

Report of the Directors

The Directors have the pleasure of presenting the annual report together with the audited consolidated financial statements of Pacific Plywood Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31st December, 2006.

Principal activities and geographical analysis of operations

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

The Group's sales for the year ended 31st December, 2006 is analysed as follows:

	\$'000
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a. Sales and distribution of merchandise by product categories	
Weather and boil proof plywood	60,482
Structural	22,548
Moisture resistant plywood	26,298
Flooring	15,952
Jamb and mouldings	23,208
Veneer	1,364
Others	3,249
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	153,101
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b. Sales and distribution of merchandise by geographical areas*	
Japan	51,681
The People's Republic of China	16,897
Europe	27,827
North America	24,178
South East Asia	21,425
Others	11,093
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	153,101
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* Sales and distribution of merchandise by geographical areas is determined on the basis of the location to where the merchandise is delivered.

Details of segment information are set out in Note 6 to the accompanying consolidated financial statements.

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Results and appropriations

Details of the Group's results for the year ended 31st December, 2006 are set out in the consolidated income statement on page 25 of this annual report.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 15 to the accompanying consolidated financial statements.

Donations

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

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 8 to the accompanying consolidated financial statements.

Bank loans and overdrafts

Particulars of bank loans and bank facilities are set out in Notes 16 and 30 to the accompanying consolidated financial statements respectively.

Commitments

Details of commitments are set out in Note 29 to the accompanying consolidated financial statements.

Pension schemes

Details of pension schemes are set out in Note 31 to the accompanying consolidated financial statements.

Share capital

Details of movements in share capital of the Company are set out in Note 14 to the accompanying consolidated financial statements.

Distributable reserves

Movements in reserves of the Group and the Company during the year are set out in Note 15 to the accompanying consolidated financial statements.

As at 31st December, 2006, approximately \$19,049,000 (2005 – Nil) of the Company's reserves was available for distribution to its shareholders.

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Pre-emptive rights

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

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 10 to 11 of this annual report.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December, 2006.

Share options

In compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange, 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 who, in the absolute discretion of the Board, has made valuable contribution to the business of the Group. The subscription price will be a price determined by the Board and at least the highest of: (a) the closing price of the shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of grant of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the shares. The total number of shares which may be issued upon exercise of options must not exceed 30% of the number of shares in issue from time to time and in addition, 10% of the number of shares in issue as at the date of approval of the option scheme.

Details of the share options issued under the old option scheme in year 1996 and 1999 and outstanding as at 31st December, 2006 were as follows:

Name	Date of Grant	Exercise Period	Exercise price per share ^{Note}	Number of shares to be issued under options granted under share option scheme				
				Beginning of year	Effect of Capital Reorganization	Effect of Open Offer	Lapsed during the year	End of year
Dr. Budiono Widodo	31/5/1996	1/12/1996 to 30/11/2006	HK\$1.43	88,000,000	(79,200,000)	7,216,000	(16,016,000)	-
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.71	40,800,000	(36,720,000)	3,345,600	-	7,425,600
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK\$0.71	16,500,000	(14,850,000)	1,353,000	-	3,003,000
				145,300,000	(130,770,000)	11,914,600	(16,016,000)	10,428,600

Note: Exercise price per share was HK\$ 0.260/HK\$0.129 before the Capital Reorganization and was HK\$ 2.60/HK\$1.29 immediately after the Capital Reorganization but before the open offer and is HK\$1.43/HK\$0.71 after the open offer.

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

Directors

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

Executive Directors

Dr. Budiono Widodo, *Chairman*
Mr. Sardjono Widodo, *Managing Director*
Mr. Liao Yun Kuang, *President*
Mr. Yu Chien Te

Non-Executive Directors

Mr. Chen Chung I
Mr. Pipin Kusnadi
Mr. Sudjono Halim

Independent Non-Executive Directors

Mr. Marzuki Usman
Mr. Ngai Kwok Chuen
Mr. Kusnadi Widjaja

In accordance with Bye-laws 99 of the Company's Bye-laws and Code Provision A.4 under Appendix 14 to the Listing Rules, Mr. Kusnadi Widjaja, Mr. Sudjono Halim and Mr. Ngai Kwok Chuen will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. Mr. Chen Chung I will also retire at the forthcoming annual general meeting but does not offer himself for re-election.

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

Directors' service contracts

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

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Directors' interests in contracts

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

Brief biographical details of the Directors and Senior Management are set out on pages 8 to 9 of this annual report.

Directors and chief executive's interests in shares

As at 31st December, 2006, the Directors and chief executive of the Company and their associates had the following beneficial interests in the equity of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

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

	Personal Interest	Corporate Interest ^{Note 1}	Trust Interest ^{Note 2}	Total	% of Total Shares Outstanding
Dr. Budiono Widodo	24,827,600	24,827,600	394,944,000	444,599,200	39.83%
Mr. Sardjono Widodo	Nil	Nil	394,944,000	394,944,000	35.38%
Mr. Yu Chien Te	5,887,320	Nil	Nil	5,887,320	0.64%

Note:

1. As at 31st December, 2006, Wealth Summit Holdings Limited held 24,827,600 shares of the Company. Dr. Budiono Widodo, a director of the Company, held 100% of the outstanding shares of Wealth Summit Holdings Limited.
2. As at 31st December, 2006, Bank of East Asia (Trustee) Limited, being the trustee of the Peace Trust, held indirectly 394,944,000 shares of the Company. Dr. Budiono Widodo and Mr. Sardjono Widodo are named beneficiaries of The Peace Trust.

Save as disclosed herein and the Section "Share options", as at 31st December, 2006, none of the Directors, the chief executive of the Company or their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.

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Directors' interests in competing business

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

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

During the year ended 31st December, 2006, P.T. STUD recorded a sales of \$97.90 million, which was analysed by product range as follows:

	\$'million
Container flooring	37.66
Industrial plywood	52.53
Film face plywood	7.71
Total	97.90

The core business of P.T. STUD is the manufacture and sales of industrial plywood and other secondary plywood products. The principal business of the Group is the manufacture and distribution of plywood, veneer and consumer-related wood products. Therefore, the business of P.T. STUD does not and will not compete with that of the Group.

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

Substantial shareholders

As at 31st December, 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	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Dr. Budiono Widodo	Beneficial owner, held by controlled corporation and beneficiary of a trust	444,599,200	39.83%
Aroma Pinnacle Inc ^{Note 1}	Held by controlled corporation	394,944,000	35.38%
Bank of East Asia (Trustees) Limited as the trustee of the Peace Trust ^{Note 1}	Held by controlled corporation	394,944,000	35.38%
Peace Avenue Group Limited ^{Note 2}	Held by controlled corporation	394,944,000	35.38%
Mr. Sardjono Widodo	Beneficiary of a trust	394,944,000	35.38%

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Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Precious Win Group Limited	Beneficial owner	197,472,000	17.69%
SMI International Limited	Beneficial owner	197,472,000	17.69%

Notes:

- 1 Reference to 394,944,000 shares of the Company relate to the same block of shares in the Company which represent the total number of shares of the Company held indirectly by Peace Avenue Group Limited (as explained in note 2 below).
- 2 Precious Win Group Limited and SMI International Limited are owned by Peace Avenue Group Limited for 65.25% and 39.82% respectively and their interests in the issued share capital of the Company are included in the interests held by Peace Avenue Group Limited.

Management contracts

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

Major customers and suppliers

For the year ended 31st December, 2006, the five largest customers of the Group accounted for approximately 56.56% of the Group's total sales and the five largest suppliers accounted for approximately 14.54% of the Group's total purchases (not including purchases of capital nature). In addition, the largest customer of the Group accounted for approximately 20.24% of the Group's total sales while the largest supplier accounted for approximately 4.79% of the Group's total purchases. At no time during the year have the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or five largest suppliers.

Connected transactions

Significant related party transactions entered by the Group during the year ended 31st December, 2006, which do not constitute connected transactions under the Listing Rules, are disclosed in Note 32 to the accompanying consolidated financial statements.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Board of Directors confirms that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31st December, 2006.

Auditor

The accompanying consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors

BUDIONO WIDODO

Chairman

Hong Kong, 18th April, 2007