



Pacific Plywood Holdings Limited

太平洋實業控股有限公司

(Stock Code : 00767)

2011

Interim Report



For the purpose of this report, foreign currency amounted in US dollars (“USD”) as at 31 December 2010 and for the six-months ended 30 June 2010 have been translated into Hong Kong dollars (“HK\$”) at the applicable rates of exchange prevailing.

CONDENSED CONSOLIDATED INCOME STATEMENT — UNAUDITED

	Note	For the six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Continuing operations			
Revenue	5	23,471	—
Interest income		23,471	—
Interest expenses		(7,694)	—
Net interest income		15,777	—
Other income and gains		3	2,746
Change in fair value of convertible notes		(2,718)	—
Change in fair value of a derivative financial asset		(3,278)	—
Administrative expenses		(7,208)	(3,494)
Profit (loss) before taxation	6	2,576	(748)
Taxation	7	(1,643)	—
Profit (loss) for the period from continuing operations		933	(748)
Discontinued operations			
Loss for the period from discontinued operations	8	—	(40,948)
Profit (loss) for the period		933	(41,696)
Profit (loss) for the period attributable to:			
Owners of the Company			
From continuing operations		(1,740)	(748)
From discontinued operations		—	(40,948)
		(1,740)	(41,696)
Non-controlling interests			
From continuing operations		2,673	—
From discontinued operations		—	—
		2,673	—
		933	(41,696)
Loss per share	9		
From continuing and discontinued operations			
Basic and diluted		(HK0.17 cents)	(HK71.37 cents)
From continuing operations			
Basic and diluted		(HK0.17 cents)	(HK1.28 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED

	<i>Note</i>	For the six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Profit (loss) for the period		933	(41,696)
Exchange difference arising on translation		—	(37)
Change in fair value of available-for-sale investment		(3,000)	—
Total comprehensive expenses for the period		(2,067)	(41,733)
Total comprehensive income (expenses) attributable to:			
Owners of the Company		(4,740)	(41,733)
Non-controlling interests		2,673	—
		(2,067)	(41,733)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

	Note	As at	
		30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited) (Restated)
Non-current assets			
Property, plant and equipment	10	173	35
Available-for-sale investment		17,000	—
Loan receivables	11	1,194	4,991
		18,367	5,026
Current assets			
Loan receivables	11	300,441	140,761
Prepayments and other receivables		2,985	10,734
Derivative financial asset		5,132	8,410
Bank balances and cash		215,848	63,137
		524,406	223,042
Current liabilities			
Accrued expenses and other payables		1,861	8,982
Convertible notes	12	45,640	42,922
Other borrowings	13	27,582	35,764
Tax liabilities		2,466	819
Loans from shareholders of a subsidiary	14	51,746	48,046
		129,295	136,533
Net current assets		395,111	86,509
Total assets less current liabilities		413,478	91,535
Capital and reserves			
Share capital	15	102,154	1,927
Share premium		352,434	128,651
Other reserves		(3,160)	(160)
Accumulated losses		(45,010)	(43,270)
Equity attributable to owners of the Company		406,418	87,148
Non-controlling interests		7,060	4,387
Total equity		413,478	91,535

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Attributable to the Company's equity holders				Non- controlling interests	Total equity/ (deficit)
	Ordinary shares	Share premium	Other reserves	Accumulated losses		
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)		
Balance at 1 January 2010 (restated)	33,154	59,302	18,174	(213,774)	7,750	(95,394)
Issue of shares (*)	6,634	35,061	—	—	—	41,695
Loss for the period	—	—	—	(41,696)	—	(41,696)
Exchange difference arising on translation	—	—	(37)	—	—	(37)
Balance at 30 June, 2010 (restated)	39,788	94,363	18,137	(255,470)	7,750	(95,432)
Balance at 1 January 2011	1,927	128,651	(160)	(43,270)	4,387	91,535
Issue of shares	100,227	223,783	—	—	—	324,010
Profit (loss) for the period	—	—	—	(1,740)	2,673	933
Change in fair value of available-for-sale investment	—	—	(3,000)	—	—	(3,000)
Balance at 30 June 2011	102,154	352,434	(3,160)	(45,010)	7,060	413,478

(*) In March 2010, the Company completed a placement of 265,540,000 new shares to independent third parties and received gross proceeds of approximately HK\$41,955,000 (net proceeds: approximately HK\$41,695,000), which were used for the general working capital of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS — UNAUDITED

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Net cash outflow from operating activities	(146,664)	(24,870)
Net cash (outflow) inflow from investing activities	(20,157)	194
Net cash outflow before financing activities	(166,821)	(24,676)
Net cash inflow from financing activities	316,586	69,384
Net increase in cash, cash equivalents and bank overdrafts	149,765	44,708
Effect of foreign exchange rate changes	—	39
Cash, cash equivalents and bank overdrafts, at the beginning of the period	63,137	(14,242)
Cash, cash equivalents and bank overdrafts, at the end of the period	212,902	30,505
Analysis of cash, cash equivalents and bank overdrafts:		
Cash and bank balances	215,848	51,784
Bank overdrafts	(2,946)	(21,279)
	212,902	30,505

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 9 May 1994. Its registered office is at Canon's Court, 22 Victoria Street, Hamilton, HM 12, Bermuda.

The Company is an investment holding company, and through its subsidiaries is principally engaged in the business of money lending, provision of credits and securities investments.

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

The condensed consolidated financial statements, which are unaudited, were approved by the Directors for issue on 30 August 2011.

2. BASIS OF PREPARATION

The Company has a financial year-end date of 31 December. The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Accounting Standard (the "HKAS") 34, "Interim Financial Reporting" and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2010, which have been prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2010 except as described below.

For the six months ended 30 June 2011, the Group has applied, for the first time, the following new or revised standards, amendments to standards and interpretations (herein collectively referred to as "new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants:

Improvements to HKFRSs (Amendments) HKFRS 1 (Amendment)	Improvements to HKFRS issued in 2010 Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs during the six months ended 30 June 2011 has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards, which have been issued after the date when the consolidated financial statements for the year ended 31 December 2010 were made up, were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosures of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ²
HKAS 19 (Revised)	Employee Benefits ¹
HKAS 27 (Revised)	Separate Financial Statements ¹
HKAS 28 (Revised)	Investments in Associates and Joint Ventures ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

² Effective for annual periods beginning on or after 1 July 2012.

The Directors anticipate that the application of these eight new or revised standards will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Change in Presentation Currency

Items included in the condensed consolidated interim financial report 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").

In prior years, the Company regarded USD as its functional currency. However, as a result of the Group's disposals in prior years, the Company and most of its remaining major operating subsidiaries' business transactions in terms of operating, investing and financing activities have been mainly on HK\$. As such, the presentation currency of the Group would change to HK\$ for consistent presentation and the use of investors in the Group's interim financial report.

The change in presentation currency of the Group has been applied retrospectively in accordance with the HKAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", and the comparative figures as at 31 December 2010 and for the six months ended 30 June 2010 have also been restated to HK\$ accordingly.

The changes in functional and presentation currencies have no significant impact on the financial positions of the Group as at 30 June 2011 and 31 December 2010, or the results and cash flows of the Group for periods ended 30 June 2011 and 2010.

4. SEGMENT INFORMATION

Information reported to the Board, being the chief operating decision maker of the Group, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered or services provided. For management purposes, the Group is currently organised into a single segment as money lending services and securities investments in Hong Kong and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

For the six months ended 30 June 2010, the Group was involved in the manufactures and sales of plywood, veneer, jamb and modeling, structural, flooring and other wood related products (the "Plywood Business") and the operating segments were reported from a geographic perspective to a business nature under the Plywood Business. The Plywood Business was discontinued with effect from December 2010 (note 8). Financial information and disclosures for the period ended 30 June 2010 has been restated accordingly in this condensed consolidated interim financial information.

For the six months ended 30 June 2011, no revenue from any single external customer accounted for 10% or more of the Group's revenue (2010: two major customers of the Group contributed approximately HK\$50,168,000 and HK\$20,269,000 respectively, each of which accounted for 10% or more to the Group's revenue).

5. REVENUE

Revenue represents the amounts received and receivable from the business of money lending and provision of credits during the reporting period. The following is an analysis of the Group's revenue from continuing operations:

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Interest income from loan receivables	23,471	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after charging the followings:

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Continuing operations		
Depreciation of property, plant and equipment	20	2
Staff cost		
— Wages and salaries	1,239	1,839
— Pension costs	39	3

7. TAXATION

(i) Bermuda

The Company is exempt from taxation in Bermuda before 28 March 2016.

(ii) Hong Kong

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2011. HK\$1,643,000 (2010: nil) has been provided for taxation for the six months ended 30 June 2011.

(iii) Others

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

8. DISCONTINUED OPERATIONS

During the year ended 31 December 2010, the Group entered into a sale and purchase agreement to dispose of its Plywood Business through disposal of its wholly-owned subsidiaries Ankan Holdings Limited (including its subsidiaries and an associated company), Georich Trading Limited and SMI Global Corporation (collectively referred to as the "Disposal Group"). The disposal was effected in order to focus resources for the expansion of the Group's other businesses. The disposal was completed on 30 December 2010, on which date control of the Plywood Business passed to the acquirer. Details of the disposal are set out in the circular of the Company dated 25 November 2010. The combined result of the discontinued operation (i.e. the Plywood Business) included in the consolidated income statement is set out below. The comparative loss from discontinued operation has been restated to include the Plywood Business as discontinued in the prior period.

The loss for the period from the discontinued operation is analysed as follows:

	For the six months ended 30 June 2010 HK\$'000 (Unaudited) (Restated)
Loss from the Plywood Business	(40,948)
Loss from discontinued operations	(40,948)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. DISCONTINUED OPERATIONS (Continued)

The combined results of the Disposal Group for the six months ended 30 June 2010, which have been included in the consolidated income statement, were as follows:

	For the six months ended 30 June 2010 HK\$'000 (Unaudited) (Restated)
Turnover	208,561
Cost of sales	(197,867)
Gross profit	10,694
Other loss — net	(2,185)
Selling and distribution expenses	(17,205)
Administrative expenses	(24,509)
Finance costs	(7,743)
Loss before taxation	(40,948)
Taxation	—
Loss from discontinued operations (attributable to owners of the Company)	(40,948)

9. LOSS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited) (Restated)
Loss for the purpose of basic and diluted loss per share	(1,740)	(41,696)

Number of shares

	2011 '000 shares	2010 '000 shares
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	1,038,529	58,422

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share for the six months ended 30 June 2010 has been adjusted for the consolidation of shares effective on 10 January 2011. Details of the share consolidation are set out in the circular of the Company dated 21 December 2010.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. LOSS PER SHARE (Continued)

From continuing operations

The calculation of the basic and diluted loss per share from continuing operations attributable to the owners of the Company is based on the following data:

	For the six months ended 30 June	
	2011 <i>HK\$'000</i> (Unaudited)	2010 <i>HK\$'000</i> (Unaudited) (Restated)
Loss attributable to owners of the Company	(1,740)	(41,696)
<i>Less: loss from discontinued operations</i>	—	40,948
Loss for the purpose of basic and diluted loss per share	(1,740)	(748)

The denominators used are the same as those detailed above for both basic and diluted loss per share.

From discontinued operations

For the six months ended 30 June 2010, basic and diluted loss per share from discontinued operation are HK70.09 cents per share based on the loss from discontinued operation of approximately HK\$40,948,000 and the numbers of shares detailed above for both basic and diluted loss per share. For both periods ended 30 June 2011 and 2010, diluted loss per share were the same as the basic loss per share as there was no dilutive potential ordinary shares in existence during the respective periods.

10. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2011, the Group spent approximately HK\$158,000 on the purchase of property, plant and equipment; for the six months ended 30 June 2010, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$481,000 (2011: nil) for cash proceeds of approximately HK\$490,000, resulting in a gain on disposal of approximately HK\$9,000.

11. LOAN RECEIVABLES

	As at	
	30 June 2011 <i>HK\$'000</i> (Unaudited)	31 December 2010 <i>HK\$'000</i> (Audited) (Restated)
Current:		
Loan receivables	300,441	140,761
Non-current:		
Loan receivables	1,194	4,991
	301,635	145,752

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. LOAN RECEIVABLES (Continued)

The terms of loans entered with customers range from two weeks to six years. All loan receivables carry effective interest ranging from 8% to 48% per annum. The loan receivables that are secured either by collaterals or guarantees amount to approximately 44% of the total loan receivables (31 December 2010: 14.8%). An aging analysis of the loan receivables (net of impairment loss) at the end of the reporting period, based on the loan agreement commencement dates, is as follows:

	As at	
	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited) (Restated)
0 – 30 days	120,267	37,940
31 – 90 days	125,608	62,324
91 – 180 days	10,568	32,756
181 – 365 days	34,175	11,994
Over 365 days	11,017	738
	301,635	145,752

Set out below is an aging analysis of loan receivables at the end of the reporting period, based on the overdue date, is as follows:

	As at	
	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited) (Restated)
Current	266,604	128,168
1 – 30 days	5,031	—
31 – 60 days	15,000	17,584
Over 60 days	15,000	—
	301,635	145,752

12. CONVERTIBLE NOTES

	As at	
	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited) (Restated)
Convertible notes	45,640	42,922

On 19 October 2010, the Company entered into a purchase agreement with Favor Way Investments Limited (“**Favor Way**”), an independent third party, for acquisition of Delta Wealth Finance Limited (“**Delta Wealth**”). Pursuant to the said purchase agreement, the Company issued to Favor Way convertible notes with nominal value of HK\$48,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. CONVERTIBLE NOTES (Continued)

The terms of conversion based on the securities holders agreements are as follows:

The convertible notes are denominated in HK\$. The convertible notes entitle the holder the right to convert them into ordinary shares of the Company at any time (between the date of issuance of the convertible notes and the maturity date of 31 December 2011) at an adjusted conversion price of HK\$0.274 per share. If the convertible notes have not been converted, it would be redeemed on 31 December 2011 at the nominal value. The convertible notes do not carry interest on the principal amount.

The convertible notes were fairly valued by the Directors with reference to a valuation report issued by AVISTA Valuation Advisory, an independent qualified valuer not connected to the Group. The increase in fair value of the convertible notes of approximately HK\$2,718,000 has been recognised in the condensed consolidated income statement for the six months ended 30 June 2011.

13. OTHER BORROWINGS

During the six months ended 30 June 2011, the Group obtained new other borrowings amounting to approximately HK\$27,420,000 (2010: HK\$35,764,000). The Group had repaid other borrowings amounting to approximately HK\$35,602,000 (2010: HK\$43,739,000). The bank overdrafts carry interest at HIBOR + 1.5% per annum and other borrowings carry an effective interest rate fixed at 10-11% per annum (2010: 1% to 5.25% per annum). Other borrowings amounted to approximately HK\$10,746,000 are repayable within one year and other borrowings amounted to approximately HK\$16,836,000 are repayable on demand (31 December 2010: approximately HK\$35,764,000 repayable within one year).

14. LOANS FROM SHAREHOLDERS OF A SUBSIDIARY

The amounts are unsecured, non-interest bearing and repayable on demand.

15. SHARE CAPITAL

Authorised:

	Number of shares '000 shares	Amount HK\$'000
At 1 January 2011 and 31 December 2010		
Ordinary shares of HK\$0.001 each	200,000,000	200,000
Share consolidation	(192,000,000)	—
At 30 June 2011		
Ordinary shares of HK\$0.025 each	8,000,000	200,000

Issued and fully paid:

	Number of shares '000 shares	Amount HK\$'000
At 1 January 2011 and 31 December 2010	1,926,819	1,927
Share consolidation	(1,849,746)	—
Issue of shares on placing (note 1)	15,400	385
Issue of shares on rights issue (note 2)	2,774,183	69,355
Issue of shares on conversion of convertible notes (note 3)	1,219,512	30,487
At 30 June 2011	4,086,168	102,154

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. SHARE CAPITAL (Continued)

For the six months ended 30 June 2011, the Group had the following activities affecting the amount of share premium:

Notes:

- On 21 January 2011, the Company entered into a placing agreement to place 15,400,000 new ordinary shares with the par value of HK\$0.025 each at a price of HK\$0.73 per placing share. Furthermore, the Company entered into a supplemental agreement with the placing agent, pursuant to which the placing price had been revised to HK\$0.74 per placing share. Net proceeds of approximately HK\$11,030,000 were raised and used as general corporate and working capital of the Group and/or for the future development of the Group. Such placing of shares was completed on 1 February 2011 and the total number of issued ordinary shares became 92,472,777 with the par value of HK\$0.025 each.
- On 13 April 2011, the shareholders of the Company approved by way of poll of the rights issue on the basis of thirty rights shares for every one share held on the record date of 26 April 2011 at a subscription price of HK\$0.08 per rights share. The rights issue became unconditional on 18 May 2011. 2,774,183,310 rights shares with the par value of HK\$0.025 each were allotted and issued on 18 May 2011. Details of the rights issue were set out in the circular of the Company dated 28 March 2011.
- On 13 April 2011, the shareholders of the Company approved by way of poll to place the placing convertible notes with an aggregate principal amount of HK\$100,000,000. On 16 May 2011, the placing of these placing convertible notes was completed. On 18 May 2011, the conversion price was adjusted to HK\$0.082 (convertible into 1,219,512,192 shares with the par value of HK\$0.025 each) as a result of the aforementioned rights issue. On 18 May 2011, the placing convertible notes were converted in full into 1,219,512,192 shares with the par value of HK\$0.025 each.

16. OPERATING LEASE COMMITMENT

The Group leases certain parts of its office properties under operating lease arrangements. At the end of the reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at	
	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited) (Restated)
Within one year	487	480
In the second to fifth year inclusive	244	460
Total	731	940

17. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group also had the following material related party transactions:

The conversion price of the convertible notes, in the aggregate principal amount of HK\$48,000,000 issued by the Company to Favor Way, was adjusted from HK\$4.00 per conversion share to HK\$0.274 per conversion share after obtaining the approval from the independent shareholders of the Company at the special general meeting on 6 May 2011 and the rights issue of the Company became unconditional on 18 May 2011.

18. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), "Presentation of Financial Statements", and HKFRS 8, "Operating Segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time for the year ended 31 December 2010. In addition, as a result of the change in presentation currency from USD to HK\$ in the current accounting period, comparative figures have been restated accordingly. Further details of these developments are disclosed in note 3.

DIVIDENDS

No dividend for the six months ended 30 June 2011 (2010: nil) is recommended by the Board.

BUSINESS REVIEW

The Company is an investment holding company, and through its subsidiaries is principally engaged in the business of money lending, provision of credits and securities investments.

Money lending and provision of credits business

Following the disposal of the Plywood Business and the acquisition of 51% of Delta Wealth which engages in money lending and provision of credits business in 2010, the Group has been actively expanding its money lending and provision of credits business. As at 30 June 2011, the loan receivables increased to approximately HK\$301,635,000 from approximately HK\$145,752,000 as at 31 December 2010. Delta Wealth, a non wholly-owned subsidiary of the Company which engages in money lending business, maintained the advantage and brought favourable impact to the Group's results and financial position. Meanwhile, a wholly-owned subsidiary of the Company, Joy Wealth Finance Limited ("**Joy Wealth**"), has been established and obtained the Money Lender License under the Money Lender Ordinance of Hong Kong in the first half of the year 2011. It has successfully achieved remarkable results during the six months ended 30 June 2011. As at the date of this report, Joy Wealth has provided a wide variety of loans with amount of over HK\$470,000,000. The interest rates of these loans range from 8% to 48% per annum and the terms of these loans range from two weeks to six years. Existing client portfolio comprises of individuals, small-medium enterprises and listed companies from Hong Kong, Macau, Taiwan and Mainland China. Details of some of the loans made by the Group which constituted notifiable transactions to the Company under the Listing Rules have been set out in the published announcements and circulars of the Company. In light of the fast growing business and the sake of the recoverability and the quality of the loan receivables, most of the loan receivables of Joy Wealth are secured either by collaterals or guarantees.

For Delta Wealth, a non wholly-owned subsidiary of the Company, it is mentioned in the announcement of the Company dated 8 March 2011 that other shareholders of Delta Wealth expressed their concerns on the business operation of the Group as complying with Rules 13.13 and 13.15 and Chapter 14 of the Listing Rules requires disclosure on the identity of the borrower and the interest rates charged on the loans, which are highly confidential information to its competitors and the customers are also unwilling to disclose their information to the public. As such, the business scale of Delta Wealth has been limited and maintained stable for the six months ended 30 June 2011. In the future, the Company will from time to time review the existing business operations of Delta Wealth and the relationship with other shareholders of Delta Wealth. Priority will be made to Joy Wealth as it is a fast growing company and is wholly-owned by the Company.

On 27 May 2011, the Company has acquired 100,000,000 ordinary shares, representing 7.70% of the total issued share capital of Simsen International Corporation Limited ("**Simsen**"), which is a company incorporated in Bermuda with limited liability and its shares are listed on the main board of the Stock Exchange. Simsen is principally engaged in brokerage and dealing of securities, futures and options contracts, margin financing, loan financing, financial advisory, investment holding, brokerage and dealing of bullion and forex contracts, and provision of management and consultancy services. Through this strategic investment, the Group intends to utilize the platform provided by Simsen to further promote its money lending business (i.e. Joy Wealth).

Outlook

In prospect of the appearance where (i) the policymakers of the People's Republic of China (the "**PRC**") will continue to conduct tough control on the monetary policies to adjust the economic overheat and inflation, which will raise the hurdle for individuals and companies to borrow money from banks; and (ii) the stock market and economic development of Hong Kong is still uncertain in the future, which rises funding needs of companies and individuals in Hong Kong, the Board expects that there would be a persistently increasing demand on the money lending and provision of credits business (e.g. personal loans and corporate loans from the Hong Kong general public).

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2011, the Group had recorded net current assets of approximately HK\$395,111,000 (31 December 2010: HK\$86,509,000); bank balances and cash of approximately HK\$215,848,000 (31 December 2010: HK\$63,137,000); unguaranteed and unsecured borrowings of HK\$27,582,000 (31 December 2010: HK\$35,764,000) which included bank overdrafts of HK\$2,946,000 (31 December 2010: nil). All borrowings were made in HK\$ and the Group did not enter into any financial instruments for hedging purpose.

Capital structure

On 10 January 2010, upon the completion of the share consolidation on the basis of every twenty-five issued and unissued share with the par value of HK\$0.001 each to be consolidated to one consolidated share of HK\$0.025 each and the change in board lot size, the total number of issued ordinary shares of the Company was consolidated from 1,926,819,448 with the par value of HK\$0.001 each to 77,072,777 with the par value of HK\$0.025 each. The conversion price of the convertible notes with the principal amount of HK\$48,000,000 was adjusted from HK\$0.16 to HK\$4.00 per conversion share.

On 21 January 2011, the Company entered into a placing agreement with a placing agent to issue 15,400,000 new ordinary shares at a price of HK\$0.73 per placing share. On 24 January 2011, the Company entered into a supplemental agreement with the placing agent to revise the placing price to HK\$0.74 per placing share. Such placing of shares was completed on 1 February 2011 and the total number of issued ordinary shares became 92,472,777 with the par value of HK\$0.025 each.

On 8 March 2011, the Company announced a rights issue on the basis of thirty rights shares for every one share held on the record date of 26 April 2011 at the subscription price of HK\$0.08 per rights share. Upon the completion of the rights issue in May 2011, the total number of issued ordinary shares became 2,866,656,087 with the par value of HK\$0.025 each.

On 8 March 2011, the Company also entered into a placing agreement with a placing agent to issue placing convertible notes with an aggregate principal amount of HK\$100,000,000. The conversion price of the placing convertible notes was adjusted to HK\$0.082 per conversion share convertible into 1,219,512,192 new ordinary shares as the result of the aforesaid rights issue. The placing was completed on 18 May 2011 and the placing convertible notes were then fully converted into ordinary shares. The total number of issued ordinary shares became 4,086,168,279 with the par value of HK\$0.025 each.

Following the aforementioned rights issue and placing of placing convertible notes, the board lot size of the shares of the Company changed from 2,000 shares to 40,000 shares with effect from 27 April 2011, and the conversion price of the convertible notes with the principal amount of HK\$48,000,000 was adjusted to HK\$0.274 per conversion share on 18 May 2011 when the rights issue became unconditional.

As at 30 June 2011, the Company had a total number of issued ordinary shares of 4,086,168,279 shares with the par value of HK\$0.025 each and convertible notes with the principal amount of HK\$48,000,000 which can be converted into 175,182,481 ordinary shares at a conversion price of HK\$0.274 per conversion share.

Significant investment, acquisition and disposal

On 27 May 2011, the Company announced that it acquired 100,000,000 ordinary shares, representing 7.70% of Simsen at HK\$0.20 per share with a total consideration of HK\$20,000,000. Simsen is a company incorporated in Bermuda with limited liability and its shares are listed on the main board of the Stock Exchange. It is principally engaged in brokerage and dealing of securities, futures and options contracts, margin financing, loan financing, financial advisory, investment holding, brokerage and dealing of bullion and forex contracts, and provision of management and consultancy services. Through this strategic investment, the Company intends to utilize the platform provided by Simsen to further promote the money lending business of the Group.

On 15 June 2011, the Company announced that it would fully accept the provisional allotment of the rights shares under the Simsen rights issue on the basis of twenty rights shares for every existing share held on the record date of 19 July 2011 at HK\$0.03 per rights share, and with bonus warrants on the basis of one bonus warrant for every five rights shares taken up under the Simsen rights issue, each of which entitles the holders to subscribe for one Simsen share at the exercise price of HK\$0.03. The total consideration of the full acceptance of the provisional allotment was HK\$60,000,000. The dealings in fully-paid Simsen rights shares and bonus warrants commenced on 22 August 2011. As at the date of this report, 2,000,000,000 rights shares are provisionally allotted and 400,000,000 bonus warrants are granted to the Group.

Segment information

Details of segment information of the Group for the six months ended 30 June 2011 are set out in note 4 to the unaudited consolidated financial statements.

Employees

As at 30 June 2011, the Group had 18 staff, 5 of whom worked in the office of Delta Wealth. In-house training programs were provided for staff to enhance skills and job knowledge. Management would continue to foster close co-operation with the staff.

The Group will review employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical and mandatory provident funds. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending on the financial performance of the Group.

Details of charges on assets

As at 30 June 2011, the Group did not pledge any assets to banks or other financial institutions nor did the Group have any corporate guarantee given to any entity (31 December 2010: nil).

Future plans for material investment or capital assets

Upon the completion of the disposal of the loss-making Plywood Business in December 2010, the Group's principal business changed from Plywood Business to money lending and provision of credits business and has adopted securities investments as a business activity to the Group in May 2011. Although the Group disposed of the loss-making Plywood Business in December 2010, the Group has been trying to continue with the plywood-related business by sourcing business opportunities in relation to the upstream plywood business (i.e. the forestry business). Consequently, on 28 July 2011, the Company entered into the memorandum of understanding with vendors in relation to the acquisition of Profit Grand Enterprises Limited (the "**Target Company**"), a company incorporated under the laws of the British Virgin Islands with limited liability. According to the information provided by the vendors, the Target Company, through its wholly-owned subsidiary, I-Sky Natural Resources (PNG) Limited (the "**Project Company**"), has entered into a project agreement with the owner of the forest in the Vabari Timber Authority Area in the Independent State of Papua New Guinea with the size of approximately 65,800 hectares (the "**Forest**"). Pursuant to the project agreement, the Project Company is entitled the rights to harvest forest logs in the Forest for purposes of sale and export and other related activities for a period of ninety-nine years.

On 3 June 2011, the Board announced that the memorandum of understanding in relation to the proposed investment in the two oilfields in the Republic of Kazakhstan by the Company (the "**Oilfield MOU**") has lapsed. The Company has tried its best endeavor to negotiate with the vendor for a possible extension of the Oilfield MOU as the Board considers it is important to exercise due care on assessing any investment before entering into any formal agreement to safeguard the interests of the Company and the shareholders as a whole. As at the date of this report, the Company is still in negotiation with the vendor for the possibility of continuing the aforesaid investment. However, no further agreement has been reached with the vendor. Upon the expiry and the lapse of the Oilfield MOU, the Company and the vendor shall have no further rights or obligations under the Oilfield MOU. The Board considers that the expiry and the lapse of the Oilfield MOU will not lead to any impact on the existing business operation and financial position of the Group.

Save for the above possible investment in the upstream plywood business and possible extension of the Oilfield MOU, as at date of this report, the Company has not entered into any agreement, arrangement, understanding, intention or negotiation about acquiring of any new business. The Board will continue to explore ways to improve the financial performance of the Group, to diversify the Group's operations into new and more profitable businesses and to broaden the source of revenue.

Treasury policy

The Group has adopted a treasury policy on 24 May 2011 in relation to the securities investments of the Group to invest in securities of other listed companies on the Stock Exchange. The objective of the policy is to enable the Group to control and govern the possible future securities investments (if any, which may or may not occur).

Foreign exchange exposures

The Group mainly earns revenue and incurs costs in HK\$ and is not subject to foreign exchange risk. In addition, the Group did not have any related hedges as at 30 June 2011.

Contingent liability

As at 30 June 2011, the Group had no material contingent liability.

Working capital and gearing ratio

The gearing ratios of the Group as at 30 June 2011 and 31 December 2010 are as follow:

	As at	
	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited) (Restated)
Convertible notes	45,640	42,922
Other borrowings	27,582	35,764
Loans from shareholders of a subsidiary	51,746	48,046
Less: Bank balances and cash	(215,848)	(63,137)
Net debt	(90,880)	63,595
Total equity	413,478	91,535
Total capital	322,598	155,130
Gearing ratio (net debt to total capital)	(28%)	41%

Due to the fund raising practices for the six months ended 30 June 2011, the gearing ratio of the Group decreased to negative 28%.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2011, none of the Directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (1) notified to the Company and the Stock Exchange pursuant to the provisions of Division 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (2) recorded in the register required to be kept under section 352 of Part XV of the SFO; or (3) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (Appendix 10 of the Listing Rules) (the "Model Code").

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, the Company had no shareholder who was 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 Part XV of the SFO.

SHARE OPTIONS

The Company has adopted a share option scheme on 21 June 2002, pursuant to which the Company may grant options to employees (including executive Directors) of the Group to subscribe for shares of the Company. As at 30 June 2011, no share option has been granted by the Company.

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 for the six months ended 30 June 2011, with deviations from Code provision A.4.1 and Code provision E.1.2.

Code provision A.4.1

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

The Company does not fully comply with the code provision. The existing non-executive Directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting. The Board does not believe that arbitrary term limits on Director's service are appropriate given that Directors ought to be committed to representing the long-term interests of the shareholders of the Company.

Code provision E.1.2

Under the Code provision E.1.2, the chairman of the Board should attend annual general meetings. Due to certain personal matters, Mr. Liang Jian Hua, the chairman of the Board, did not attend the Company's 2011 annual general meeting. However, Mr. Huang Chuan Fu, the deputy chairman of the Board, attended the annual general meeting to answer questions raised by the shareholders.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the terms contained in the Model Code as the Company's code of conduct regarding the Directors' securities transactions. All Directors, upon specific enquiry, confirmed that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the six months ended 30 June 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares. As at 30 June 2011, 4,086,168,279 ordinary shares with the par value of HK\$0.025 each were issued. Details have been set out in the "Capital structure" section in page 15 of this report and note 15 to the accompanying unaudited consolidated financial statements.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises of three independent non-executive Directors, Mr. Chan Kin Sang, Mr. Wong Chun Hung and Mr. Cheng Po Yuen. The Audit Committee has adopted terms of reference which are in line with the Code.

The unaudited consolidated financial statements for the six months ended 30 June 2011 have been reviewed by the Audit Committee.

As at the date of this report, the Directors of the Company are:

Executive Directors

Mr. Liang Jian Hua (*Chairman*)
Mr. Huang Chuan Fu (*Deputy Chairman*)
Ms. Jia Hui
Mr. Jiang Yi Ren

Independent Non-executive Directors

Mr. Chan Kin Sang
Mr. Cheng Po Yuen
Mr. Wong Chun Hung

By order of the Board
Pacific Plywood Holdings Limited
Liang Jian Hua
Chairman and Executive Director

Hong Kong, 30 August 2011