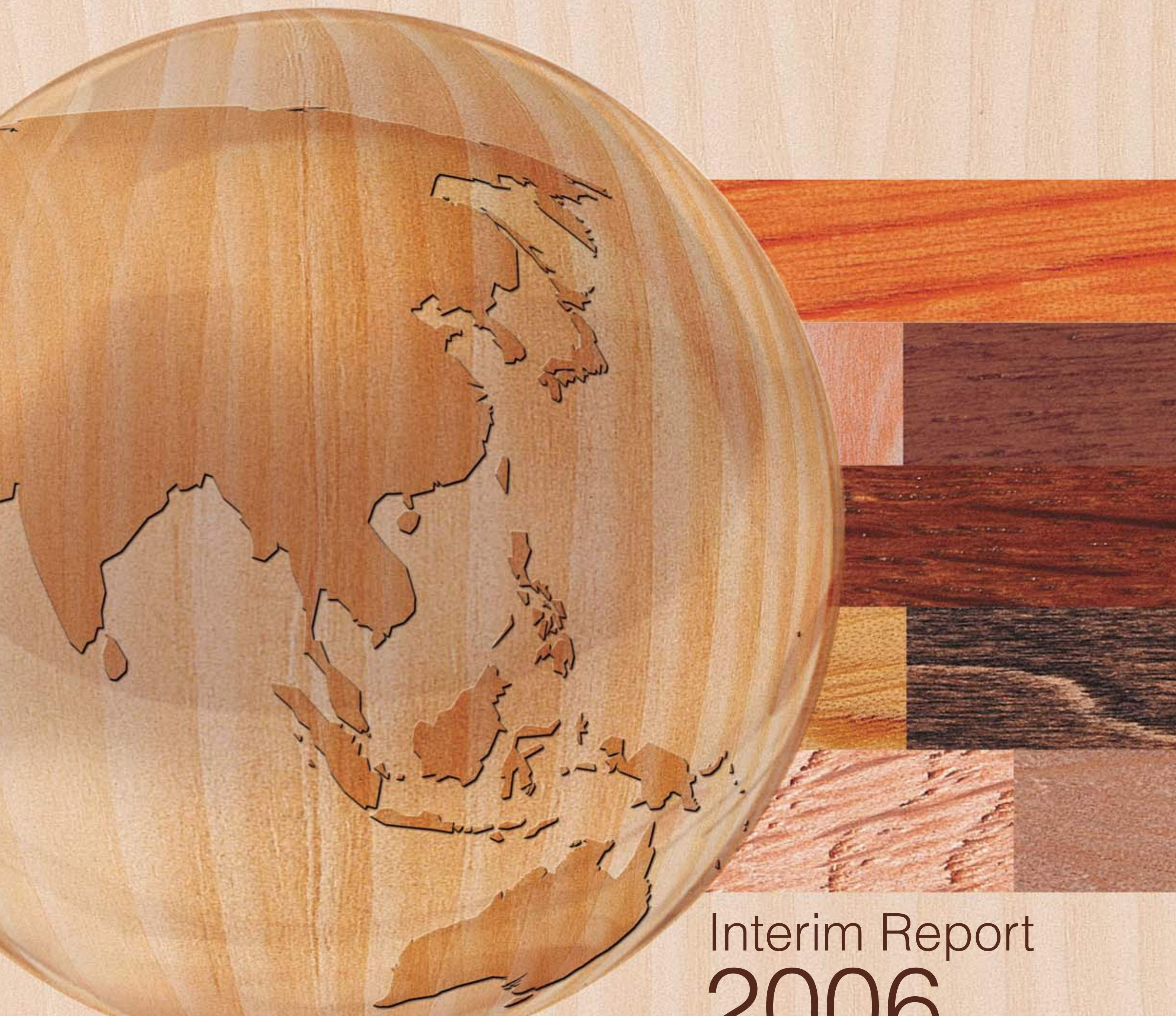
Pacific Plywood Holdings Limited
太平洋實業控股有限公司
Stock Code: 0767



Interim Report 2006

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

	Note	**30th June, 2006** *US$'000* **(Unaudited)**	31st December, 2005 *US$'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**76,917**	81,005
Leasehold land and land use rights	*6*	**3,005**	3,020
Deferred income tax assets		**4,402**	4,402
Total non-current assets		**84,324**	88,427
Current assets			
Inventories		**18,851**	18,266
Trade receivables	*7*	**18,675**	14,737
Prepayments and other receivables		**2,919**	3,799
Cash and cash equivalents		**1,862**	2,642
Total current assets		**42,307**	39,444
Total assets		**126,631**	127,871
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	*8*	**18,037**	18,037
Reserves		**657**	4,282
Minority interests		**1,000**	1,000
Total equity		**19,694**	23,319
LIABILITIES			
Non-current liabilities			
Borrowings	*9*	**55,141**	57,078
Obligations under finance leases		**32**	62
Deferred income tax liabilities		**14**	14
Total non-current liabilities		**55,187**	57,154
Current liabilities			
Trade payables	*10*	**17,575**	16,956
Accruals and other payables		**9,097**	8,084
Current income tax liabilities		**1,884**	1,884
Borrowings	*9*	**23,194**	20,474
Total current liabilities		**51,750**	47,398
Total liabilities		**106,937**	104,552
Total equity and liabilities		**126,631**	127,871
Net current liabilities		**(9,443)**	(7,954)
Total assets less current liabilities		**74,881**	80,473

The notes on page 4 to 12 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

		For the six months ended 30th June,	
		2006	2005
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Sales	*5*	**71,081**	70,629
Cost of sales		**(60,343)**	(59,122)
Gross profit		**10,738**	11,507
Other (loss)/gain – net		**(351)**	94
Distribution costs		**(6,393)**	(7,164)
Administrative expenses		**(5,218)**	(6,030)
Operating loss		**(1,224)**	(1,593)
Finance costs		**(2,474)**	(1,878)
Loss before income tax	*11*	**(3,698)**	(3,471)
Income tax expenses	*12*	**–**	239
Loss for the period		**(3,698)**	(3,232)
Attributable to:			
Shareholders of the Company		**(3,698)**	(3,232)
Minority interests		**–**	–
		(3,698)	(3,232)
Loss per share – Basic and diluted	*13*	**US(0.07) cents**	US(0.06) cents
Dividend		**–**	–

The notes on page 4 to 12 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS – UNAUDITED

	For the six months ended 30th June,	
	2006	2005
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	**1,552**	3,646
Returns on investments and servicing of finance	**(2,461)**	(1,872)
Income tax paid	**–**	–
Net cash outflow from investing activities	**(141)**	(911)
Net cash (outflow)/inflow before financing	**(1,050)**	863
Net cash inflow/(outflow) from financing	**445**	(1,341)
Decrease in cash and cash equivalents	**(605)**	(478)
Effect of foreign exchange rate changes	**(175)**	34
Cash and cash equivalents, beginning of period	**2,642**	2,785
Cash and cash equivalents, end of period	**1,862**	2,341
Analysis of cash and cash equivalents:		
Cash and cash equivalents	**1,862**	2,341

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to equity holders of the Company							
		Reserves						
	Share capital	**Share premium**	**Cumulative translation adjustments**	**Contributed Surplus**	**Accumulated losses**	**Total**	**Minority Interest**	**Total Equity**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1st January, 2006	18,037	90,652	(3,693)	7,814	(90,491)	22,319	1,000	23,319
Loss for the period	–	–	–	–	(3,698)	(3,698)	–	(3,698)
Currency translation differences	–	–	73	–	–	73	–	73
Balance at 30th June, 2006	18,037	90,652	(3,620)	7,814	(94,189)	18,694	1,000	19,694
Balance at 1st January, 2005	18,037	90,652	(3,756)	7,814	(82,587)	30,160	1,000	31,160
Loss for the period	–	–	–	–	(3,232)	(3,232)	–	(3,232)
Currency translation differences	–	–	(39)	–	–	(39)	–	(39)
Balance at 30th June, 2005	18,037	90,652	(3,795)	7,814	(85,819)	26,889	1,000	27,889

The notes on page 4 to 12 form an integral part of this condensed interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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.

This condensed consolidated interim financial information was approved for issue on 14th September, 2006.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half year ended 30th June, 2006 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December, 2005.

3. GOING CONCERN BASIS OF ACCOUNTING

For the six months ended 30th June, 2006, the Group had reported loss attributable to shareholders of US$3,698,000 (US$3,232,000 for the six months ended 30th June, 2005). As at 30th June, 2006, the Group had net current liabilities of US$9,443,000 (US$7,954,000 as at 31st December, 2005) and outstanding bank loans of approximately US$78,335,000 (US$77,552,000 as at 31st December, 2005) of which approximately US$23,194,000 (US$20,474,000 as at 31st December, 2005) is 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.

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. 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 the balance sheet date. 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.

4. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st December, 2005, as described in the annual financial statements for the year ended 31st December, 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December, 2006.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1st January, 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39, Amendment "The fair value option", effective for annual periods beginning on or after 1st January, 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1st January, 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;

- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1st January, 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1st January, 2006. This amendment is not relevant for the Group;

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1st January, 2006. This amendment is not relevant for the Group;

- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1st January, 2006. This standard is not relevant for the Group;

4. ACCOUNTING POLICIES *(Continued)*

- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1st January, 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with HKAS 17, "Leases". However, these leases are operating leases, and their reclassification has no impact on the expense recognised in respect of them;

- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1st January, 2006. This interpretation is not relevant for the Group; and

- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1st December, 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 7, "Applying the Restatement Approach under HKFRS 29", effective for annual periods beginning on or after 1st March, 2006. Management do not expect the interpretation to be relevant for the Group;

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1st May, 2006. Management is currently assessing the impact of HK(IFRIC)-Int 8 on the Group's operations;

- HK(IFRIC)-Int 9, "Reassessment of Embedded Derivatives", effective for annual periods beginning on or after 1st June, 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group had already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9; and

- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1st January, 2007. HKAS 1, "Amendments to capital disclosures", effective for annual periods beginning on or after 1st January, 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st January, 2007.

5. SEGMENTAL INFORMATION – UNAUDITED

Primary segment by geographical locations of operations:

The segment results and other information for the six months ended 30th June, 2006 are as follows:

	For the six months ended 30th June, 2006					
	The PRC	**Hong Kong**	**Singapore**	**Malaysia**	**Elimination**	**Consolidated**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales						
External	**27,458**	**2,177**	**–**	**41,446**	**–**	**71,081**
Inter-segment	**–**	**–**	**–**	**172**	**(172)**	**–**
Total sales	**27,458**	**2,177**	**–**	**41,618**	**(172)**	**71,081**
Result						
Segment result	**(1,089)**	**37**	**72**	**390**		**(590)**
Unallocated corporate expenses						**(634)**
Operating loss						**(1,224)**
Finance costs						**(2,474)**
Income tax expenses						**–**
Loss for the period						**(3,698)**
Other information						
Capital expenditures	**125**	**–**	**13**	**128**	**–**	**266**
Unallocated capital expenditures						**–**
						266
Depreciation	**850**	**4**	**142**	**3,768**	**–**	**4,764**
Amortization charge	**–**	**–**	**–**	**15**		**15**
Unallocated depreciation/amortization						**–**
						4,779

The segment assets and liabilities as at 30th June, 2006 are as follows:

	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
Assets						
Segment assets	**40,318**	**550**	**9,407**	**71,875**	**–**	**122,150**
Unallocated corporate assets						**4,481**
						126,631
Liabilities						
Segment liabilities	**9,380**	**173**	**482**	**16,905**	**–**	**26,940**
Unallocated corporate liabilities						**79,997**
						106,937

5. SEGMENTAL INFORMATION – UNAUDITED *(Continued)*

Primary segment by geographical locations of operations:

The segment results and other information for the six months ended 30 June, 2005 are as follows:

	For the six months ended 30th June, 2005					
	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales						
External	23,890	2,441	–	44,298	–	70,629
Inter-segment	–	–	–	340	(340)	–
Total sales	23,890	2,441	–	44,638	(340)	70,629
Result						
Segment result	(3,242)	38	(143)	2,468		(879)
Unallocated corporate expenses						(714)
Operating loss						(1,593)
Finance costs						(1,878)
Income tax expenses						239
Loss for the period						(3,232)
Other information						
Capital expenditures	199	–	3	799	–	1,001
Unallocated capital expenditures						3
						1,004
Depreciation	801	3	189	3,778	–	4,771
Amortization charge	–	–	–	15		15
						4,786

The segment assets and liabilities as at 31st December, 2005 are as follows:

	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
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

5. SEGMENTAL INFORMATION – UNAUDITED *(Continued)*

Secondary segment by products:

	For the six months ended 30th June,						As at	
	2006			2005			**30th June, 2006**	31st December, 2005
	Sales *US$'000* **(Unaudited)**	**Operating Profit (loss)** *US$'000* **(Unaudited)**	**Capital Expenditures** *US$'000* **(Unaudited)**	Sales *US$'000* (Unaudited)	Operating Profit (loss) *US$'000* (Unaudited)	Capital Expenditures *US$'000* (Unaudited)	**Assets** *US$'000* **(Unaudited)**	Assets *US$'000* (Audited)
Moisture resistant plywood	**9,766**	**15**	**29**	12,101	334	257	**14,984**	24,654
Structural	**14,791**	**272**	**81**	17,315	(1,042)	167	**34,368**	29,714
Flooring	**8,203**	**93**	**14**	15,840	1,972	205	**9,947**	13,380
Weather and boil proof plywood	**24,128**	**227**	**38**	15,040	109	257	**19,544**	26,237
Jamb and mouldings	**11,635**	**366**	**46**	8,674	(423)	69	**12,897**	11,366
Veneer	**980**	**17**	**2**	1,201	19	21	**1,138**	10
Others	**1,578**	**50**	**33**	458	(41)	6	**11,871**	689
Unallocated	**–**	**(2,264)**	**23**	–	(2,521)	22	**21,882**	21,821
Total	**71,081**	**(1,224)**	**266**	70,629	(1,593)	1,004	**126,631**	127,871

Sales by geographical location of customers (by location where merchandise was delivered):

	For the six months ended 30th June,	
	2006 *US$'000* **(Unaudited)**	2005 *US$'000* (Unaudited)
Japan	**23,320**	29,126
North America	**12,352**	8,783
Europe	**11,278**	8,329
South East Asia	**9,368**	4,607
The People's Republic of China	**8,947**	17,383
Korea	**1,838**	1,002
Others	**3,978**	1,399
Total Sales	**71,081**	70,629

6. CAPITAL EXPENDITURE – UNAUDITED

	Property, plant and equipment *US$'000* (Unaudited)	**Leasehold land** *US$'000* (Unaudited)
Opening net book amount as at 1st January, 2006	81,005	3,020
Additions	266	–
Exchange differences	565	–
Disposals	(155)	–
Depreciation/Amortization charge	(4,764)	(15)
Closing net book amount as at 30th June, 2006	76,917	3,005
Opening net book amount as at 1st January, 2005	88,391	3,051
Additions	1,004	–
Exchange differences	(270)	–
Disposals	(60)	–
Depreciation/Amortization charge	(4,771)	(15)
Closing net book amount as at 30th June, 2005	84,294	3,036
Additions	719	–
Exchange differences	589	–
Disposals	(4)	–
Depreciation/Amortization charge	(4,593)	(16)
Closing net book amount as at 31st December, 2005	81,005	3,020

7. TRADE RECEIVABLES – UNAUDITED

The aging analysis of trade receivables is as follows:

	30th June, 2006 *US$'000* **(Unaudited)**	31st December, 2005 *US$'000* (Audited)
0 – 30 days	**13,177**	9,692
31 – 60 days	**4,137**	3,219
61 – 90 days	**896**	1,011
91 – 180 days	**70**	98
181 – 360 days	**450**	415
Over 360 days	**3,741**	4,073
	22,471	18,508
Less: Provision for doubtful receivables	**(3,796)**	(3,771)
	18,675	14,737

The Group offers credit term ranging from 30 to 180 days to its customers. Management of the Group performs ongoing credit and collectibility evaluations of each customer and makes provisions for potential credit losses.

Certain subsidiaries of the Group transferred receivable balances amounting to approximately US$2,738,000 (US$2,004,000 as at 31st December, 2005) to banks in exchange for cash. The transactions have been accounted for as collateralized borrowings (Note 9).

8. SHARE CAPITAL – UNAUDITED

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

	30th June, 2006		31st December, 2005	
	Number of shares *'000*	**Nominal value** *US$'000*	Number of shares *'000*	Nominal value *US$'000*
Authorised – shares of HK$0.025 each	**8,000,000**	**25,806**	8,000,000	25,806
Issued and fully paid or credited as fully paid – shares of HK$0.025 each	**5,580,897**	**18,037**	5,580,897	18,037

9. BORROWINGS – UNAUDITED

	30th June, 2006 US$'000 (Unaudited)	31st December, 2005 US$'000 (Audited)
Long term borrowings		
Bank borrowings repayable within a period		
– not exceeding one year	**4,239**	4,074
– more than one year but not exceeding two years	**4,915**	4,496
– more than two years but not exceeding five years	**15,896**	15,855
– beyond five years	**34,330**	36,727
	59,380	61,152
Less: Amount due within one year included in current liabilities	**(4,239)**	(4,074)
	55,141	57,078
Short term borrowings		
Banker's acceptance and other banking facilities	**12,755**	10,579
Bank borrowings		
– short term bank borrowings	**3,462**	3,817
– current portion of long term bank borrowings	**4,239**	4,074
Collateralized borrowings *(Note 7)*	**2,738**	2,004
	23,194	20,474

The long term bank loans bore interest at commercial banking rates ranging from 4.75% to 8.50% (2005 – 3.25% to 8.25%) 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 loans bore interest at commercial banking rates ranging from 5.55% to 8.75% (2005 – 3.37% to 7.25%) 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 30th June, 2006, the carrying amounts of bank borrowings approximate their fair value.

As at 30th June, 2006, the Group has unutilised banking facilities of approximately US$4,995,000 (31st December, 2005 – US$5,583,000).

10. TRADE PAYABLES – UNAUDITED

The aging analysis of trade payables is as follows:

	30th June, 2006 US$'000 (Unaudited)	31st December, 2005 US$'000 (Audited)
0 – 30 days	**7,142**	7,362
31 – 60 days	**4,060**	3,129
61 – 90 days	**1,638**	1,633
91 – 180 days	**2,830**	2,916
181 – 360 days	**1,244**	910
Over 360 days	**661**	1,006
	17,575	16,956

11. LOSS BEFORE INCOME TAX – UNAUDITED

Loss before income tax was determined after charging and crediting the following:

	For the six months ended 30th June,	
	2006	2005
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
After charging:		
Depreciation of property, plant and equipment	**4,764**	4,771
Amortization charge of leasehold land	**15**	15
Provision for doubtful receivables	**–**	592
Interest expense on		
– Bank overdrafts and loans	**2,240**	1,729
– Finance lease	**5**	11
– Others	**229**	138
Staff costs		
– Wages and salaries	**1,528**	1,589
– Pension costs	**182**	177
After crediting:		
Rental income	**75**	73

12. INCOME TAX EXPENSES – UNAUDITED

(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 a subsidiary in Malaysia because it had unutilised tax allowances to offset its estimated assessable profit for the six months ended 30th June, 2006. The applicable income tax rate of this subsidiary is 28% (2005 – 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 the subsidiary in Dalian is 33% (30% state unified income tax and 3% local income tax) and that of the subsidiary in Changchun 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 period.

(v) Others

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

13. LOSS PER SHARE – UNAUDITED

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately US$3,698,000 (2005 – US$3,232,000) and on the weighted average number of 5,580,897,243 shares (2005 – 5,580,897,243 shares) in issue during the period.

Diluted loss per share is equal to basic loss per share as the Company has no potential dilutive ordinary shares during the six months ended 30th June 2006 and 2005.

14. 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. Significant transactions and balances with related parties during the period are summarised below:

Certain bank loans of approximately US$70,422,000 (US$68,531,000 as at 31st December, 2005) are secured by personal guarantees given by a Director of the Company.

15. COMMITMENTS – UNAUDITED

a. Operating lease commitments

As at 30th June, 2006, the Group had total future aggregate minimum lease payments in respect of land and building under non-cancellable operating lease as follows:

	30th June, 2006	31st December, 2005
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Payable during the following period:		
– within one year	**382**	422
– within two to five years	**470**	564
– beyond five years	**769**	802
	1,621	1,788

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.

	30th June, 2006	31st December, 2005
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Payable during the following period:		
– within one year	**500**	500
– within two to five years	**2,095**	2,080
– beyond five years	**2,143**	2,408
	4,738	4,988

16. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 19th July, 2006, shareholders of the Company approved in a special general meeting of the Company the Capital Reorganization, which involved (a) Share Consolidation by consolidation of every 10 shares of HK$0.025 each into 1 consolidated share of HK$0.25 each; (b) Capital Reduction by reduction in the nominal value of the then issued consolidated shares from HK$0.25 to HK$0.025 each; (c) Subdivision by subdivision of each authorized but unissued consolidated share into 10 new shares of HK$0.025 each; (d) Share Premium Cancellation by cancellation of the entire amount standing to the credit of the share premium account of the Company; and (e) Elimination of Accumulated Deficit by the transfer of the credit arising from Capital Reduction and Share Premium Cancellation to the contributed surplus account of the Company and the application of the appropriate amounts therein to set off against the entire accumulated losses of the Company as at 31st December, 2005.

As a result of the Capital Reorganization, the authorized share capital of the Company remains at HK$200,000,000 represented by 8,000,000,000 new shares and the issued share capital is approximately HK$13,952,000 represented by 558,089,724 new shares.

In August 2006, the Company completed an open offer of 558,089,724 new shares to its existing shareholders on the basis of one new share for every one existing share held. As a result of this open offer, 558,089,724 new shares were issued and the Company received a gross proceeds of approximately HK$13,952,000. This amount will be used for general working capital of the Group and repayment of part of the Group's bank borrowings during year 2006.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend.

BUSINESS REVIEW

In the first half of 2006, the selling prices of the Group's products rose reflecting primarily the surge of the price of logs, lumber and crude oil related products and services since the end of last year. However, it is uncertain whether the price increase will sustain in the face of political rows in Asia and the Middle East, the threat of an avian flu outbreak in Asia, volatility of crude oil supply and prices, and possible US interest rate hikes that may weigh down the economies of China, Japan, the USA and Europe. For the period ended 30th June 2006, the Group's turnover was US$71.1 million, up 0.71% as compared to US$70.6 million in the same period last year. Net loss attributable to shareholders was US$3.7 million, 14.42% higher than in the same period last year.

During the period under review, log and lumber prices increased by approximately 10% from the levels at end of last year. The prices went up as there were shortages in supply as major producing countries strictly banned illegal and unauthorized harvest. At the same time, demand increased from consumers in improved economies like Japan, the USA and Europe. In the first half of 2006, as a result of the hike in crude oil prices and related products and services, including electricity, glue and freight, the Group's operating costs were pushed up and consequently, the loss suffered by the Group increased by approximately US$0.5 million as compared to the corresponding period last year.

To cope with high cost pressures, the Group continued the practice of confirming deliveries of orders on hand with customers one month in advance. Orders from customers slightly increased when compared with the same period last year.

To combat heightened material costs and constricted supplies, the Group's factories monitored closely the marginal revenue contribution of different products, and strived to optimize production costs, use economical sizes and species of log and lumber, find substitution and outsource semi-finished products, reduce waste and improve recovery rates. The Group also made efforts to nurture closer relationships with logs/lumber suppliers to ensure consistent supply.

Among the Group's products, jambs and mouldings had the highest profit margin. Compared with last year, the sales of jambs and mouldings had increased in terms of value. During the period under review, the Group's plants ran at slightly over 80% capacity.

Despite its strong dependency on crude oil imports, Japan emerged slowly from its decade of economic doldrums with consumption gaining momentum. Europe recorded stable demand as economic outlook and market conditions improved after turning to doing business with Asia instead of concentration on the traditional domestic and US markets. The US economy fared well despite the rising interest rates, however, any further rate hikes may slow housing demand, and in turn demand for building components, like mouldings, from the Group's Dalian plant.

In the PRC market, the pricing of the Group's plywood-based flooring products picked up in the first half of the year, but the volume growth was slower than in the previous corresponding period affected by macro-economic control measures on the housing market recently imposed by the Chinese Government. As for new markets, including the Southeast Asian region and the Middle East, they have yet to contribute significantly to the Group's performance. Nevertheless, the Group will continue to develop these markets and penetrate other new markets, including the Philippines and India.

During the period under review, the Group focused on strengthening strategic alliances with its partners. The Group's factory in Dalian, the PRC, commenced cooperation with GM Wood of USA and Hanwa of Japan. The Group expects to maintain a stable market share riding on its strategic alliances, helped also by stepping up direct marketing to end-users.

The Group is committed to understanding customers' needs and market trends, and in turn developing new or enhanced products to meet the demands of existing or new customers. New and enhanced products include jumbo-size plywood for Europe, SASH window parts for the US and thin layer floor-base for Japan.

OUTLOOK

Log prices are expected to rise further still due to shortage of supply resulting from restrictive harvesting and increasing export tariffs in producing countries. Furthermore, the scrutiny by lending institutions like the World Bank, Asian Development Bank and IMF on log and lumber producing countries to ensure proper forestry management, and more and more consumer countries requiring "green labeling" of products also affected export supply. Nevertheless, barring any unfavorable development in the political front, interest rates and crude oil prices, the Group expects the market to recover in the second half of the year with consistent increase in price and demand.

The Group will continue to focus on its major markets including Japan, Europe, USA and the PRC to diversify the risk of relying on a single market. Japan has been the Group's traditional market, where it enjoys excellent relationships with major customers. These customers are willing to pay premium prices for the Group's quality products that have consistently met the increasingly stringent standards set by Japanese authorities.

The Group will further consolidate existing resources and actively explore new markets and customers to grow the business. It will also continue to strengthen downstream production processes and capacity and look at innovative ways to improve productivity. For instance, the Group has set clear targets, such as zero defects, zero customer claim and targeted competitive costs and pricing, for its factories to accomplish going forward.

Moreover, the Group will build on its sophisticated production and technical capabilities and the expertise of its senior management team. Young, talented staff is empowered to take up management of day-to-day operations of the plants. To maintain its leading position in the industry, the Group will also pursue continuous quality enhancement by constantly reviewing and modifying production processes. These measures include improving the thickness and drying processes of veneer, lumber and plywood to meet the more demanding criteria and specifications of buyers.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2006, net current liabilities was approximately US$9.4 million, compared to US$8.0 million as at 31st December, 2005, representing an increase in net current liabilities of US$1.4 million.

Capital structure

During the period ended 30th June, 2006, there was no material change in the Group's capital structure.

Significant investments, acquisitions and disposals

The Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the six months ended 30th June, 2006.

Employees

As at 30th June, 2006, the Group had 5.016 staff, 3,472 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 1,504 at facilities in Dalian and Changchun, the PRC. In-house training programmes are provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

Details of charges on assets

Bank loans and other banking facilities of the Group were secured by pledges of certain property, plant and equipment and leasehold land with a net book value of approximately US$71.3 million, floating charges on certain inventories of approximately US$11.1 million, trade receivables of approximately US$7.1 million, bank balances of approximately US$0.3 million, other assets of approximately US$0.8 million, corporate guarantees given by the Company and personal guarantees given by a Director of the Company.

Future plans for material investment or capital assets

The Group will continue to streamline its business and minimize capital expenditures and has no plan for material investment in the near future.

Gearing ratio

The net assets of the Group as at 30th June, 2006 was approximately US$19.7 million, compared to US$23.3 million as at 31st December, 2005. Total bank borrowings of the Group was approximately US$78.3 million and the gearing ratio (total bank borrowings to total net assets) was accordingly 398% comparing to 333% as at 31st December, 2005.

Foreign exchange exposures

Major functional currencies of the Group include United States Dollars, Singapore Dollars, Malaysian Ringgits and Renminbi. 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.

Contingent liabilities

As at 30th June, 2006, the Group had no contingent liabilities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2006, the interests of the Directors and chief executive of the Company in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Interests and short positions in the ordinary shares with par value of HK$0.025 each

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Percentage of shareholding
Budiono Widodo	Beneficial owner	Personal interest	248,276,000	39.83%
	*Interest of a controlled corporation	Corporate interest	1,974,720,000	
	Underwriting arrangement	Personal interest	2,222,996,000	
Yu Chien Te	Beneficial owner	Personal interest	58,873,200	1.05%

* *As at 30th June, 2006, SMI International Limited ("SIL") held 1,974,720,000 shares (2005 – 1,974,720,000 shares) of the Company. Dr. Budiono Widodo, a Director of the Company, held 39.82% of the outstanding shares of SIL. The interest of Dr. Budiono Widodo in the issued shares of SIL was, accordingly, corporate interest in the Company as described in Practice Note 5 to the Rules Governing the Listing Rules.*

Save as disclosed above and the section "Arrangement to purchase shares and debentures" below, the Company had no notice of any interest required to be recorded under Section 352 of the SFO as at 30th June, 2006.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. The share options granted and held by the Company's Directors as at 30th June, 2006 were as follows:

Name	Date of Grant	Exercise Period	Subscription price per share	Number of shares to be issued under options granted under share option scheme: Beginning of period	Granted during the period	Exercised during the period	Cancelled during the period	End of period
Dr. 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
				145,300,000	–	–	–	145,300,000

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, the persons interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Long position in ordinary shares of the Company:

Name	*Note*	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital (existing or on enlarged basis)
SMI International Limited	*1*	Beneficial owner	1,974,720,000	35.38%
Delta Cempaka Pte. Ltd	*2*	Beneficial owner	449,245,000	8.05%
Mr. Simon Eddy	*2*	Held by controlled corporation	449,245,000	8.05%
Mr. Ng Soat Hong	*2*	Held by controlled corporation	449,245,000	8.05%
Mr. Tjong Jauw Sing		Beneficial owner	421,905,593	7.56%
Mr. Kwan Pak Hoo Bankee	*3*	Held by controlled corporation	1,678,950,620	15.04%
CASH Financial Services Group Limited	*3*	Held by controlled corporation	1,678,950,620	15.04%
Celestial Asia Securities Holdings Limited	*3*	Held by controlled corporation	1,678,950,620	15.04%
Celestial Securities Limited	*3*	Beneficial owner	1,678,950,620	15.04%
Mr. Lau Kam Hung	*4*	Held by controlled corporation	1,678,950,620	15.04%
Asiawide Profits Limited	*4*	Beneficial Owner	1,678,950,620	15.04%
Mr. Danny Tjiu	*5*	Held by controlled corporation	1,678,950,620	15.04%
Gimmick Resources Limited	*5*	Beneficial owner	1,678,950,620	15.04%

Notes:

1. SIL is owned by Dr. Budiono Widodo for approximately 39.82%.

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

3. These interests arise from entering into Underwriting Agreement.

4. These interests arise from entering into sub-underwriting arrangement with one of the Underwriters.

5. These interests arise from entering into sub-underwriting arrangement with one of the Underwriters.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2006, with deviations from code provisions A.2.1 and E.1.2.

Code provision A.2.1

Under code provision A.2.1, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual.

Dr. Budiono Widodo and Mr. Sardjono Widodo are father and son who act as the Chairman and Managing Director of the Company respectively. In addition to his duties as the Chairman of the Company, Dr. Budiono Widodo is also responsible for the strategic planning and overseeing certain aspects of the Group's operation. Such duties overlap with those of the chief executive officer, namely Mr. Sardjono Widodo. Nevertheless, the Board considers that this will not impair the balance of power and authority. In addition, the rich experience of Dr. Budiono Widodo in plywood industry does contribute materially to the Group's operation.

Code provision E.1.2

Under code provision E.1.2, the chairman of the board should attend the annual general meeting.

Due to certain urgent matters to be attended by the Chairman, Dr. Budiono Widodo did not attend the Company's 2006 annual general meeting. However, Dr. Budiono Widodo arranged Mr. Sardjono Widodo and Mr. Liao Yun Kuang, Managing Director and President of the Company respectively attending the Company's 2006 annual general meeting to answer questions raised by shareholders.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Marzuki Usman (chairman), Mr. Kusnadi Widjaja and Mr. Ngai Kwok Chuen.

The Audit Committee has adopted terms of reference which are in line with the Code.

The unaudited condensed consolidated financial information for the six months ended 30th June, 2006 has been reviewed by the Audit Committee of the Company.

REMUNERATION COMMITTEE

On 29th June, 2005, the board of directors of the Company resolved that the Remuneration Committee be formed and the Remuneration Committee has adopted terms reference in line with the Code.

The Remuneration Committee comprises an executive director, Mr. Liao Yun Kuang (chairman) and two independent non-executive directors, Mr. Marzuki Usman and Mr. Kusnadi Widjaja.

The Remuneration Committee met once in late 2005 and discussed the remuneration of executive directors and the terms of their service contract with the Company.

CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the terms as contained in the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 of the Listing Rules) as the Company's code of conduct for securities transactions and dealings ("Model Code"). All existing directors of the Company, upon specific enquiry, have confirmed that they have complied with the Model Code during the six months ended 30th June, 2006.

By Order of the Board
Budiono Widodo
Chairman

Hong Kong, 14th September, 2006