1. GENERAL INFORMATION

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

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

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

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

These consolidated financial statements are presented in thousands of United States dollar ("$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 7th April, 2006.

2. GOING CONCERN

For the year ended 31st December, 2005, the Group had reported losses attributable to shareholders of $7,904,000 (2004 – $4,499,000). As at 31st December, 2005, the Group had net current liabilities of $7,954,000 (2004 – $3,471,000) and outstanding bank loans of $77,552,000 (2004 – $75,212,000), of which $20,474,000 (2004 – $14,342,000) was due for repayment and renewal within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Subsequent to 31st December, 2005, the Group has successfully renewed some of its banking facilities of $9,085,000 and obtained additional facilities of $4,970,000 from its bankers.

The Group will maintain its strong business relationship with its bankers to gain their continuing support and is actively discussing with its bankers for the renewal of short term banking facilities when they fall due in 2006. The Directors are confident that the short term banking facilities will be renewed. With the ongoing support from its bankers and major customers, the Group should be able to generate sufficient cashflows from future operations to cover its operating costs and to meet its financing commitments. Therefore the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31st December, 2005. The Directors are confident that the Group will continue to obtain the ongoing support from its bankers, and accordingly, the Directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis. The accounts do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

(All amounts in United States dollar unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

These consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

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

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

– HKAS 1	Presentation of Financial Statements
– HKAS 2	Inventories
– HKAS 7	Cash Flow Statements
– HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
– HKAS 10	Events after the Balance Sheet Date
– HKAS 16	Property, Plant and Equipment
– HKAS 17	Leases
– HKAS 21	The Effects of Changes in Foreign Exchange Rates
– HKAS 23	Borrowing Costs
– HKAS 24	Related Party Disclosures
– HKAS 27	Consolidated and Separate Financial Statements
– HKAS 32	Financial Instruments: Disclosure and Presentation
– HKAS 33	Earnings per Share
– HKAS 36	Impairment of Assets
– HKAS 38	Intangible Assets
– HKAS 39	Financial Instruments: Recognition and Measurement
– HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
– HKAS-Int 12 Amendment	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
– HKAS-Int 15	Operating Leases – Incentives
– HKFRS 2	Share-based Payments

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36, 38 and HKAS-Ints 12 and 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 24, 27, 33, 36, 38 and HKAS-Ints 12 and 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land is expensed in the consolidated income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the consolidated income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. The Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralised bank advances prospectively on or after 1st January, 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments (Note 3.12).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 39 does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis; and

– HKFRS 2 only retrospective application for all equity instruments granted after 7th November, 2002 and not vested at 1st January, 2005

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

The adoption of revised HKAS 17 resulted in:

	2005 **$'000**	2004 $'000
Decrease in property, plant and equipment	**(3,020)**	(3,051)
Increase in leasehold land and land use rights	**3,020**	3,051

As the share options issued under the share option scheme adopted by the Company were all granted before 7th November, 2002, HKFRS 2 is not applicable to the share options outstanding as at 31st December, 2005 according to the transitional provisions of HKFRS 2.

Standards, interpretations and amendments to published standards that are not yet effective.

Certain new standards, amendments and interpretations to existing standards (collectively "New Standards") have been published by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2006 or later periods. The Group was not required to adopt these New Standards in the accounts for the year ended 31st December, 2005. The Group has already commenced an assessment of the impact of these New Standards but is not yet in a position to state whether these New Standards would have a significant impact on its results of operations and financial position.

– HKAS 19 (Amendment)	Employee Benefit [2]
– HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
– HKAS 39 (Amendment)	The Fair Value Option [2]
– HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts [2]
– HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards [2]
– HKFRS 7	Financial Instruments: Disclosures [1]
– A complementary Amendment to HKAS 1	Presentation of Financial Statements – Capital disclosure [1]
– HKFRS-Int 4	Determining whether an Arrangement contains a Lease [2]

[1] Effective from 1st January, 2007
[2] Effective from 1st January, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Consolidation

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

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

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

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

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

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

3.3 Segment reporting

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

(iii) all resulting exchange differences are recognized as a separate component of equity.

3.5 Property, plant and equipment

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

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

(All amounts in United States dollar unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Property, plant and equipment *(Continued)*

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

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

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

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

The gain or loss on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

3.6 Impairment of non-financial assets

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

3.7 Inventories

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

3.8 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Cash and cash equivalents

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

3.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

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

3.11 Deferred income tax

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

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

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

3.12 Employee benefits

(a) *Pension obligations*

Group companies operate a number of defined contribution plans, the assets of which are generally held in separate administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Details of the Group's employee retirement benefits are set out in Note 31.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Employee benefits *(Continued)*

(a) *Pension obligations (Continued)*

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

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

(b) *Employee leave entitlements*

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

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

(c) *Share-based compensation*

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

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

However, as the share options issued under the share option scheme adopted by the Company were all granted before 7th November, 2002, HKFRS 2 is not applicable to the share options outstanding as at 31st December, 2005 according to the transitional provisions of HKFRS 2.

3.13 Provision

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Revenue recognition

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

(a) Sales of goods

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

(b) Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

3.15 Leases (as the lessee)

(a) Operating leases

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

(b) Finance lease

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

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

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including: foreign exchange risk and concentration of customers risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Major currencies of the Group include United States Dollars, Singapore Dollars, Malaysian Ringgits and Renminbi.

Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. Due to the delink of Malaysian Ringgits and Renminbi with United States Dollars, the Group is expected to face with greater foreign currency exposure. Management will arrange the necessary hedging where costs and benefits are justified.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in the PRC, Malaysia is managed primarily through borrowings denominated in the relevant foreign currencies.

(ii) Concentration of customers risk

During the years ended 31st December, 2005 and 2004, the Group's sales to top 5 customers accounted for approximately 43.62% and 49.38%, respectively, of the total sales. The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(b) Credit risk

The Group offers credit terms ranging from 30 to 180 days to its customers. The majority of the Group's sales are on letter of credit or documents against payment.

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances.

(c) Liquidity risk

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

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Going concern

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

(b) Useful lives of plant and machinery

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

(c) Estimated impairment of property, plant and equipment

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

(d) Estimated provision for doubtful debts

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

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

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

6. SEGMENT INFORMATION

Primary segment by geographical location of operations:

	2005					
	The PRC $'000	Hong Kong $'000	Singapore $'000	Malaysia $'000	Elimination $'000	Consolidated $'000
Sales						
– External	45,003	5,126	–	86,015	–	136,144
– Inter-segment	–	–	–	791	(791)	–
Total sales	45,003	5,126	–	86,806	(791)	136,144
Result						
Segment Result	(5,275)	136	(16)	2,392	–	(2,763)
Unallocated corporate expenses						(1,280)
Operating loss						(4,043)
Finance costs						(4,100)
Income Tax Expense						239
Loss attributable to shareholders						(7,904)
Assets						
Segment assets	39,787	747	9,210	73,614	–	123,358
Unallocated corporate assets						4,513
						127,871
Liabilities						
Segment liabilities	9,388	94	443	14,834	–	24,759
Unallocated corporate liabilities						79,793
						104,552
Other information						
Capital expenditures	516	–	5	1,198	–	1,719
Unallocated capital expenditures						4
						1,723
Depreciation	1,618	7	378	7,360	–	9,363
Amortization charge	–	–	–	31	–	31
Unallocated depreciation/ amortization						1
						9,395

6. SEGMENT INFORMATION *(Continued)*

Primary segment by geographical location of operations (continued):

	2004					
	The PRC $'000	Hong Kong $'000	Singapore $'000	Malaysia $'000	Elimination $'000	Consolidated $'000
Sales						
– External	50,103	2,356	–	97,063	–	149,522
– Inter-segment	–	–	–	546	(546)	–
Total sales	50,103	2,356	–	97,609	(546)	149,522
Result						
Segment Result	(2,051)	(66)	47	3,031	–	961
Impairment of property, plant and equipment	–	–	–	(3,894)	–	(3,894)
Unallocated corporate expenses						(1,102)
Operating loss						(4,035)
Finance costs						(3,393)
Income Tax Expense						2,929
Loss attributable to shareholders						(4,499)
Assets						
Segment assets	42,448	400	9,727	79,116	–	131,691
Unallocated corporate assets						14,705
						146,396
Liabilities						
Segment liabilities	11,252	167	415	15,519	–	27,353
Unallocated corporate liabilities						87,883
						115,236
Other information						
Impairment losses recognised in the consolidated income statement	–	–	–	3,894	–	3,894
Capital expenditures	228	–	10	1,206	–	1,444
Depreciation	1,644	7	421	7,654	–	9,726
Amortization charge	–	–	–	32	–	32
						9,758

6. SEGMENT INFORMATION *(Continued)*

Secondary segment by products:

	2005				2004			
	Sales	**Operating profit (loss)**	**Assets**	**Capital expenditures**	Sales	Operating profit (loss)	Assets	Capital expenditures
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Flooring	**24,053**	**642**	**13,380**	**233**	36,945	(742)	21,043	327
Structural	**31,693**	**(813)**	**29,714**	**259**	33,115	790	28,341	192
Moisture resistant plywood	**26,996**	**724**	**24,654**	**419**	31,139	(118)	29,801	464
Jamb & mouldings	**16,499**	**(673)**	**11,366**	**98**	21,295	425	14,582	103
Weather and boil proof plywood	**32,976**	**917**	**26,237**	**458**	25,649	(29)	20,874	325
Veneer	**2,566**	**68**	**10**	**–**	772	(22)	866	13
Others	**1,361**	**(58)**	**689**	**8**	607	27	985	10
Unallocated	**–**	**(4,850)**	**21,821**	**248**	–	(4,366)	29,904	10
Total	**136,144**	**(4,043)**	**127,871**	**1,723**	149,522	(4,035)	146,396	1,444

7. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2005	2004
	$'000	$'000
Unlisted shares, at cost	**30,529**	30,529
Less: Provision for impairment	**(2,400)**	–
	28,129	30,529

(All amounts in United States dollar unless otherwise stated)

7. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

The following is a list of the principal subsidiaries at 31st December, 2005:

Name	Place of incorporation and legal form of the entity	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held Directly	Interest held Indirectly
Ankan Holdings Limited	British Virgin Islands ("BVI"), limited liability company	Investment holding, BVI	$45,000	100%	–
Ankan (China) Holdings Limited	BVI, limited liability company	Investment holding, BVI	$100	100%	–
Changchun Winpro Wood Industries Co., Ltd.	PRC, equity joint venture Note 1	Manufacture and sale of plywood, The PRC	Renminbi ("RMB") 52,700,000	–	82.25%
Dalian Global Wood Products Company Limited	PRC, co-operative joint venture Note 2	Manufacture and sale of wood products, The PRC	$29,600,000	–	100%
Daunting Services Ltd.	BVI, limited liability company	Dormant, BVI	$1	–	100%
Farship International Limited	BVI, limited liability company	Investment holding, BVI	$2	–	100%
Glowing Schemes Sdn. Bhd.	Malaysia, limited liability company	Dormant, Malaysia	Malaysian Ringgit 1,200,000	–	100%
Georich Trading Limited	BVI, limited liability company	Trading of veneer and plywood, Hong Kong	$2,510,000	100%	–
Manuply Wood Industries (S) Sdn. Bhd.	Malaysia, limited liability company	Manufacture and sale of veneer and plywood, Malaysia	Malaysian Ringgit 55,000,000	–	100%
Pacific Plywood Limited	Samoa, limited liability company	Trading of plywood and other wood products, Hong Kong	$3,000,000	–	100%

(All amounts in United States dollar unless otherwise stated)

7. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

The following is a list of the principal subsidiaries at 31st December, 2005 (continued):

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

Note 1 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 agreement.

Changchun Winpro Wood Industries Co., Ltd. ("Changchun Winpro") is an equity joint venture established in the PRC with an operating period of 30 years up to November 2024.

Note 2 A co-operative joint venture is a joint venture with the rights and obligations of the joint venture partners governed by the joint venture contract.

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT – GROUP

	2005							
	Buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	Construction-in-progress ("CIP") $'000	Total $'000
Cost								
Beginning of year	39,756	451	135,331	3,081	1,678	1,563	178	182,038
Additions	159	43	1,032	144	242	–	103	1,723
Disposals	–	–	(192)	(126)	(316)	–	–	(634)
Transfers	68	–	208	–	–	–	(276)	–
Exchange adjustment	(29)	(7)	733	3	10	–	2	712
End of year	39,954	487	137,112	3,102	1,614	1,563	7	183,839
Accumulated depreciation								
Beginning of year	7,721	209	63,877	2,287	1,227	356	–	75,677
Charge for the year	897	48	8,048	251	89	31	–	9,364
Disposals	–	–	(159)	(119)	(292)	–	–	(570)
Exchange adjustment	11	(5)	254	(3)	4	1	–	262
End of year	8,629	252	72,020	2,416	1,028	388	–	84,733
Accumulated impairment loss								
Beginning of year	5,610	–	12,360	–	–	–	–	17,970
Exchange adjustment	(85)	–	216	–	–	–	–	131
End of year	5,525	–	12,576	–	–	–	–	18,101
Net book value								
End of year	25,800	235	52,516	686	586	1,175	7	81,005
Beginning of year	26,425	242	59,094	794	451	1,207	178	88,391

8. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

	2004							
	Buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	CIP $'000	Total $'000
Cost								
Beginning of year	38,926	443	134,325	2,918	1,676	1,563	177	180,028
Additions	192	–	1,024	153	75	–	–	1,444
Disposals	(36)	(9)	(52)	(29)	(74)	–	–	(200)
Exchange adjustment	674	17	34	39	1	–	1	766
End of year	39,756	451	135,331	3,081	1,678	1,563	178	182,038
Accumulated depreciation								
Beginning of year	6,746	164	55,556	1,997	1,117	325	–	65,905
Charge for the year	888	44	8,310	289	164	31	–	9,726
Disposals	–	(8)	–	(26)	(54)	–	–	(88)
Exchange adjustment	87	9	11	27	–	–	–	134
End of year	7,721	209	63,877	2,287	1,227	356	–	75,677
Accumulated impairment loss								
Beginning of year	5,391	–	8,456	–	–	–	–	13,847
Charge for the year	–	–	3,894	–	–	–	–	3,894
Exchange adjustment	219	–	10	–	–	–	–	229
End of year	5,610	–	12,360	–	–	–	–	17,970
Net book value								
End of year	26,425	242	59,094	794	451	1,207	178	88,391
Beginning of year	26,789	279	70,313	921	559	1,238	177	100,276

8. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

Depreciation expense of $8,676,000 (2004 – $8,931,000) has been expensed in cost of sales and $688,000 (2004 – $795,000) in administrative expenses.

Certain property, plant and equipment of the Group with a net book value of approximately $70,765,000 (2004 – $76,116,000) have been pledged as security for certain banking facilities of the Group (Note 15 and 30(a)).

Certain plant and equipment of the Group with a net book value of approximately $205,000 (2004 – $737,000) were purchased under finance leases.

9. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

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

	2005	2004
	$'000	$'000
Outside Hong Kong, held on:		
Malaysia – Leases of over 50 years	**3,020**	3,051
The PRC – Leases of between 10 to 50 years *(Note a)*	**–**	–

Note a Land use right of Changchun Winpro is located at Jilin province, PRC where the Group's factory buildings in the PRC are located. As at 31st December, 2005, the remaining period of the land use rights is 31 years (2004 – 32 years). The cost of the land use rights has been fully amortized.

The respective land use right of the land on which these buildings of Dalian Global are located belongs to the Chinese joint venture partner of Dalian Global.

	2005	2004
	$'000	$'000
Opening	**3,051**	3,083
Amortisation of prepaid operating lease payment	**(31)**	(32)
Closing	**3,020**	3,051

The leasehold land of the Group with a net book value of approximately $3,020,000 (2004 - $3,051,000) has been pledged as security for certain banking facilities of the Group (Note 30(b)).

10. INVENTORIES – GROUP

	2005 $'000	2004 $'000
Raw materials	**6,495**	7,425
Work-in-progress	**5,073**	4,680
Finished goods	**6,698**	7,290
	18,266	19,395

The cost of inventories recognized as expense and included in cost of sales amounted to $78,137,000 (2004 – $85,575,000).

As at 31st December, 2005, inventories amounting to approximately $9,251,000 (2004 – $10,928,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 30(c)).

11. TRADE RECEIVABLES – GROUP

As at 31st December, 2005, the ageing analysis of the trade receivables were as follows:

	2005 $'000	2004 $'000
0 – 30 days	**9,692**	7,183
31 – 60 days	**3,219**	2,823
61 – 90 days	**1,011**	1,026
91 – 180 days	**98**	1,371
181 – 360 days	**415**	169
Over 360 days	**4,073**	4,312
	18,508	16,884
Less: Provision for impairment of receivables	**(3,771)**	(3,170)
	14,737	13,714

As at 31st December, 2005, trade receivables amounting to approximately $4,660,000 (2004 – $1,651,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 30(d)).

As at 31st December, 2005, certain subsidiaries of the Group transferred receivable balances amounting to approximately $2,004,000 to banks in exchange for cash. The transactions have been accounted for as collateralized borrowings (Note 15).

The Group has recognised a loss of $592,000 (2004 – $6,000) for the impairment of its trade receivables during the year ended 31st December, 2005. The loss has been included in administrative expenses in the consolidated income statement (Note 21).

12. PREPAYMENTS AND OTHER RECEIVABLES – GROUP

	2005 $'000	2004 $'000
Prepayments and deposits		
– Purchase of raw materials	**2,140**	1,003
– Others	**678**	957
Value-added tax ("VAT") refund receivable	**289**	797
Other receivable	**1,819**	2,802
	4,926	5,559
Less: Provision for impairment of prepayments and other receivables	**(1,127)**	(1,109)
	3,799	4,450

As at 31st December, 2005, prepayment and other receivables amounting to approximately $893,000 (2004 – $1,293,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 30(e)).

13. SHARE CAPITAL – GROUP AND COMPANY

The details of share capital are as follows:

	Number of shares		Amount	
	2005 '000	2004 '000	2005 $'000	2004 $'000
Authorised				
– Ordinary shares of HK$0.025 each	**8,000,000**	8,000,000	**25,806**	25,806
Issued and fully paid				
– Ordinary shares of HK$0.025 each	**5,580,897**	5,580,897	**18,037**	18,037

Share Options

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

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

(All amounts in United States dollar unless otherwise stated)

13. SHARE CAPITAL – GROUP AND COMPANY *(Continued)*

Share Options *(Continued)*

Details of the share options issued under the old option scheme and outstanding as at 31st December, 2005 were as follows:

				Number of shares to be issued under options granted under share option scheme				
Name	Date of Grant	Exercise Period	Subscription price per share	Beginning of year	Granted during the year	Exercised during the year	Cancelled 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
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	16,500,000	–	–	–	16,500,000
Others	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	31,000,000	–	–	(31,000,000)	–
				176,300,000	–	–	(31,000,000)	145,300,000

14. OTHER RESERVES

a) GROUP

	Share premium $'000	Contributed surplus $'000 Note (a)	Cumulative translation adjustments $'000	Total $'000
Balance at 1st January, 2004	90,652	7,814	(3,823)	94,643
Translation adjustments	–	–	67	67
Balance at 31st December, 2004	90,652	7,814	(3,756)	94,710
Balance at 1st January, 2005	**90,652**	**7,814**	**(3,756)**	**94,710**
Translation adjustments	**–**	**–**	**63**	**63**
Balance at 31st December, 2005	**90,652**	**7,814**	**(3,693)**	**94,773**

Note (a)

Contributed surplus of the Group represents the difference between the nominal value of the equity of the subsidiary acquired pursuant to a group reorganisation in 1995 over the nominal value of the Company's consideration in exchange therefor.

b) COMPANY

	Share premium $'000	Contributed surplus $'000	Cumulative translation adjustments $'000	Total $'000
Balance at 31st December, 2004 and 2005	90,652	21,122	–	111,774

Contributed surplus of the Company represents the difference between the net assets of the subsidiaries acquired pursuant to a group reorganisation in 1995 over the nominal value of the Company's consideration in exchange therefor.

As at 31st December, 2005, the Company did not have any reserve available for distribution to the shareholders.

15. BORROWINGS – GROUP

	2005 $'000	2004 $'000
Non-current		
Bank borrowings	**57,078**	60,870
Current		
Banker's acceptance and other banking facilities	**10,579**	8,906
Bank borrowings		
– short term bank borrowings	**3,817**	3,240
– current portion of long term bank borrowings	**4,074**	2,196
Collateralized borrowings (Note 11)	**2,004**	–
	20,474	14,342
Total borrowings	**77,552**	75,212

The long term bank borrowings bore interest at commercial banking rates ranging from 3.25% to 8.25% (2004 – 3.17% to 8.00%) per annum and were secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and personal guarantees given by a director of the Company.

The short term bank borrowings bore interest at commercial banking rates ranging from 3.37% to 7.25% (2004 – 2.19% to 6.90%) per annum and were secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and personal guarantees given by a director of the Company.

As at 31st December, 2005, the carrying amounts of bank borrowings approximate their fair values.

15. BORROWINGS – GROUP *(Continued)*

a) The maturity of the Group's long term bank borrowings at respective balance sheet dates is as follows:

	2005 $'000	2004 $'000
Bank loans repayable within a period		
– Within 1 year	**4,074**	2,196
– between 1 and 2 years	**4,496**	4,103
– between 2 and 5 years	**15,855**	16,197
– Over 5 years	**36,727**	40,570
	61,152	63,066
Less: Amount due within 1 year included in current liabilities	**(4,074)**	(2,196)
	57,078	60,870

b) The carrying amounts of the borrowings are denominated in the following currencies:

	2005 $'000	2004 $'000
US dollar	**55,844**	53,866
Singapore dollar	**6,497**	7,032
Malaysian Ringgit	**13,555**	13,318
RMB	**1,656**	996
	77,552	75,212

c) The Group has the following undrawn borrowing facilities:

	2005 $'000	2004 $'000
Floating rate		
– expiring within one year	**250**	250
– expiring beyond one year	**5,056**	7,154
Fixed rate		
– expiring within one year	**277**	296
	5,583	7,700

16. OBLIGATIONS UNDER FINANCE LEASES – GROUP

As at 31st December, 2005, the Group's finance lease liabilities, net of finance lease charges, were repayable as follows:

	2005	2004
	$'000	$'000
Future minimum payments payable within a period		
– not exceeding 1 year	**59**	184
– more than 1 year but not exceeding 2 years	**52**	41
– more than 2 years but not exceeding 5 years	**10**	23
	121	248
Less: Amounts payable within 1 year included under accruals and other payables (Note 18)	**(59)**	(184)
	62	64

17. TRADE PAYABLES – GROUP

As at 31st December, 2005, the ageing analysis of the trade payables were as follows:

	2005	2004
	$'000	$'000
0 – 30 days	**7,362**	8,260
31 – 60 days	**3,129**	4,301
61 – 90 days	**1,633**	3,117
91 – 180 days	**2,916**	598
181 – 360 days	**910**	141
Over 360 days	**1,006**	960
	16,956	17,377

18. ACCRUALS AND OTHER PAYABLES

a) GROUP

	2005 $'000	2004 $'000
Customer deposits	**2,042**	4,241
Accrued expenses	**1,812**	1,510
Salary and welfare payable	**2,810**	3,357
Obligations under finance leases – current portion *(Note 16)*	**59**	184
Others	**1,361**	920
	8,084	10,212

b) COMPANY

	2005 $'000	2004 $'000
Salary and welfare payable	**2,058**	1,851
Payables due to subsidiaries	**3,702**	2,650
Others	**133**	85
	5,893	4,586

19. DEFERRED INCOME TAX – GROUP

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

	2005 $'000	2004 $'000
Deferred income tax assets	**4,402**	14,610
Deferred income tax liabilities	**(14)**	(10,487)
	4,388	4,123

As at 31st December, 2004, Manuply Wood Industries (S) Sdn. Bhd. ("Manuply"), the Group's wholly-owned Malaysian subsidiary, recognized deferred income tax assets and deferred income tax liabilities of approximately US$14.6 million and US$10.5 million respectively. These amounts had been included in the consolidated balance sheet of the Group as separate components without offset because the right to set off current tax liabilities upon reversal of the temporary differences in connection with the relevant deferred income tax assets of the subsidiary might not be enforceable until certain deferred income tax liabilities were fully reversed. During the current year, it is considered that the relevant deferred income tax liabilities are expected to be fully reversed in the foreseeable future and it is certain that the set off of the deferred income tax assets and liabilities is enforceable. Accordingly, these deferred income tax assets and liabilities have been presented on a net basis on the consolidated balance sheet.

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

	2005 $'000
Deferred income tax assets	**14,670**
Deferred income tax liabilities	**(10,268)**
	4,402

The net deferred income tax assets recognized in the consolidated balance sheet as at 31st December, 2005 related to Manuply which was profitable for both the years ended 31st December, 2004 and 2005. The directors are of the view that Manuply will generate sufficient taxable profit in future to fully utilize the net deferred income tax assets.

19. DEFERRED INCOME TAX – GROUP *(Continued)*

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

	2005 $'000	2004 $'000
Deferred income tax assets		
Beginning of year	**14,610**	11,797
Deferred taxation credited to the consolidated income statement (Note 24)	**60**	2,813
End of year	**14,670**	14,610

	2005 $'000	2004 $'000
Deferred income tax liabilities		
Beginning of year	**10,487**	10,617
Deferred taxation credited to the consolidated income statement (Note 24)	**(179)**	(132)
Exchange differences	**(26)**	2
End of year	**10,282**	10,487

Deferred income tax assets are recognised for tax loss and unused tax credits carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December, 2005, a subsidiary of the Group has tax losses of approximately $468,000 (2004 – $466,000) and unused tax credits of approximately $51,924,000 (2004 – $51,715,000) to be carried forward to offset against future taxable income. These tax losses and tax credits have no expiry date.

Deferred income tax liabilities represent the taxation effect of taxable temporary differences relating to property, plant and equipment. As at 31st December, 2005, two subsidiaries of the Group have taxable temporary differences of approximately $36,742,000 (2004 – $37,466,000).

19. DEFERRED INCOME TAX – GROUP *(Continued)*

As at 31st December, 2005, major unprovided deferred income tax assets of the Group are as follows:

	2005	2004
	$'000	$'000
Relating to:		
– Unused tax credits	**1,158**	–
– Tax losses	**1,592**	2,326
– Temporary difference of property, plant and equipment	**2,049**	2,054
– Others	**473**	356
End of year	**5,272**	4,736

These unprovided deferred income tax assets, which are mainly generated from the Group's PRC subsidiaries, are not recognised as it is not certain that future taxable profit will be available. The tax losses of these PRC subsidiaries can only be carried forward for 5 years.

20. OTHER GAIN-NET

	2005	2004
	$'000	$'000
Net foreign exchange gains/(losses)	**217**	(66)
Interest income	**17**	6
Others	**243**	511
	477	451

21. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs and administrative expenses are analysed as follows:

	2005 **$'000**	2004 $'000
Changes in inventories of finished goods and work in progress	**341**	(713)
Raw materials and consumables used	**77,796**	86,288
(Reversal)/Write-down of inventories to net realisable value	**(152)**	707
Freight and other related charges	**13,817**	16,693
Provision for impairment of receivables	**587**	20
Staff costs (excluding directors' emoluments)		
– Wages and salaries	**2,880**	2,826
– Pension costs (Note 31)	**346**	370
Directors' emoluments (Note 22(a))	**919**	813
Depreciation of property, plant and equipment		
– owned assets	**9,344**	9,650
– assets held under finance leases	**20**	76
Amortization of leasehold land (Note 9)	**31**	32
Operating lease expenses on land, buildings and machinery	**406**	117
(Gain)/Loss on disposals of property, plant and equipment	**(32)**	96
Auditors' remuneration	**279**	250

22. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31st December, 2005 is set out below:

Name of Director	**Fees $'000**	**Salary $'000**	**Contributions to pension schemes $'000**	**Total $'000**
Mr. Budiono Widodo	–	456	–	456
Mr. Sardjono Widodo	180	–	–	180
Mr. Liao Yun Kuang	72	64	4	140
Mr. Yu Chien Te	16	80	4	100
Mr. Marzuki Usman	6	–	–	6
Mr. Pipin Kusnadi	6	–	–	6
Mr. Chen Chung I	6	–	–	6
Mr. Ngai Kwok Chuen	6	–	–	6
Mr. Sudjono Halim	6	–	–	6
Mr. Kusnadi Widjaya	6	–	–	6
Mr. Peng Chiu Ching *	–	7	–	7
	304	607	8	919

The remuneration of every Director for the year ended 31st December, 2004 is set out below:

Name of Director	Fees $'000	Salary $'000	Contributions to pension schemes $'000	Total $'000
Mr. Budiono Widodo	–	427	–	427
Mr. Sardjono Widodo	91	–	–	91
Mr. Liao Yun Kuang	36	62	5	103
Mr. Yu Chien Te	8	78	5	91
Mr. Marzuki Usman	6	–	–	6
Mr. Pipin Kusnadi	6	–	–	6
Mr. Chen Chung I	6	–	–	6
Mr. Ngai Kwok Chuen	6	–	–	6
Mr. Sudjono Halim	6	–	–	6
Mr. Kusnadi Widjaya	6	–	–	6
The late Mr. David Wong Chun Chung	8	–	–	8
Mr. Peng Chiu Ching *	57	–	–	57
	236	567	10	813

* Retired on 17th June, 2005.

22. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Directors' fees disclosed above include approximately $19,000 (2004 – $19,000) paid to independent non-executive Directors.

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.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004 – one) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004 – four) highest paid individuals during the year are as follows:

	2005 $'000	2004 $'000
Basic salaries and allowances	**241**	392
Bonus	**25**	47
Contributions to pension schemes	**4**	5
	270	444

The emoluments fell within the following bands:

	Number of individuals	
	2005*	2004
– Nil to $128,200 (Nil to HK$1,000,000)	**1**	3
– $128,201 to $192,300 (HK$1,000,001 to HK$1,500,000)	**1**	1
	2	4

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

23. FINANCE COSTS

	2005 **$'000**	2004 $'000
Interest on bank loans	**3,770**	3,108
Interest on other loans wholly repayable within 5 years	**313**	259
Interest element of finance leases	**17**	26
	4,100	3,393

24. INCOME TAX EXPENSE

(i) Bermuda

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

(ii) Hong Kong

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

(iii) Malaysia

No taxation has been provided by Manuply because it had unutilised tax allowances to offset its estimated assessable profit for the year ended 31st December, 2005. The applicable income tax rate of Manuply is 28% (2004 – 28%).

(iv) The PRC

The Group's joint venture enterprises established in the PRC are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. Furthermore, in accordance with the PRC "Law of Enterprise Income Tax for Enterprise with Foreign Investment", these PRC joint venture enterprises are entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses brought forward from the previous five years. The applicable EIT rate of Dalian Global is 33% (30% state unified income tax and 3% local income tax) and that of Changchun Winpro is 24% (24% state unified income tax and 0% local income tax).

No taxation has been provided for as these joint venture enterprises had no estimated assessable profit for the current year.

24. INCOME TAX EXPENSE *(Continued)*

(v) Others

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

The amount of taxation (credited)/charged to the consolidated income statement represents:

	2005 **$'000**	2004 $'000
Current income tax		
– Overseas taxation	**–**	16
Deferred income tax relating to the origination and reversal of temporary differences (Note 19)	**(239)**	(2,945)
	(239)	(2,929)

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

	2005 **$'000**	2004 $'000
Loss before income tax	**(8,143)**	(7,428)
Weighted average applicable tax rate	**28%**	28%
Tax calculated at the weighted average applicable tax rate	**(2,280)**	(2,080)
Expenses not deductible for tax purposes	**2,500**	1,945
Income not subject to tax	**(2,186)**	(2,359)
Utilisation of previously unrecognized tax losses	**(48)**	(407)
Temporary differences and tax losses for which no deferred income tax asset was recognized	**2,014**	(28)
Prior year tax adjustment	**(239)**	–
Tax expense	**(239)**	(2,929)

25. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately $3,680,000 (2004 – $1,102,000).

26. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's consolidated loss attributable to shareholders of approximately $7,904,000 (2004 – $4,499,000) and on 5,580,897,243 shares (2004 – 5,580,897,243 shares) in issue throughout the year.

No diluted loss per share for the years ended 31st December, 2005 and 2004 are presented as the potential dilutive ordinary shares were anti-dilutive.

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of loss before income tax to cash generated from operations:

	2005	2004
	$'000	$'000
Loss before income tax	**(8,143)**	(7,428)
Adjustment for:		
Depreciation	**9,364**	9,726
Amortization of leasehold land	**31**	32
Impairment of property, plant and equipment	**–**	3,894
Interest expense	**4,100**	3,393
Interest income from bank deposits	**(17)**	(6)
Provision for impairment of receivables	**587**	20
(Reversal)/Write-down of inventories to net realisable value	**(152)**	707
(Gain)/Loss on disposal of property, plant and equipment	**(32)**	96
Operating profit before working capital changes	**5,738**	10,434
Decrease/(Increase) in inventories	**1,271**	(1,464)
Decrease in prepayments and other receivables	**633**	860
(Increase)/Decrease in trade receivables	**(1,624)**	624
Decrease in trade payables	**(421)**	(2,946)
(Decrease)/Increase in accruals and other payables	**(2,003)**	1,896
Net cash generated from operations	**3,594**	9,404

28. COMMITMENTS – GROUP

(a) Lease commitments

As at 31st December, 2005, the Group had future aggregate minimum lease payments in respect of land, buildings and machinery under various non-cancellable operating leases arrangements as follows:

	2005 **$'000**	2004 $'000
No later than 1 year	**422**	199
Later than 1 year and not later than 5 years	**564**	527
Later than 5 years	**802**	867
	1,788	1,593

(b) Other commitments

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

	2005 **$'000**	2004 $'000
Payable during the following periods:		
– No later than 1 year	**500**	500
– Later than 1 year and not later than 5 years	**2,080**	2,050
– Later than 5 years	**2,408**	2,938
	4,988	5,488

29. CONTINGENT LIABILITIES

Contingent liabilities (not provided for in the accounts) comprised:

	Group		Company	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Discounted bills with recourse	**–**	2,662	**–**	–
Corporate guarantee given to banks for banking facilities granted to subsidiaries (Note 30(g))	**–**	–	**62,839**	63,261
	–	2,662	**62,839**	63,261

30. BANKING FACILITIES – GROUP

As at 31st December, 2005, the Group had aggregate banking facilities as follows:

	2005			
	Utilised	**Unutilised**	**Total facilities**	
	$'000	**$'000**	**$'000**	**Note**
– Bank loans	**64,969**	**–**	**64,969**	**(a) – (h)**
– Trade facilities	**13,911**	**5,583**	**19,494**	**(a) – (h)**
	78,880	**5,583**	**84,463**	

	2004			
	Utilised	Unutilised	Total facilities	
	$'000	$'000	$'000	Note
– Bank loans	66,306	–	66,306	(a) – (h)
– Trade facilities	12,894	7,700	20,594	(a) – (h)
	79,200	7,700	86,900	

30. BANKING FACILITIES *(Continued)*

The above facilities were secured by:

(a) Pledges of certain property, plant and equipment of the Group with a net book value of approximately $70,765,000 (2004 – $76,116,000) (Note 8);

(b) Pledges of the leasehold land of the Group with a net book value of approximately $3,020,000 (2004 – $3,051,000) (Note 9);

(c) Floating charges on certain inventories of the Group with a net book value of approximately $9,251,000 (2004 – $10,928,000) (Note 10);

(d) Floating charges on certain trade receivables of the Group of approximately $4,660,000 (2004 – $1,651,000) (Note 11);

(e) Floating charges on certain prepayment and other receivables of the Group of approximately $893,000 (2004 – $1,293,000) (Note 12);

(f) Floating charges on certain bank balances of the Group of approximately $524,000 (2004 - $616,000);

(g) Corporate guarantees given by the Company (Note 29); and

(h) Personal guarantees given by a Director of the Company to banks in respect of certain bank loans and trade facilities granted to the Group (Note 32).

31. 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 16% of their covered payroll to the Central Provident Funds (the “Funds”). The only obligation of the Group with respect to the Funds is the required contributions to the Funds and there is no forfeiture of contributions under the schemes.

As stipulated by the rules and regulations in the PRC, the Group is required to contribute to a state-sponsored retirement plan for its PRC employees at a rate ranging from 19% to 25% of the basic salary predetermined by the local government. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the contributions.

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

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

31. PENSION SCHEMES *(Continued)*

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

	2005	2004
	$'000	$'000
Gross employer's contributions	**346**	370

32. RELATED-PARTY TRANSACTIONS

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

During the year ended 31st December, 2005, a Director of the Company has provided personal guarantees to banks in respect of certain bank loans and trade facilities granted to the Group amounting to approximately $68,531,000 (2004 – $65,850,000) (Note 30(h)).