loss during the first half of the year.

The Group's 67%-owned subsidiary, Jilin Fudun Timber Company Limited ("Fudun"), is a specialist in the production of molded door skin in the PRC. Amid fierce competition, boasting good quality products and success in penetrating new overseas markets, Fudun's profit margin leveled that of the last corresponding period. The management remains optimistic about Fudun achieving profit growth in the near future riding on the Group's strong manufacturing capabilities and an expanding distribution network.

High Technology Related Business

Having improved its infrastructure in the previous years, the Group is in a prime position to capitalize on the opportunities in the global market to grow its high technology related business.

The Group's System on Chip ("SoC") solutions and services are introduced to the market through the Group's technology arm – Fulhua Microelectronics Corporation ("FameG") – a fabless SoC Original Design Manufacturer ("ODM"). FameG is one of the SoC and SoC-based solutions providers in the semiconductor market in the Greater China region.

FameG offers the customers IC design, platform-based SoC services and re-targeting services. FameG collaborates with major brand name chip companies to enhance their product features, allowing these companies to minimize geographical risks, ramp up production and reduce costs. Related work involves helping them re-design their old products enabling the integration of new wafer processing technologies and new foundries.

Future Plans and Prospects

Fulbond will continue to enhance efficiency and expand its timber business clientele. We will continue to apply the strengths of our well-structured business model to capture opportunities in the SoC market, and see SoC solutions and services become our key growth driver.

Management Discussion and Analysis

Liquidity and Capital Resources

As at 30 June 2005, the net cash balances of the Group stood at US$1,178,000.

Total bank and other borrowings as at 30 June 2005 were US$11,040,000. Bank loans are mainly denominated in Reminbi and US dollars. The Group's sales and purchases are also mainly denominated in Reminbi and US dollars. As the exchange rates of Reminbi and US dollars against Hong Kong dollars were relatively stable during the review period, the Group's exposure to exchange rate fluctuations remained relatively low.

The gearing ratio of the Group was 45.1% (gearing ratio as a percentage of total borrowings over non-current assets). As at the period's end, the Group's total assets valued at approximately US$43,514,000.

Employment and Remuneration Policy

The Company had approximately 850 full-time employees as at 30 June 2005 in the PRC, Taiwan and Hong Kong. Employee remuneration policies and packages are reviewed yearly. Remuneration, bonuses and share options are awarded to employees based on individual performances and market practices.

Directors' Interests

As at 30 June 2005, the interests and short position of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under section 352 of the SFO, are set out below:

Long positions in interests in the shares of the Company

Name of Director	Nature of interest	Number of shares held	% of issued share capital
Yang Ding-Yuan	Corporate *(note)*	4,972,507,366	54.06%

Note: Dr. Yang Ding-Yuan is the controlling shareholder of S.T.J. Technology Limited ("STJ") which owns 4,972,507,366 shares of the Company as at 30 June 2005.

Share Options Scheme

(a) Share options to subscribe Company's shares

Pursuant to the Company's share option schemes adopted on 19 November 2001 and 11 December 1996, the Directors of the Company, at their discretion, may grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group.

During the six months ended 30 June 2005, the movements in the number of options outstanding which have been granted by the Company to the Directors, executives and employees of the Company under the Company's share option schemes were set out below:

	Date of grant	Exercise period	Exercise Price	Number of share options At 1 Jan 2005	Granted during the period	Exercised during the period	At 30 June 2005
Directors							
Yang Ding-Yuan	30 April 2002	30 April 2002-29 April 2012	HK$0.05	50,000,000	–	–	50,000,000
Meng Tung-Mei Grace	30 April 2002	30 April 2002-29 April 2012	HK$0.05	50,000,000	–	–	50,000,000
Yang S. Edward	30 April 2002	30 April 2002-29 April 2012	HK$0.05	50,000,000	–	–	50,000,000
Chan Ting-Fung	30 April 2002	30 April 2002-29 April 2012	HK$0.05	50,000,000	–	–	50,000,000
Total Directors				200,000,000	–	–	200,000,000
Executives and employees							
	30 April 2002	1 January 2003-29 April 2012	HK$0.05	31,200,000	–	–	31,200,000
	30 April 2002	1 January 2004-29 April 2012	HK$0.05	23,400,000	–	–	23,400,000
	30 April 2002	1 January 2005-29 April 2012	HK$0.05	23,400,000	–	–	23,400,000
	24 January 2003	27 June 2003-23 January 2013	HK$0.021	60,000,000	–	–	60,000,000
	28 January 2003	1 February 2004-27 January 2013	HK$0.02	20,000,000	–	20,000,000	–
	28 January 2003	1 February 2005-27 January 2013	HK$0.02	16,000,000	–	16,000,000	–
Total executives and employees				174,000,000	–	–	138,000,000
Total all categories				374,000,000	–	36,000,000	338,000,000

During the period, 36,000,000 options were exercised by an employee of the Company.

The closing price of the Company's shares immediately before 30 April 2002. 24 January 2003 and 28 January 2003, the dates of grant of the share options, were HK$0.05, HK$0.021 and HK$0.02 respectively.

The cost of share options granted are not recognised in the financial statements until they are exercised. The fair values of the options granted in the current period measured as at the dates of grant on 30 April 2002, 24 January 2003 and 28 January 2003 were HK$0.0495, HK$0.0197 and HK$0.0206 per option, respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option-pricing model:

Date of grant	**30 April 2002**	**24 January 2003**	**28 January 2003**
Expected life (in years)	10	10	10
Expected volatility based on historical volatility of share prices	140%	140%	140%
Expected annual dividend yield	Nil	Nil	Nil
Hong Kong Exchange Fund Notes rate	5.89%	3.93%	4.45%

The Black-Scholes option-pricing model requires input of highly subjective assumptions, including the volatility of stock price. Because changes in the subjective input assumptions can materially affect the estimated fair value estimate, the existing model does not necessarily provide a reliable measure of the fair value of the share options.

For the purpose of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

(b) Share options to subscribe for shares in Wood Art International Corporation ("Wood Art")

Pursuant to the Company's shareholders' approval in the special general meeting held on 18 June 2004, the share options scheme of Wood Art, a subsidiary of the Company, became effective. Details of the share options scheme of Wood Art are set out in the Company's circular to the shareholders dated 28 May 2004.

Movements in the number of options to subscribe for shares in Wood Art for the period ended 30 June 2005 were set out below:

	Date of grant	Exercise period	Exercise price	Number of share options At 1 Jan & 30 June 2005
Executive and employee	18 June 2004	18 June 2004 – 17 June 2007	US$1.00	638
Total number of share options granted				638

Apart from the above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2005 were recorded in the register required to be kept under section 352 of the SFO.

Save as mentioned above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 30 June 2005, the register of the substantial shareholders maintained under Section 336 of the SFO shows that the Company had been notified of the following shareholder's interests, being 5% or more of the issued share capital:

		Number of shares held in the Company			
Name	*Notes*	**Direct interests**	**Deemed interests**	**Total interests**	**% of issued share capital**
Global Innovation Investment Limited ("GIIL")	*1*	4,172,670,436	–	4,172,670,436	45.37%
STJ	*1*	799,836,930	4,172,670,436	4,972,507,366	54.06%
Yang Ding-Yuan	*2*	–	4,972,507,366	4,972,507,366	54.06%

Notes:

1. GIIL, a company incorporated in Cayman Islands with limited liability, is a 70% owned subsidiary of STJ, a company incorporated in British Virgin Islands, which is deemed by the SFO to be interested in the Company's shares in which GIIL is interested.

2. STJ is wholly owned by Dr. Yang Ding-Yuan and his family members. Dr. Yang Ding-Yuan is, by virtue of the SFO, deemed to be interested in the Company's shares in which STJ is interested.

Save as disclosed above, as at 30 June 2005, the Company has not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Purchase, Sales or Redemption of Shares

During the period, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's shares.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim financial statements.

Corporate Governance

The Company has complied with the Code on the Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period ended 30 June 2005 except the followings:

(i) All the independent non-executive directors are not appointed for specific term but are subject to retirement by rotation at Annual General Meeting of the Company in accordance with the provisions of the Company's Bye-laws; and

(ii) Every director should be subject to retirement by rotation at least once every three years. The chairman of the Company had voluntarily retired from his office and was re-elected at the Annual General Meeting of the Company held on 3 June 2005 notwithstanding that he was not required to do so by the Bye-laws of the Company.

The current Bye-laws of the Company do not comply fully with the Code. The Board will review the relevant Bye-laws and propose any amendment, if necessary, to ensure compliance with the Code as soon as practicable.

Remuneration Committee

The Company had established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprises three independent non-executive directors, namely Professor Edwanrd S. Yang, Mr. Chan Ting-Fung Tim and Mr. Lo I-Wang and the chairman, Dr. Yang Ding-Yuan of the Company. The remuneration committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management.

Model Code for Securities Transactions by Directors of the Company

During the period, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules. After having made specific enquiry of all Directors of the Company, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

By order of the Board
Dr. Yang Ding-Yuan
Chairman

Hong Kong, 9 September 2005

Independent Review Report

Deloitte.
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TO THE BOARD OF DIRECTORS OF FULBOND HOLDINGS LIMITED
福邦控股有限公司
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by Fulbond Holdings Limited (the "Company") to review the interim financial report set out on pages 9 to 22.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 9 September 2005

Condensed Consolidated Income Statement

For the six months ended 30 June 2005

	NOTES	1.1.2005 to 30.6.2005 (Unaudited) US$'000	1.1.2004 to 30.6.2004 (Unaudited and restated) US$'000
Turnover	3	8,508	12,352
Cost of sales		(7,760)	(11,243)
Gross profit		748	1,109
Other operating income		446	1,057
Distribution costs		(1,027)	(775)
Administrative expenses		(1,751)	(980)
(Loss) profit from operations	4	(1,584)	411
Finance costs		(344)	(413)
Share of results of associates		(853)	(556)
Loss before taxation		(2,781)	(558)
Taxation	5	(110)	(193)
Loss for the period		(2,891)	(751)
Attributable to:			
Equity holders of the parent		(2,336)	(770)
Minority interest		(555)	19
		(2,891)	(751)
Loss per share	6		
– Basic		US(0.025) cent	US(0.008) cent
– Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

At 30 June 2005

	NOTES	30.6.2005 (Unaudited) US$'000	31.12.2004 (Audited and restated) US$'000
Non-current assets			
Property, plant and equipment	7	17,142	18,225
Prepaid lease payments		999	1,053
Interests in associates		4,006	4,859
Investments in securities		–	441
Available-for-sale investments		441	–
Club debenture		37	37
Deferred taxation		1,861	1,971
		24,486	26,586
Current assets			
Inventories		8,835	6,499
Trade and other receivables	8	8,624	10,200
Amounts due from associates		172	184
Taxation recoverable		112	69
Prepaid lease payments		107	107
Bank balances and cash		1,178	2,173
		19,028	19,232
Current liabilities			
Trade and other payables	9	4,626	4,296
Amount due to ultimate holding company		560	560
Bank and other borrowings – amount due within one year	10	9,851	10,175
		15,037	15,031
Net current assets		3,991	4,201
		28,477	30,787
Capital and reserves			
Share capital	11	9,197	9,161
Reserves		8,677	10,930
Equity attributable to equity holders of the parent		17,874	20,091
Minority interests		9,414	9,969
Total equity		27,288	30,060
Non-current liability			
Bank and other borrowings – amount due after one year	10	1,189	727
		28,477	30,787

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2005

	Attributable to the equity holders of the parent										
	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Warrant reserve US$'000	General reserve US$'000	Exchange translat-ion reserve US$'000	Capital redempt-ion reserve US$'000	Accumu-lated losses US$'000	Total US$'000	Minority interests US$'000	Total US$'000
Balance at 1 January 2005	9,161	47,540	716	–	1,968	627	4	(39,925)	20,091	9,969	30,060
Exchange difference arising from translation of operations of subsidiaries and associates and net loss recognised in equity	–	–	–	–	–	(17)	–	–	(17)	–	(17)
Loss for the period	–	–	–	–	–	–	–	(2,336)	(2,336)	(555)	(2,891)
Total recognised income and expense for the period	–	–	–	–	–	(17)	–	(2,336)	(2,353)	(555)	(2,908)
Issue of shares upon exercise of options	36	100	–	–	–	–	–	–	136	–	136
Balance at 30 June 2005	9,197	47,640	716	–	1,968	610	4	(42,261)	17,874	9,414	27,288
Balance at 1 January 2004	9,134	47,423	716	1,564	1,870	628	4	(38,322)	23,017	10,604	33,621
Exchange difference arising from translation of operations of subsidiaries and associates and net loss recognised in equity	–	–	–	–	–	(17)	–	–	(17)	–	(17)
Loss for the period	–	–	–	–	–	–	–	(770)	(770)	19	(751)
Total recognised income and expense for the period	–	–	–	–	–	(17)	–	(770)	(787)	19	(768)
Issue of shares upon exercise of warrants	27	43	–	–	–	–	–	–	70	–	70
Transfer of warrant reserve upon exercise of warrants	–	74	–	(74)	–	–	–	–	–	–	–
Expiry of warrants	–	–	–	(1,490)	–	–	–	1,490	–	–	–
Transfer of reserve	–	–	–	–	65	–	–	(65)	–	–	–
Dividends	–	–	–	–	–	–	–	–	–	(99)	(99)
	27	117	–	(1,564)	65	–	–	1,425	70	(99)	(29)
Balance at 30 June 2004	9,161	47,540	716	–	1,935	611	4	(37,667)	22,300	10,524	32,824

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

	1.1.2005 to 30.6.2005 (Unaudited) *US$'000*	**1.1.2004 to 30.6.2004 (Unaudited)** *US$'000*
Net cash used in operating activities	(873)	(863)
Net cash used in investing activities	(354)	(173)
Net cash generated from (used in) financing activities	232	(195)
Net decrease in cash and cash equivalents	(995)	(1,231)
Cash and cash equivalents at beginning of the period	2,173	2,493
Cash and cash equivalents at end of the period, representing bank balances and cash	1,178	1,262

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

1. Basis of preparation

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values or revalued amounts as appropriate, and in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004, except as described below.

A. In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

(1) *Financial Instruments*

In the current period, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group reclassified its "investments in securities" amounting to USD441,000, being unlisted equity securities, to "available-for-sale financial assets". As the fair value of these investments cannot be reliably measured, they are measured at cost less any identified impairment losses. The changes have not had any significant impact on the results for the current or prior periods. No prior period adjustments were required.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The changes have not had any significant impact on the results for the current or prior periods. No prior period adjustments were required.

(2) Share-based Payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options granted under the Share Option Scheme (the "Scheme") over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

Following the adoption of HKFRS 2, the fair values of share options granted to directors and employees are determined at the date of grant and are amortised over the relevant vesting periods to the income statement.

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. The adoption of HKFRS 2 had no significant impact on the results and financial position for the current and prior accounting periods. No prior period adjustments were required.

(3) *Owner-occupied Leasehold Interest in Land*

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. The unamortised prepaid lease payment for land has been separately shown in the condensed consolidated balance sheet. The adoption of HKAS 17 has an impact on the reclassification of land from property, plant and equipment to prepaid lease payments amounting to US$1,053,000 under non-current assets and US$107,000 under current assets as at 31 December 2004.

B. The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosure
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Right to Interests Arising from Decommissioning, Restoration and Environment Rehabilitation Funds

3. Segment information

(a) Business segments

For management purposes, the Group is currently organised into four principal operating divisions of which their principal activities are disclosed as follows and these divisions form the basis on which the Group reports its primary segment information.

Principal activities:

Blockboard and particle board	–	manufacture and trading of products of blockboard and particle board
Door skin	–	manufacture and trading of door skin
Other wooden products	–	manufacture and trading of wooden products other than those identified above
Others	–	high-technology related business

For the six months ended 30 June 2005

	Blockboard and particle board	**Door skin**	**Other wooden products**	**Others**	**Consolidated**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
TURNOVER					
External sales	5,368	2,082	1,058	–	8,508
SEGMENT RESULT	(408)	(311)	(317)	–	(1,036)
Unallocated corporate expenses					(548)
Finance costs					(344)
Share of results of associates	–	–	(22)	(831)	(853)
Loss before taxation					(2,781)
Taxation					(110)
Loss for the period					(2,891)

For the six months ended 30 June 2004

	Blockboard and particle board	Door skin	Other wooden products	Others	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
TURNOVER					
External sales	9,307	713	2,332	–	12,352
SEGMENT RESULT	524	35	1	–	560
Unallocated corporate expenses					(149)
Finance costs					(413)
Share of results of associates	–	–	(64)	(492)	(556)
Loss before taxation					(558)
Taxation					(193)
Loss for the period					(751)

(b) *Geographical segments*

The Group's operations are located in Hong Kong, elsewhere in the People's Republic of China (the "PRC"), Taiwan and Singapore. Manufacture of the wooden products is carried out in the PRC.

	Turnover		Results	
	1.1.2005 to 30.6.2005	**1.1.2004 to 30.6.2004**	**1.1.2005 to 30.6.2005**	**1.1.2004 to 30.6.2004**
	US$'000	*US$'000*	*US$'000*	*US$'000*
The PRC	6,731	11,535	(1,058)	507
Others	1,777	817	22	53
	8,508	12,352	(1,036)	560
Unallocated corporate expenses			(548)	(149)
Finance costs			(344)	(413)
Share of results of associates			(853)	(556)
Loss before taxation			(2,781)	(558)
Taxation			(110)	(193)
Loss for the period			(2,891)	(751)

4. (Loss) profit from operations

	1.1.2005 to 30.6.2005 US$'000	1.1.2004 to 30.6.2004 US$'000
(Loss) profit from operations has been arrived at after charging:		
Allowance for bad and doubtful debts	372	–
Depreciation of property, plant and equipment	1,430	1,518
and after crediting:		
Interest income	3	3
Value added tax refund (Note)	436	1,033

Note: Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT") treatment of such subsidiaries, during the six months ended 30 June 2005, VAT refund totalling US$436,000 (six months ended 30 June 2004: US$1,033,000) were obtained by these subsidiaries.

5. Taxation

	1.1.2005 to 30.6.2005 US$'000	1.1.2004 to 30.6.2004 US$'000
The charge comprises:		
The Company and subsidiaries:		
Hong Kong Profits Tax	–	–
PRC Enterprise Income Tax	–	1
Deferred tax charge	110	192
	110	193

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for both periods.

The Group does not incur any significant tax liabilities in any other jurisdiction.

6. Loss per share

The calculation of the basic loss per share for the period is computed based on the following data:

	1.1.2005 to 30.6.2005 *US$'000*	**1.1.2004 to 30.6.2004** *US$'000*
Loss for the period attributable to equity holders of the parent and loss for the purposes of basic loss per share	(2,336)	(770)

	Number of shares	**Number of shares**
Weighted average number of shares for the purposes of basic loss per share	9,163,933,601	9,148,640,079

No diluted loss per share is presented for the period from 1 January 2004 to 30 June 2004 and 1 January 2005 to 30 June 2005 as the exercise of the outstanding share options and convertible notes would result in a decrease in the loss per share.

7. Property, plant and equipment

During the six months ended 30 June 2005, the Group spent approximately US$357,000 (six months ended 30 June 2004: US$177,000) on acquisitions of property, plant and equipment.

8. Trade and other receivables

The following is an aged analysis of trade receivables at the balance sheet date:

	30.6.2005 *US$'000*	**31.12.2004** *US$'000*
0 – 90 days	1,659	3,831
91 – 180 days	651	1,103
More than 180 days	571	387
	2,881	5,321
Other receivables	5,743	4,879
	8,624	10,200

The Group's policy is to allow an average credit period of 90 days to its trade customers.

9. Trade and other payables

The following is an aged analysis of trade payables at the balance sheet date:

	30.6.2005	31.12.2004
	US$'000	*US$'000*
0 – 90 days	2,314	1,022
91 – 180 days	15	175
More than 180 days	762	868
	3,091	2,065
Other payables	1,535	2,231
	4,626	4,296

10. Bank and other borrowings

During the six months ended 30 June 2005, the Group repaid bank loans totalling US$5,045,000 and obtained new bank loans totalling US$5,183,000 of which the proceeds were used for general working capital. All borrowings bear interest at prevailing market rates and are repayable within five years.

11. Share capital

	Number of shares	Amount
		US$'000
Ordinary share of US$0.001 each		
Issued and fully paid		
At 1 January 2005	9,161,779,755	9,161
Exercise of share options	36,000,000	36
At 30 June 2005	9,197,779,755	9,197

12. Capital commitments

At the balance sheet date, the Group had outstanding capital commitments as follows:

	30.6.2005	31.12.2004
	US$'000	*US$'000*
Capital expenditure contracted but not provided for in respect of acquisition of property, plant and equipment	2,678	2,678

13. Pledge of assets

At 30 June 2005, the Group has pledged certain properties with a carrying value of US$264,000 (31 December 2004: US$271,000) and plant and equipment of US$9,195,000 (31 December 2004: US$9,380,000) to various banks for securing bank loans and general banking facilities granted to the Group.

14. Contingent liabilities

One of the Group's associates, 天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. ("TFT"), is currently being sued by its bankers for repayment of bank loans of approximately RMB73.6 million. This amount has been guaranteed by another associate, 天津福家家具有限公司 Tianjin Fortune Furniture Co. Ltd. ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of approval of this financial report, the ultimate outcome cannot be determined by the directors. However, at 30 June 2005 and 31 December 2004, there is no impact on the Group's share of interest in TFFCL as TFFCL has nil net assets balance as at that date.