THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Pacific Plywood Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

PACIFIC PLYWOOD HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 767)

PROPOSED CAPITAL REORGANIZATION, CHANGE IN BOARD LOT SIZE, PROPOSED OPEN OFFER OF 558,089,724 OFFER SHARES AT HK$0.025 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY NEW SHARE HELD ON THE RECORD DATE

Financial adviser to the Company

VINCO 域高

Grand Vinco Capital Limited

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智略資本

A letter from the Independent Board Committee is set out on page 32 of this circular. A letter from Veda Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 33 to 46 of this circular.

A notice convening a special general meeting of the Company to be held at Taishan Room, Island Shangri-la Hotel, Level 5, Pacific Place, Supreme Court Road, Hong Kong at 10:30 a.m. on, Wednesday, 19 July 2006 is set out on pages 101 to 103 of this circular. A form of proxy for use by the Shareholders at the special general meeting is enclosed herein. Whether or not you intend to attend and vote at the special general meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting should you so wish.

Shareholders should note that the Underwriting Agreement contains provisions entitling the Underwriters, by notice in writing, to terminate their obligations thereunder without liability to the Company if at any time prior to the Latest Time for Termination: (a) the success of the Open Offer would be materially and adversely affected by the development, occurrence or enforcement of: (i) any new law or regulation or any change in existing laws or regulations which in the reasonable opinion of the Underwriters has or is likely to have a material adverse effect on the financial position of the Company; or (ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or (iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or makes it impracticable or inadvisable or inexpedient to proceed therewith; or (iv) any suspension of dealings in the Shares for any period longer than five consecutive Business Days after the date of the Underwriting Agreement (other than as a result of the Capital Reorganization and the Open Offer); or (v) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise at any time prior to Latest Time for Termination; or (b) any breach of any of the warranties by the Company pursuant to the Underwriting Agreement comes to the knowledge of the Underwriters; or (c) any event occurs or any matter arises on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date thereof would have rendered any of such representations, warranties and undertakings untrue or incorrect in any material respect in such a manner as would in the absolute opinion of the Underwriters materially and adversely affect the financial position or business of the Company; or (d) there is any such adverse change in the general affairs, management, investments, stockholders' equity or in the financial or trading position of the Company which in the absolute opinion of the Underwriters is materially adverse to the success of the Open Offer.

It should be noted that New Shares will be dealt in on ex-entitlement basis as from Friday, 21 July 2006, If the Underwriters terminate the Underwriting Agreement, the Open Offer will not proceed. Any person contemplating buying or selling of the Shares from now up to the date on which all conditions of the Open Offer are fulfilled will bear the risk that the Open Offer may not become unconditional and may not proceed.

23 June 2006

TERMINATION OF UNDERWRITING AGREEMENT

Shareholders should note that the Underwriting Agreement contains provisions entitling the Underwriters, by notice in writing, to terminate its obligations thereunder without liability to the Company if at any time prior to the Latest Time for Termination:

a) the success of the Open Offer would be materially and adversely affected by the development, occurrence or enforcement of:

i) any new law or regulation or any change in existing laws or regulations which in the reasonable opinion of the Underwriters has or is likely to have a material adverse effect on the financial position of the Company; or

ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or

iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls which in the reasonable opinion of the Underwriters is or would be materially adverse to the success of the Open Offer; or makes it impracticable or inadvisable or inexpedient to proceed therewith; or

iv) any suspension of dealings in the Shares for any period longer than five consecutive Business Days after the date of the Underwriting Agreement (other than as a result of the Capital Reorganization and the Open Offer); or

v) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

b) any breach of any of the warranties by the Company pursuant to the Underwriting Agreement comes to the knowledge of the Underwriters; or

c) any event occurs or any matter arises on or after the date of the Underwriting Agreement and prior to the Latest Time for Termination which if it had occurred or arisen before the date thereof would have rendered any of such representations, warranties and undertakings untrue or incorrect in any material respect in such a manner as would in the absolute opinion of the Underwriters materially and adversely affect the financial position or business of the Company; or

d) there is any such adverse change in the general affairs, management, investments, stockholders' equity or in the financial or trading position of the Company which in the absolute opinion of the Underwriters is materially adverse to the success of the Open Offer.

CONTENTS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

"Announcement"	the announcement of the Company dated 18 May 2006 relating to, amongst other things, the proposed Capital Reorganization, the change in board lot size and the Open Offer
"Announcement Date"	18 May 2006
"associates"	has the meaning ascribed thereto in the Listing Rules
"Assured Allotment Letter(s)"	the assured allotment letter(s) to be used in connection with the Open Offer
"Board"	the board of Directors
"Business Day"	a day on which banks in Hong Kong are open for business in Hong Kong throughout their normal business hours (excluding Saturday and Sunday)
"Bye-laws"	the bye-laws of the Company in force from time to time
"Celestial"	Celestial Securities Limited being one of the Underwriters, which is a licensed corporation to carry out, among others, type 1 regulated activities (dealing in securities) under the Securities and Futures Ordinance
"Capital Reduction"	the proposed reduction of the nominal value of the issued Consolidated Share(s) from HK$0.25 to HK$0.025 each
"Capital Reorganization"	the proposed capital reorganization of the Company involving the Share Consolidation, Capital Reduction, Subdivision, Share Premium Cancellation and Elimination of Accumulated Deficit
"CCASS"	the Central Clearing and Settlement System, established and operated by HKSCC
"Company"	Pacific Plywood Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange

"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consolidated Share(s)"	share(s) of HK$0.25 each in the share capital of the Company immediately upon the Share Consolidation taking effect but before the Capital Reduction
"Controlling Shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Elimination of Accumulated Deficit"	the proposed application of the appropriate amount in the contributed surplus account to set off against the entire amount of the accumulated losses of the Company as at 31 December 2005 at the effective date of the Capital Reorganization
"Excluded Shareholder(s)"	those Overseas Shareholder(s) whom the Directors, after making relevant enquiry as required under the Listing Rules, consider their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the law of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place
"Grand Vinco"	Grand Vinco Capital Limited being one of the Underwriters, which is a licensed corporation to carry out types 1 and 6 regulated activities (dealing in securities and advising on corporate finance) under the SFO
"Group"	the Company and its subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	a committee of the Board, comprising Messrs. Marzuki Usman, Kusnadi Widjaja and Ngai Kwok Chuen, being the independent non-executive Directors, constituted to advise the Independent Shareholders on the Open Offer
"Independent Shareholder(s)"	Shareholders other than Mr. Widodo, SMI and their associates

"Last Trading Day"	Tuesday, 16 May 2006, the last day on which the Shares were traded immediately preceding the publication of the Announcement
"Latest Practicable Date"	21 June 2006, being the latest practicable date for ascertaining certain information for inclusion in this circular
"Latest Time for Acceptance"	4:00 p.m. on 15 August 2006 or such later date as may be agreed by the Company and the Underwriters
"Latest Time for Termination"	4:00 p.m. on 18 August 2006, being the third Business Day after the Latest Time for Acceptance
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Mr. Widodo"	Mr. Budiono Widodo, the Chairman and an Executive Director of the Company, who, at the Latest Practicable Date, owns approximately 39.82% interest in the issued share capital of SMI and approximately 4.45% interest in the issued share capital of the Company
"New Share(s)"	share(s) of HK$0.025 each in the share capital of the Company after the Capital Reorganization becoming effective
"Notice"	the notice of the SGM contained in the Circular in the agreed form
"Offer Shares"	558,089,724 New Shares to be issued under the Open Offer
"Open Offer"	The proposed issue of the Offer Shares on the basis of one Offer Share for every New Share held on the Record Date at the Subscription Price
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) on that date is/are in (a) place(s) outside Hong Kong
"Prospectus"	a prospectus containing details of the Open Offer to be issued by the Company
"Prospectus Documents"	the Prospectus and the Assured Allotment Letter relating to the Open Offer

"Qualifying Shareholder(s)"	Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
"Record Date"	Monday, 31 July 2006, the date by reference to which entitlements under the Open Offer will be determined
"Registrar"	Computershare Hong Kong Investor Services Limited, the branch registrar of the Company in Hong Kong
"Settlement Date"	Monday, 21 August 2006, being the fourth Business Day after the Latest Time for Acceptance of the Offer Shares
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened and held for the approving, amongst other things, the Capital Reorganization and the Open Offer
"Share(s)"	share(s) of HK$0.025 each in the share capital of the Company prior to the Capital Reorganization
"Share Consolidation"	the proposed consolidation of every 10 Shares into 1 Consolidated Share
"Share Option(s)"	the share option(s) granted under any of the Share Option Schemes
"Share Option Schemes"	the two share option schemes adopted by the Company respectively on 17 October 1995 and 21 June 2002
"Share Premium Cancellation"	the cancellation of the entire amount standing to the credit of the share premium account of the Company as at 31 December 2005
"Shareholder(s)"	holder(s) of the Share(s), Consolidated Share(s) or New Share(s) (as the case may be)
"Shortfall Underwritten Shares"	any Underwritten Shares not accepted by Shareholders or for which duly completed Assured Allotment Letters (accompanied by cheques or banker's cashier orders for the full amount payable on application which are honoured on first or, at the option of the Company, subsequent presentation) have not been lodged for acceptance, or received, as the case may be, on or before the Latest Time for Acceptance of the Offer Shares

"SMI"	SMI International Limited which is owned by Mr. Widodo as to 39.82% in its issued share capital
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subdivision"	the subdivision of each authorized but unissued Consolidated Share into 10 New Shares
"Subscription Price"	the subscription price of HK$0.025 per Offer Share pursuant to the Open Offer
"Underwriters"	Mr. Widodo, Grand Vinco and Celestial
"Underwriting Agreement"	the agreement dated 16 May 2006 between the Company and the Underwriters relating to the underwriting in respect of the Open Offer
"Underwritten Shares"	533,262,124 Offer Shares, being all Offer Shares after deducting the Offer Shares allotted to Mr. Widodo on an assured basis which have been undertaken to be accepted by him
"Veda Capital"	Veda Capital Limited, a licensed corporation for type 6 regulated activity (advising on corporate finance) under the SFO, who has been appointed as the independent financial adviser to the Independent Board Committee and Independent Shareholders with respect to the Open Offer
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

Note: For the purpose of this circular, all amounts in US$ have been converted into HK$ at an exchange rate of US$1.00 = HK$7.8 unless otherwise stated.

EXPECTED TIMETABLE

Set out below is the expected timetable for the Capital Reorganization and the Open Offer. The timetable below is subject to change, and any such change will be published by way of public announcement. If there is (i) a tropical cyclone warning signal number 8 or above, or (ii) a "black" rainstorm warning signal in force between 9:00 a.m. and 4:00 p.m. on the relevant dates, the relevant dates will be adjourned to the next Business Day which does not have either of these warnings in force in Hong Kong.

	2006
Latest time for lodging proxy forms for the SGM	10:30 a.m. on Monday, 17 July
SGM	10:30 a.m. on Wednesday, 19 July
Capital Reorganization becoming effective	9:30 a.m. on Thursday, 20 July
Announcement of results of SGM	Thursday, 20 July
Closure of original counter for trading in Shares in board lot of 2,000 Shares	9:30 a.m. on Thursday, 20 July
Establishment of temporary counter for trading in New Shares in board lot of 200 New Shares	9:30 a.m. on Thursday, 20 July
First day of free exchange of existing share certificates for new share certificates for the New Shares	Thursday, 20 July
Last day of dealings in the New Shares on a cum-entitlement basis	Thursday, 20 July
First day of dealings in the New Shares on an ex-entitlement basis	Friday, 21 July
Latest time for lodging transfer of New Shares for entitlement to the Open Offer	4:00 p.m. on Monday, 24 July
Book closure period (both days inclusive)	Tuesday, 25 July to Monday, 31 July
Record Date	Monday, 31 July
Despatch of Prospectus Documents	Monday, 31 July
Register of members re-opens	Tuesday, 1 August
Original counter for trading in New Shares in board lot of 20,000 New Shares re-opens	9:30 a.m. on Thursday, 3 August

	2006
Parallel trading commences	9:30 a.m. on Thursday, 3 August
First day of operations of odd lot trading facilities	Thursday, 3 August
Latest time for payment for and acceptance of the Offer Shares	4:00 p.m. on Tuesday, 15 August
Open Offer becomes unconditional	4:00 p.m. on Friday, 18 August
Announcement on results of the Open Offer appears on newspaper	Tuesday, 22 August
Despatch of share certificates for Offer Shares	Wednesday, 23 August
Closure of temporary counter for trading in New Shares in board lot of 200 New Shares	4:00 p.m. on Thursday, 24 August
Parallel trading ends	4:00 p.m. on Thursday, 24 August
Last day of operations of odd lot trading facilities	Thursday, 24 August
Dealings in Offer Shares expected to commence	Friday, 25 August
Last day of free exchange of existing share certificates for new share certificates for the New Shares	Tuesday, 29 August

Note: All times refer to Hong Kong local times.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR THE OPEN OFFER

The latest time for acceptance of and payment for the Open Offer will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 15 August 2006. Instead the latest time of acceptance of and payment for the Open Offer will be extended to 5:00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 15 August 2006. Instead the latest time of acceptance of and payment for the Open Offer will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Open Offer does not take place on 15 August 2006, the dates mentioned in the section headed "Expected timetable" in this circular may be affected. A press announcement will be made by the Company in such event.

PACIFIC PLYWOOD HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 767)

Executive Directors
Budiono Widodo *(Chairman)*
Sardjono Widodo
Liao Yun Kuang
Yu Chien Te

Non-executive Directors
Chen Chung I
Kusnadi Pipin
Sudjono Halim

Independent Non-executive Directors
Marzuki Usman
Kusnadi Widjaja
Ngai Kwok Chuen

Registered Office
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal place of business
Room 1802
88 Gloucester Road
Wanchai
Hong Kong

23 June 2006

To the Shareholders

Dear Sir or Madam,

PROPOSED CAPITAL REORGANIZATION, CHANGE IN BOARD LOT SIZE, PROPOSED OPEN OFFER OF 558,089,724 OFFER SHARES AT HK$0.025 PER OFFER SHARE ON THE BASIS OF ONE OFFER SHARE FOR EVERY NEW SHARE HELD ON THE RECORD DATE

INTRODUCTION

The Company announced on 18 May 2006 that the Company proposed to:

(i) implement the Capital Reorganization which will involve (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 authorised 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 31 December 2005;

(ii) change the board lot size from 2,000 Shares to 20,000 New Shares upon the Capital Reorganization becoming effective; and

(iii) raise approximately HK$13.9 million before expenses by issuing 558,089,724 Offer Shares at a price of HK$0.025 per Offer Share by way of an Open Offer, payable in full on application, on the basis of one Offer Share for every New Share held by the Qualifying Shareholders on the Record Date.

The Capital Reorganization is subject to the Shareholders' approval and the Open Offer (and the absence of a facility for excess application under the Open Offer) is subject to the Independent Shareholders' approval at the SGM by poll under Rule 7.24(5) of the Listing Rules. The Independent Board Committee has been established to advise the Independent Shareholders in regard to the Open Offer. Veda Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Open Offer are in the interest of the Company and its Shareholders as a whole.

The purpose of this circular is to provide you with further information regarding, among other things, Capital Reorganization, change in board lot size and Open Offer, the recommendation of the Independent Board Committee to the Independent Shareholders as regards the Open Offer, the advice from Veda Capital to the Independent Board Committee and Independent shareholders in respect of the Open Offer and to give you the notice of the SGM to be convened for the purpose of considering and, if thought fit, approving the Capital Reorganization and the Open Offer and the absence of a facility for excess application under the Open Offer.

CAPITAL REORGANIZATION

The Capital Reorganization involves the Share Consolidation, the Capital Reduction, the Share Premium Cancellation, the Subdivision and Elimination of Accumulated Deficit.

Share Consolidation

The Share Consolidation will be implemented to consolidate every 10 Shares of HK$0.025 each into one Consolidated Share.

As at the Latest Practicable Date, the authorised share capital of the Company is HK$200,000,000 divided into 8,000,000,000 Shares of HK$0.025 each. Immediately after the Share Consolidation, the authorised share capital of the Company will be HK$200,000,000 divided into 800,000,000 Consolidated Shares of HK$0.25 each. As at the Latest Practicable

Date, there are 5,580,897,243 Shares in issue and fully paid. On the basis of such issued share capital, there will be 558,089,724 Consolidated Shares of HK$0.25 each in issue once the Share Consolidation becomes effective. The Consolidated Shares will rank pari passu in all respects with each other.

Capital Reduction, Share Premium Cancellation and Subdivision

The Capital Reduction of approximately US$16,098,000 (approximately HK$125,570,000) will involve a reduction of the nominal value of the then issued Consolidated Shares from HK$0.25 to HK$0.025 each by cancelling the paid up capital to the extent of HK$0.225 on each of the then issued Consolidated Shares. The Share Premium Cancellation will involve the cancellation of the entire amount standing to the credit of the share premium account of the Company as at 31 December 2005. The balance of share premium account as at 31 December 2005 was approximately US$90,652,000 (approximately HK$707,086,000). The Subdivision will involve the sub-division of each authorised but unissued Consolidated Share into 10 New Shares of HK$0.025 each.

The credit arising from the Capital Reduction and the Share Premium Cancellation will be credited to the contributed surplus account of the Company. Based on the audited accounts of the Company as at 31 December 2005 and 5,580,897,243 issued Shares of the Company as at the Announcement Date, a credit of an aggregate amount of approximately US$16,098,000 (approximately HK$125,570,000) will arise in the books of the Company as a result of the Capital Reduction, which amount together with the Share Premium Cancellation of approximately US$90,652,000 (approximately HK$707,086,000) will be transferred to the contributed surplus account of the Company. On the basis of the balance of the contributed surplus account of the Company of approximately US$21,122,000 (approximately HK$164,752,000) as at 31 December 2005, the contributed surplus account of the Company will become approximately US$127,872,000 (approximately HK$997,402,000) after such transfer. The Board proposes to apply part of such contributed surplus to set off against the accumulated losses of the Company as at 31 December 2005. On the basis of the audited balance of the accumulated losses of the Company of approximately US$107,427,000 (approximately HK$837,931,000) as at 31 December 2005, the balance of the contributed surplus account is expected to be approximately US$20,445,000 (approximately HK$159,471,000) after setting off in full the accumulated losses of the Company and may be applied in future in such manner as is permitted by the laws of Bermuda and its Bye-laws, including for capitalisation issues, for distribution to Shareholders and to set off accumulated losses, if any, of the Company. The Company at present has no intention to distribute such remaining balance of the contributed surplus to Shareholders.

The effect of Capital Reorganization on share capital, share premium, contributed surplus and accumulated losses is summarised as follows:

(Figures in US$)	Share Capital	Share Premium	Contributed Surplus	Accumulated Losses
Balance as at 31 December 2005	18,037,000	90,652,000	21,122,000	(107,427,000)
Capital Reduction	(16,098,000)		16,098,000	
Share Premium Cancellation		(90,652,000)	90,652,000	
			127,872,000	
Elimination of Accumulated Deficit			(107,427,000)	107,427,000
	1,939,000	–	20,445,000	–

Reasons for the Capital Reorganization

The Directors believe that it would be beneficial to the Company by reducing the par value of the Consolidated Shares from HK$0.25 to HK$0.025, which will improve flexibility in future for the Company to raise fund via the issue of Shares. Immediately after the Capital Reorganization, the number of unissued Shares will increase from 2,419,102,757 to 7,441,910,276. In addition, the Company will eliminate the accumulated losses through the credit amount arising from the Capital Reorganization, thus allowing greater flexibility for the Company to pay dividend in the future. The Share Consolidation will also reduce the transaction costs for dealing in New Shares.

Effect of the Capital Reorganization

As at the Latest Practicable Date, there are outstanding Share Options with 145,300,000 underlying Shares. Save for the Share Options, the Company has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for Shares. Adjustments will be made to the exercise price and/or the number of New Shares, as the case may be, to be issued upon exercise of the Share Options after the Capital Reorganization has become effective. Based on the Company's authorised share capital of HK$200,000,000, represented by 8,000,000,000 Shares and the issued share capital of approximately HK$139,522,431 (equivalent to approximately US$18,037,000), represented by 5,580,897,243 Shares, upon completion of the Capital Reorganization, the authorised share capital of the Company will remain at HK$200,000,000 represented by 8,000,000,000 New Shares, and the issued share capital will be approximately HK$13,952,243 represented by 558,089,724 New Shares.

The New Shares will rank pari passu in all respects with each other. Other than the expenses incurred in relation to the Capital Reorganization, the implementation thereof will not alter the underlying assets, business operations, management or financial position of the Company or the relative interests or rights of the Shareholders, save that any fractional New Shares will not be issued to the Shareholders but will be aggregated and sold for the benefit of the Company. Save as disclosed above, the Capital Reorganization itself will not have any material effect on the financial position of the Group.

Conditions of the Capital Reorganization

The Capital Reorganization will be conditional upon:–

(a) the passing of the special resolution by the Shareholders to approve the Capital Reorganization at the SGM;

(b) compliance with the relevant legal procedures and requirements under the Companies Act to effect the Capital Reorganization;

(c) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the New Shares in issue and following the implementation of the Capital Reorganization, the New Shares falling to be issued upon exercise of the conversion rights attaching to the Share Options; and

(d) the obtaining of all necessary approvals from the regulatory authorities in Hong Kong, Bermuda or otherwise as may be required in respect of the Capital Reorganization.

Assuming that all conditions are fulfilled, it is expected that the Capital Reorganization will be effective from 9:30 a.m. on Thursday, 20 July 2006, the day following the SGM.

Fractional entitlement of the New Shares

Any fractional entitlement to the New Shares will be aggregated, sold and retained for the benefit of the Company.

FREE EXCHANGE OF NEW SHARE CERTIFICATE

Subject to the Capital Reorganization becoming effective, Shareholders may from Thursday, 20 July 2006 to Tuesday, 29 August 2006 (both days inclusive) submit their existing share certificates for the Shares to the Registrar at Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in exchange, at the expense of the Company, for new certificates for New Shares. After the expiry of such period, existing light brown share certificates for the Shares will be accepted for exchange only on payment of a fee of HK$2.5 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each light brown share certificate for the Shares cancelled or each new light green share certificate to be issued for New Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, existing light brown share certificates for the Shares will continue to be good evidence of legal title and may be exchanged for new light green share certificates for New Shares at any time.

It is expected that new light green share certificates for New Shares will be available for collection on or after the 10th Business Day from the submission of the existing light brown share certificates for the Shares to the Registrar.

TRADING ARRANGEMENTS FOR NEW SHARES

Subject to the Capital Reorganization becoming effective, the arrangement for trading in New Shares will be as follows:

(i) with effect from 9:30 a.m. on Thursday, 20 July 2006, the original counter for trading in Shares in board lots of 2,000 will be temporarily closed;

(ii) with effect from 9:30 a.m. on Thursday, 20 July 2006, a temporary counter for trading in New Shares in board lots of 200, in the form of existing share certificates for the Shares, will be opened, and for the purpose of settlement and delivery for trading at this temporary counter every 10 Shares will be deemed to represent one New Share. Only existing light brown share certificates for the Shares can be traded at this counter;

(iii) with effect from 9:30 a.m. on Thursday, 3 August 2006, the original counter will be re-opened for trading in the New Shares in new board lots of 20,000. Only new light green share certificates for New Shares can be traded at this counter;

(iv) during the period from 9:30 a.m. on Thursday, 3 August 2006 to 4:00 p.m. Thursday, 24 August 2006 (both days inclusive), parallel trading will be permitted at the above two counters;

(v) the temporary counter for trading in New Shares in board lots of 200 in the form of existing light brown share certificates, will be removed after the close of trading at 4:00 p.m. on Thursday, 24 August 2006; and

(vi) with effect from 9:30 a.m. Friday, 25 August 2006, trading will only be done in New Shares in board lots of 20,000 (in the form of new light green share certificates). Existing light brown share certificates will only be valid for delivery and settlement in respect of dealing for the period up to and including 4:00 p.m. on Thursday, 24 August 2006 and thereafter will not be acceptable for trading and settlement purposes. However, existing light brown certificates for existing Shares will continue to be good and valid evidence of legal title to the New Shares on the basis of 10 Shares for one New Share.

In order to facilitate the trading of odd lots of New Shares as a result of Share Consolidation and change in board lot size, the Company has appointed Celestial Securities Limited as an agent to match, on a "best effort" basis, the sale and purchase of odd lots of New Shares (if any) arising from Share Consolidation and change in board lot size from Thursday, 3 August 2006 up to and including Thursday, 24 August 2006. Such arrangement is to facilitate Shareholders who wish to dispose of or top up their odd lots of New Shares. Shareholders who wish to take advantage of this facility should contact Mr. Mok Tsan On of Celestial Securities Limited at 21/F, The Center, 99 Queen's Road, Central, Hong Kong (Tel: 2287 8730) during the period. Shareholders should note that the matching of the sale and purchase of odd lots of New Shares is not guaranteed.

Shareholders are recommended to consult their licensed securities dealers, bank managers, solicitors, professional accountants or other professional advisers if they are in any doubt about the facilities described above.

LISTING AND DEALINGS

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, New Shares.

Subject to the granting of the listing of, and permission to deal in New Shares, New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

CHANGE IN BOARD LOT SIZE

The Board proposes to change the board lot size of trading from 2,000 Shares to 20,000 New Shares upon the Capital Reorganization becoming effective.

OPEN OFFER

The Open Offer is proposed to take place after the Capital Reorganization becoming effective. Details of the Open Offer are set out below:–

Issue Statistics

Basis of Open Offer:	One Offer Share for every New Share held by the Qualifying Shareholders on the Record Date on an assured basis. No Offer Shares will be allotted to the Qualifying Shareholders in excess of their provisional allotments.
Number of Shares in issue:	5,580,897,243 Shares as at the Latest Practical Date.
Number of New Shares expected to be in issue upon completion of the Capital Reorganization:	558,089,724 New Shares
Number of Offer Shares:	558,089,724 Offer Shares
Subscription price:	HK$0.025 per Offer Share

Number of Offer Shares undertaken to be taken up by Mr. Widodo:	24,827,600 Offer Shares
Underwritten Shares:	533,262,124 Offer Shares

Qualifying Shareholders will be assured of receiving the number of Offer Shares accepted if acceptance is made for a number of Offer Shares equal to or less than the number in their provisional allotments.

The Open Offer is conditional on the Underwriting Agreement becoming unconditional and the Underwriters not terminating the Underwriting Agreement by the Latest Time for Termination in accordance with its terms, details of which are set out in the sections headed "Termination of the Underwriting Agreement and force majeure" and "Conditions of the Underwriting Agreement" below. Accordingly, the Open Offer may or may not proceed.

Mr. Widodo has given an undertaking to accept all the 24,827,600 Offer Shares to be provisionally allotted to him pursuant to the Open Offer.

SHARE OPTIONS

As at the Latest Practicable Date, the number of underlying Shares of Share Options is 145,300,000 Shares. All the holders of the Share Options have undertaken to the Company that they will not exercise any subscription rights attached to the Share Options during the period from the Announcement Date up to and including the Record Date. Save for the Share Options, the Company has no other derivatives, options, warrants and conversion rights which are convertible into Shares.

Adjustment on the Share Options

The adjustments on the Share Options arising from the Capital Reorganization and the Open Offer as at the Latest Practicable Date which are certified by Veda Capital in accordance with the terms of the Share Option Schemes are as follows:

		Number of Shares/New Share subject to outstanding Share Options			Exercise price per Share/New Share (HK$)		
Exercise period	Date of grant	Before the Capital Reorganization (Share)	Immediate after the Capital Reorganization (New Share)	After the Open Offer (New Share)	Before the Capital Reorganization (per Share)	Immediate after the Capital Reorganization (per New Share)	After the Open Offer (per New Share)
1/12/1996 – 30/11/2006	31/5/1996	88,000,000	8,800,000	16,016,000	0.260	2.60	1.43
14/3/2000 – 13/3/2010	14/3/2000	57,300,000	5,730,000	10,428,600	0.129	1.29	0.71
		145,300,000	14,530,000	26,444,600			

Subscription price for the Offer Shares

Subscription Price of HK$0.025 per Offer Share will be payable in full when a Qualifying Shareholder accepts the Offer Shares, which represents:

(a) a discount of approximately 89.13% to the closing price of HK$0.23 per New Share based on the closing price of HK$0.023 per Share (before Capital Reorganization) as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 90.12% to the average closing price of approximately HK$0.253 per New Share based on the average closing price of HK$0.0253 for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(c) a discount of approximately 80.39% to the theoretical ex-entitlement price of HK$0.1275 per New Share based on the closing price of HK$0.023 per Share as quoted on the Stock Exchange on the Last Trading Day;

(d) a discount of approximately 92.33% to the audited consolidated net asset value of approximately HK$0.326 per New Share based on the audited consolidated net asset value of approximately HK$0.033 per Share as at 31 December 2005; and

(e) a discount of approximately 88.64% to the closing price of HK$0.22 per New Share based on the closing price of HK$0.022 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was agreed after arm's length negotiations among the Company and the Underwriters with reference to the prevailing market condition, market price of the Shares and the liquidity of the Shares. The Directors consider that the Subscription Price and the discounts for the Subscription Price are fair and reasonable, and that the discounts would be able to encourage the Shareholders to participate in the Open Offer.

The Company intended to raise funds for the operation after suffering losses for many years but did not intend to create great burden to the existing shareholders. Therefore, the Subscription Price was set to be low to induce the existing shareholders to participate in the Open Offer.

In view of the substantial discount represented by the Subscription Price to the market price per New Share, the Directors believed that there would be a high level of acceptance of the Offer Shares by the Qualifying Shareholders and therefore there would not be any significant number of Offer Shares available for excess application. Also, given the dreadful financial position of the Group, the Company would like to save costs incurred from the administrative procedures for implementing the arrangement for excess application for the Open Offer.

Qualifying Shareholders

The Company will send the Prospectus Documents to the Qualifying Shareholders only. To qualify for the Open Offer, a Shareholder must be registered as a member of the Company as at the close of business on the Record Date, and not be an Excluded Shareholder.

In order to be registered as members of the Company on the Record Date, all transfer of Shares (together with the relevant share certificates) must be lodged with the Registrar and its transfer office at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 24 July 2006 pursuant to the expected timetable.

Rights of Excluded Shareholders

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. If at the close of business of Record Date, a Shareholder's address on the Company's register of members is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer. If at any time before or on the Record Date, there is any Shareholder who maintain address overseas on the Company's register of members, the Company will make enquiries regarding the legal restrictions under the laws of the relevant regulatory body or stock exchange for extending the Open Offer to such Shareholders and will only exclude such Shareholders for the Open Offer if it would be necessary or expedient to do so in accordance with Rule 13.36(2)(a) of the Listing Rules. If the Directors, after making enquiries, find it necessary or expedient to exclude the Excluded Shareholders for the Open Offer, the Company will not make provisional allotment of Offer Shares to the

Excluded Shareholders. The Company will send copies of the Prospectus to the Excluded Shareholders for their information only, but will not send any Assured Allotment Letter to Excluded Shareholders. The Excluded Shareholders, if any, will be entitled to vote at the SGM to consider, among others, the Open Offer.

Closure of register of members

The register of members of the Company is expected to be closed from Tuesday, 25 July 2006 to Monday, 31 July 2006, both dates inclusive, to determine entitlements to participate in the Open Offer. No transfer of shares will be registered during this period.

Fractions of Offer Shares

Given the Open Offer is on the basis of one Offer Share for every New Share held by Qualifying Shareholders on the Record Date, there will be no fractions of Offer Shares.

No trading in nil-paid allotments and application for excess Offer Shares

Under the Open Offer, there will not be trading in nil-paid allotments of Offer Shares and there will be no arrangements for application for excess Offer Shares by Qualifying Shareholders. Any Offer Shares not taken up by the Qualifying Shareholders will be taken up by the Underwriters pursuant to the Underwriting Agreement at the Subscription Price, which is at a discount to the prevailing market price of the Shares. As a result, the interest of these Qualifying Shareholders not taking up the Offer Shares in the Company will be diluted. Under the Listing Rules, absence of facility for excess applications for the assured allotments of Offer Shares is subject to approval of the Independent Shareholders in SGM.

In view of the current market price of the Shares of the Company and the expected market price of the New Shares of the Company, the Directors consider that trading in nil-paid Offer Shares and excess application may lead to higher issue costs and higher transaction costs to the Shareholders which would not be in the interests of the Shareholders. In the circumstances and given that new capital fund by way of the Open Offer enables the existing Shareholders (except Excluded Shareholders due to the legal concerns explained above) to maintain their relative percentage interests in the Company among themselves, in the same way as a rights issue but in contrast with for example, a private placement of Shares which will result in dilution of existing Shareholders' interests in the Company, the Directors have decided to proceed with the Open Offer. In addition, as the Open Offer allows the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Group, the Directors consider that it is in the interests of the Company and its Shareholders as a whole to raise capital through the Open Offer.

Status of the Offer Shares

When fully paid, issued and allotted, the Offer Shares will rank pari passu in all respects with the then issued New Shares. Holders of the fully paid Offer Shares will be entitled to receive all future dividends and distributions declared, made or paid on or after the Record Date.

Share Certificates

Subject to the fulfillment of the conditions of the Open Offer, certificates for all the fully-paid Offer Shares are expected to be posted on or before Wednesday, 23 August 2006 to those who have accepted and paid in full for the Offer Shares at their risk.

Application for listing and dealings

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Offer Shares.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Dealings in the Offer Shares is expected to commence on Friday, 25 August 2006 in board lot of 20,000 New Shares, subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

UNDERWRITING ARRANGEMENTS

Undertaking from Mr. Widodo

As at the Announcement Date, Mr. Widodo has the following interest in the Shares:

	Number of Shares	% of the issued share capital of the Company
Personal interest	248,276,000	4.45%
Corporate interest through SMI International Limited *(Note)*	1,974,720,000	35.38%

Note: Mr. Widodo owns approximately 39.82% in the issued share capital of SMI International Limited ("SMI").

Pursuant to the Undertaking Agreement, Mr. Widodo has given an undertaking to accept all the 24,827,600 Offer Shares to be provisionally allotted to him pursuant to the Open Offer. Assuming all the Offer Shares subject to the above undertakings have been fully allotted and issued to Mr. Widodo, his total shareholdings in personal capacity after the Open Offer would amount to 49,655,200 New Shares representing approximately 4.45% of the total issued share capital of the Company as enlarged by the Open Offer. As at the Latest Practicable Date, SMI has not indicated whether it would accept its provisional allotted Offer Shares. Mr. Widodo, as one of the Underwriters, has agreed to underwrite the entitlement of SMI to the 197,472,000 Offer Shares.

Underwriting Agreement

Date:	16 May 2006
Underwriters:	Mr. Widodo
	Grand Vinco, a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company
	Celestial, a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company

Number of Offer Shares underwritten or undertaken to be accepted:		Offer Shares	As % of total New Shares expected to be in issue
	Offer Shares undertaken to be accepted by Mr. Widodo	24,827,600	2.22%
	Underwritten Shares		
	Mr. Widodo *(Note)*	197,472,000	17.70%
	Grand Vinco	167,895,062	15.04%
	Celestial	167,895,062	15.04%
		533,262,124	47.78%
		558,089,724	50.00%
Commission:	2.5% of the aggregate Subscription Price in respect of the actual number of the Offer Shares underwritten by the Underwriters and is expected to be approximately HK$333,000.		

Note: The Offer Shares underwritten by Mr. Widodo only apply to the entitlement of SMI to the Offer Shares.

Pursuant to the Underwriting Agreement, the Underwriters agree to subscribe for or procure subscribers to subscribe for any Shortfall Underwritten Shares. Each of the Underwriters shall use its reasonable endeavours to ensure that the subscribers procured by it for the Shortfall Underwritten Shares shall be third parties who (i) are not connected persons (as defined in the Listing Rules) of the Company; and (ii) are not acting in concert with any connected persons (as defined in the Listing Rules) of the Company and their respective associates.

As one of the Underwriters, Mr. Widodo, is a connected person of the Company, the underwriting arrangement in respect of the Open Offer constitutes a connected transaction under Rule 14A.13 of the Listing Rules. Given the absence of facility for excess applications for Offer Shares being subject to approval of the Independent Shareholders in SGM, the underwriting arrangement can be exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.31(3)(c) of the Listing Rules.

Termination of the Underwriting Agreement and force majeure

The Underwriting Agreement contains provisions entitling each of the Underwriters, by notice in writing, to terminate its obligations thereunder if at any time prior to the Latest Time for Termination:

(a) the success of the Open Offer would be materially and adversely affected by the development, occurrence or enforcement of:

(i) any new law or regulation or any change in existing laws or regulations which in the reasonable opinion of the Underwriter has or is likely to have a material adverse effect on the financial position of the Group as a whole; or

(ii) any significant change (whether or not permanent) in local, national or international economic, financial, political or military conditions which in the reasonable opinion of the Underwriter is or would be materially adverse to the success of the Open Offer; or

(iii) any significant change (whether or not permanent) in local, national or international securities market conditions or currency exchange rates or exchange controls which in the reasonable opinion of the Underwriter is or would be materially adverse to the success of the Open Offer; or makes it impracticable or inadvisable or inexpedient to proceed therewith; or

(iv) any suspension of dealings in the Shares for any period longer than five consecutive Business Days after the date of the Underwriting Agreement (other than as a result of the Capital Reorganization and the Open Offer); or

(v) any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise at any time prior to Latest Time for Termination; or

(b) any breach of any of the warranties by the Company pursuant to the Underwriting Agreement comes to the knowledge of the Underwriters; or

(c) any event occurs or any matter arises on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date thereof would have rendered any of such representations, warranties and undertakings untrue or incorrect in any material respect in such a manner as would in the absolute opinion of the Underwriters materially and adversely affect the financial position or business of the Group as a whole; or

(d) there is any such adverse change in the general affairs, management, business, stockholders' equity or in the financial or trading position of the Group as a whole which in the absolute opinion of the Underwriters is materially adverse to the success of the Open Offer; or

(e) there is any change in the composition of the Board which in the absolute opinion of the Underwriters may affect the management and general affairs of the Company;

In any of such cases, the Underwriters may terminate the Underwriting Agreement without liability to the Company by giving notice in writing to the Company, served prior to the Latest Time for Termination.

CONDITIONS OF THE UNDERWRITING AGREEMENT

The Underwriting Agreement is conditional, amongst other things, on:

(i) the passing by the Shareholders or Independent Shareholders (as the case may be) at the SGM of:–

  (1) a special resolution to approve the Capital Reorganization; and

  (2) an ordinary resolution to approve the Open Offer;

(ii) the Capital Reorganization having become effective;

(iii) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the New Shares;

(iv) the Listing Committee of the Stock Exchange granting or agreeing to grant in principle (subject to allotment of Offer Shares) and not having withdrawn or revoked listing of and permission to deal in all the Offer Shares by no later than the date when the prospectus is posted;

(v) compliance with the requirements under the applicable laws and regulations of Hong Kong and Bermuda;

(vi) compliance with and performance of all undertakings and obligations of the Company under the Underwriting Agreement;

(vii) trading of Shares on the Stock Exchange not being suspended for more than five (5) consecutive Business Days at any time prior to the Latest Time for Acceptance (excluding any suspension in connection with the clearance of the Announcement or the Prospectus Documents or other announcements or circulars in connection with the Capital Reorganization and the Open Offer); and

(viii) the performance in full by Mr. Widodo of his undertaking in respect of taking up his entitlements to Offer Shares in full.

Save for conditions (vi) and (vii) above, none of the above conditions can be waived. If the conditions referred to above are not satisfied and/or waived in whole or in part by the Underwriter by 4:00 p.m. on the Latest Time for Acceptance of the Offer Shares, the Underwriting Agreement shall terminate and the Open Offer will not proceed. In case the Open Offer does not proceed, the Company will not be liable for the underwriting commission of the Underwritten Shares. However, the Company will still be liable to any costs and expenses of the legal and other professional advisers incurred in relation to the Open Offer.

SHAREHOLDING IN THE COMPANY

The following table sets out the shareholding structure of the Company as at the Announcement Date and upon completion of the Capital Reorganization and Open Offer, on the basis that no option issued under the Share Option Scheme will be exercised before Record Date, and assuming different levels of acceptance of the Offer Shares by SMI and the other Shareholders on or before the Record Date:

(a) Assuming that SMI has not accepted any of its entitled Offer Shares

	Existing shareholding as at the Announcement Date		Upon completion of Capital Reorganization but prior to the Open Offer		Shareholding upon completion of the Capital Reorganization and Open Offer assuming subscription by the Shareholders of Open Offer			
					0% (Note 1)		*100% (Note 2)*	
	Shares	*(%)*	*New Shares*	*(%)*	*New Shares*	*(%)*	*New Shares*	*(%)*
Mr. Widodo	248,276,000	4.45	24,827,600	4.45	247,127,200 *(Note 5)*	22.14	247,127,200	22.14
SMI *(Note 3)*	1,974,720,000	35.38	197,472,000	35.38	197,472,000	17.69	197,472,000	17.69
Grand Vinco *(Note 4)*	–	–	–	–	167,895,062	15.04	–	–
Celestial *(Note 4)*	–	–	–	–	167,895,062	15.04	–	–
Other public Shareholders	3,357,901,243	60.17	335,790,124	60.17	335,790,124	30.09	671,580,248	60.17
Total	5,580,897,243	100.00	558,089,724	100.00	1,116,179,448	100.00	1,116,179,448	100.00

Notes:

1. Assuming that no Qualifying Shareholders (other than Mr. Widodo) will take up their provisional entitlements under the Open Offer and all the Underwritten Shares (other than those entitled by SMI which will be taken up by Mr. Widodo) will be taken up by the Underwriters.

2. Assuming that all Qualifying Shareholders will take up their provisional entitlements under the Open Offer (except that the entitlement of SMI will be taken up by Mr. Widodo).

3. SMI is owned by Mr. Widodo as to approximately 39.82%.

4. Pursuant to the Underwriting Agreement, each of the Underwriters undertook to the Company that it shall use its reasonable endeavours to ensure that the subscribers procured by it for the Shortfall Underwritten Shares shall be third parties who (i) are not connected persons of the Company; and (ii) are not acting in concert with any connected persons of the Company and their respective associates.

5. Mr. Widodo has undertaken to the Company that he will take up in full his entitlement of Offer Shares under the Open Offer. Number of New Shares comprises shares after Capital Reorganization, shares upon completion of Open Offer and shares owned by SMI.

(b) Assuming that SMI has accepted all of its entitled Offer Shares

	Existing shareholding as at the Announcement Date		Upon completion of Capital Reorganization but prior to the Open Offer		Shareholding upon completion of the Capital Reorganization and Open Offer assuming subscription by the Shareholders of Open Offer			
					0% (Note 1)		*100% (Note 2)*	
	Shares	*(%)*	*New Shares*	*(%)*	*New Shares*	*(%)*	*New Shares*	*(%)*
Mr. Widodo *(Note 3)*	248,276,000	4.45	24,827,600	4.45	49,655,200 *(Note 5)*	4.45	49,655,200	4.45
SMI *(Note 3)*	1,974,720,000	35.38	197,472,000	35.38	394,944,000	35.38	394,944,000	35.38
Grand Vinco *(Note 4)*	–	–	–	–	167,895,062	15.04	–	–
Celestial *(Note 4)*	–	–	–	–	167,895,062	15.04	–	–
Other public Shareholders	3,357,901,243	60.17	335,790,124	60.17	335,790,124	30.09	671,580,248	60.17
Total	5,580,897,243	100.00	558,089,724	100.00	1,116,179,448	100.00	1,116,179,448	100.00

Notes:

1. Assuming that no Qualifying Shareholders (other than Mr. Widodo) will take up their provisional entitlements under the Open Offer and all the Underwritten Shares (other than those entitled by SMI which will be taken up by Mr. Widodo) will be taken up by the Underwriters.

2. Assuming that all Qualifying Shareholders will take up their provisional entitlements under the Open Offer.

3. SMI is owned by Mr. Widodo as to approximately 39.82%.

4. Pursuant to the Underwriting Agreement, each of the Underwriters undertook to the Company that it shall use its reasonable endeavours to ensure that the subscribers procured by it for the Shortfall Underwritten Shares shall be third parties who (i) are not connected persons of the Company; and (ii) are not acting in concert with any connected persons of the Company and their respective associates.

5. Mr. Widodo has undertaken to the Company that he will take up in full his entitlement of Offer Shares under the Open Offer. Number of New Shares comprises shares after Capital Reorganization, shares upon completion of Open Offer and shares owned by SMI.

WARNING OF THE RISKS OF DEALING IN SHARES

Subject to the implementation of Capital Reorganization, the New Shares will be dealt in on an ex-entitlement basis from Friday, 21 July 2006. Any person contemplated buying or selling of the Shares or New Shares from now up to the date on which all conditions of Open Offer are fulfilled will bear the risk that Open Offer may not become unconditional and may not proceed. Investors should seek professional advice regarding dealing in Shares if they are in any doubt.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The estimated net proceeds of the Open Offer will be approximately HK$12.4 million, which will be used for general working capital of the Company and the repayment of part of the Group's bank loans during year 2006. The Directors consider that to strengthen the working capital of the Group would be desirable as there was only little net cash inflow during the year ended 31 December 2005 but the Group has to repay part of its bank loans during the year 2006. The Directors consider that the Open Offer is in the interests of the Company and the Shareholders as a whole.

The Company had not conducted any fund raising activities in the past 12 months immediately before the date of this announcement. The Directors have considered other alternative fund raising methods such as issue of new shares and bank borrowings and consider that Open Offer has the benefits of allowing Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Offer Shares and participate in the future growth of the Group. Furthermore, the Directors have also considered to issue right issues, however, the Directors were of the opinion that right issues may not benefit the Shareholders because that higher cost of issuing and also higher transaction costs if the Shareholders wish to trade the nil-paid rights.

BUSINESS REVIEW AND PROSPECTS

Last year was a testing year for the plywood industry in the face of rising costs and pricing pressures. This was caused primarily by the unfavorable pricing experienced in the second half of last year as a result of shrunken demand due to inventory built-up from the second half of 2004 in anticipation of log and lumber prices escalation, the weakening Yen and impact of increasing crude oil prices. This has caused the escalating costs of logs lumber and crude oil related services and materials to be out of skew with market pricing.

Since the beginning of this year market prices have gradually been catching up in reflecting the escalated logs, lumber and crude oil related services and materials prices, and with the continuous tightening and enforcement of harvesting and increasing exports restrictions by major logs and lumber supplier countries, the increasing global demand for plywood to support infrastructural and housing developments in high GDP growth countries like the PRC, India and the Middle-East is likely to sustain the pricing momentum. This has also caused traditional consuming markets like Japan, North America and Europe to go for competitive demand pricing.

During the first four months of this year the Company has been experiencing favourable market pricings for its products. During the said period prices are generally favourable as compared to the second half of last year and full year, but slightly lower than the first half of last year. In terms of volume it is slightly lower than the said three periods of last year, but the volume contribution rate is higher than the second half of last year but slightly below the first half of last year.

Going forward, we expect market conditions to further consolidate and rationalize the costs and pricing factors, increasing restrictions on exports of raw logs and lumber, inventories depletion and positive growth sentiments in the major economies in Asia (including India). These however may be dampened by the pace and sustainability of growth and recovery in the housing markets and consumerism in Japan, the US and Europe, the resilience in global trade in the face of unequal trading balances among the major trading economies, the inflationary factors in the PRC, the strength of the US dollar versus other major currencies, political stability in the Middle East, global crude oil supply and pricing, the rationalization of forestry management in logs and lumber producing and the demand of which by importing countries and the recent threats of upward trending in the U.S. Fed interest rates.

SGM

Set out in this circular is a notice convening the SGM which will be held at 10:30 a.m. on Wednesday, 19 July 2006 at Taishan Room, Island Shangri-la Hotel, Level 5, Pacific Place, Supreme Court Road, Hong Kong at which resolutions will be proposed to approve the Capital Reorganization and the Open Offer.

The form of proxy for use at the SGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Registrar in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

In accordance with the Listing Rules, the Open Offer must be made conditional on approval by Shareholders in general meeting by a resolution on which any Controlling Shareholders and their associates or, where there are no Controlling Shareholders, Directors (excluding independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. As at the Latest Practicable Date, Mr. Widodo, who is the Chairman and Executive Director of the Company, owns 248,276,000 Shares (representing approximately 4.45% of the existing issued share capital of the Company) and SMI, of which approximately 39.82% interest is owned by Mr. Widodo, owns 1,974,720,000 Shares (representing approximately 35.38% of the existing issued share capital of the Company). As such, Mr. Widodo, SMI and their associates are required to abstain from voting at the SGM in favour of proposed resolutions for approving the Open Offer.

There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon each of Mr. Widodo and SMI; (ii) no obligation or entitlement of each of Mr. Widodo and SMI as at the Latest Practical Date, whereby he/it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his/its Shares to a third party, either generally or on a case-by-case basis.

PROCEDURES TO DEMAND A POLL

Pursuant to Bye-laws 70 to 74 of the Company's Bye-laws, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the rules of the relevant board of the stock exchange in the Relevant Territory or a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by:–

(i) the chairman of the meeting; or

(ii) at least three shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less then one-tenth of the total voting rights of all the shareholders having the right to vote at the meeting; or

(iv) any shareholder or shareholders present in person (or, in the case of a shareholder being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so required or so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number of proportion of the votes recorded in favour or against such resolution.

If a poll is required or demanded as aforesaid, it shall be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was so required or demanded as the chairman directs. No notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was required or demanded. The demand for a poll (but not the requirement for a poll under the rules of the relevant board of the stock exchange of the Relevant Territory) may be withdrawn, with the consent of the chairman, at any time before the close of the meeting at which the poll was demanded or the taking of the poll, whichever is the earlier.

Any poll duly demanded on the election of a chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote. In case of any dispute as to the admission or rejection of any vote the chairman shall determine the same, and such determination shall be final and conclusive.

The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

RECOMMENDATIONS

The Directors are of the opinion that the Capital Reorganization and Open Offer (and the absence of a facility for excess application under the Open Offer) are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolutions to be proposed in the SGM.

Your attention is drawn to the letter from the Independent Board Committee set out on page 32 of this circular which contains its recommendation to the Independent Shareholders as to voting at the SGM regarding the Open Offer and to the letter received from Veda Capital which contains its advice to the Independent Board Committee and Independent Shareholders as regards the Open Offer and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Veda Capital is set out on pages 33 to 46 of this circular.

GENERAL

Your attention is drawn to the information contained in the Appendices to this circular.

By order of the Board
Pacific Plywood Holdings Limited
Mr. Sardjono Widodo
Managing Director

PACIFIC PLYWOOD HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 767)

23 June 2006

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company dated 23 June 2006 (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise the Independent Shareholders in connection with the terms of the Open Offer. Veda Capital has been appointed as the independent financial adviser to advise you and us in this respect.

Having considered the terms of the Open Offer and the advice of Veda Capital in relation thereto as set out on pages 33 to 46 of the Circular, we are of the opinion that the Open Offer is in the interests of the Company and the Shareholders as a whole and the terms of the Open Offer and the absence of a facility for excess application for the Open Offer, are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommended that you vote in favour of the relevant ordinary resolutions in relation to the Open Offer and the absence of a facility for excess application for the Open Offer to be proposed at the SGM.

Yours faithfully,
Independent Board Committee

Mr. Marzuki Usman	**Mr. Kusnadi Widjaja**	**Mr. Ngai Kwok Chuen**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in relation to the Open Offer, which has been prepared for the purpose of inclusion in the Circular.

VEDA | CAPITAL
智略資本

Veda Capital Limited
Suite 11-12, 13/F, Nam Fung Tower
173 Des Voeux Road Central, Hong Kong

23 June 2006

To the Independent Board Committee and the Independent Shareholders of
Pacific Plywood Holdings Limited

Dear Sirs,

PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY NEW SHARE HELD

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Open Offer, details of which are set out in the letter from the Board (the "Board Letter") contained in this circular (the "Circular") dated 23 June 2006 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 18 May 2006, the Directors announced that, among other things, the Company's proposal to raise approximately HK$13.9 million before expenses by issuing 558,089,724 Offer Shares at a price of HK$0.025 per Offer Share, on the basis of one Offer Share for every New Share held by the Qualifying Shareholders on the Record Date. The Open Offer will not be available to the Excluded Shareholders.

The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Marzuki Usman, Mr. Kusnadi Widjaja and Mr. Ngai Kwok Chuen, has been established to advise the Independent Shareholders in respect of the Open Offer. Veda Capital has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether the Open Offer and the absence of a facility for excess application under the Open Offer are in the interests of the Company and the Independent Shareholders as a whole.

BASIS OF OUR ADVICE

In arriving at our recommendation, we have relied on the information including but not limited to the published information of the Group, including the Company's annual report for the year ended 31 December 2005 (the "2005 Annual Report") and the Announcement, and have assumed that any representations made to us are true, accurate and complete. We have also relied on the statements, information, opinions contained or referred to in the Circular and all information, representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which are solely responsible, are true and accurate at the time when they were made and will continue to be accurate at the Latest Practicable Date.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associated companies.

We have not considered the tax consequences on the Qualifying Shareholders arising from the subscription for, holding of or dealing in the Offer Shares or otherwise, since these are particular to their own circumstances. We will not accept responsibility for any tax effect on, or liabilities of, any person resulting from the subscription for, holding of or dealing in the Offer Shares or the exercise of any rights attaching thereto or otherwise. In particular, Qualifying Shareholders subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Open Offer and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the Open Offer and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Financial and business highlights of the Group

The Group is principally engaged in the manufacture, distribution and sale of plywood, veneer, jamb and moulding, structural, flooring and other wood related products. For the year ended 31 December 2005, the Group's sales decreased by approximately 8.95% to approximately US$136.14 million (equivalent to approximately HK$1,061.9 million) as compared to the previous year of approximately US$149.52 million (equivalent to approximately HK$1,166.27 million). According to the 2005 Annual Report, this was caused primarily by the unfavorable pricing of flooring products in the second half of 2005 in the

PRC market, as a result of shrunken demand from buyers who had accumulated high inventory in anticipation of price escalation. Competitive pricing from low cost producers in South America also contributed to the lower sales. Gross profit deteriorated by approximately 23.94% from approximately US$26.41 million (equivalent to approximately HK$206 million) to approximately US$20.09 million (equivalent to approximately HK$156.70 million) due to continuous hike in the prices of log, lumber and crude oil related products and services. Loss attributable to shareholders worsened by approximately 75.68% to approximately US$7.9 million (equivalent to approximately HK$61.65 million).

As illustrated in the section headed "Financial Summary" of the 2005 Annual Report, the Group has been making consistent losses for the five consecutive years ended 31 December 2005. In addition, as stated in the section headed "Audited Financial Statements" of Appendix I to the Circular, the report of the auditors on the Group's consolidated financial statements for the year ended 31 December 2005 has been modified to include the disclosure of a material uncertainty concerning going concern basis of accounting. Without qualifying their opinion, the auditors have drawn attention to Note 2 to the consolidated financial statements as contained in Appendix I to the Circular concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from the failure of such measures. Details of the circumstances relating to this material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern are described in Note 2 to the consolidated financial statements.

Reasons for the Open Offer and the use of proceeds

As stated in Board Letter, there was only little cash inflow during the year ended 31 December 2005 but the Group has to repay part of its bank loans during year 2006. The Open Offer can enlarge the capital base of the Company which supports the existing business of the Group. The estimated net proceeds of the Open Offer of approximately HK$12.4 million will be used for general working capital of the Group and repayment of part of the Group's bank loans during year 2006.

Terms of the Open Offer

The Open Offer is on the basis of one Offer Share for every New Share held on the Record Date at the Subscription Price of HK$0.025 each, which will be payable in full when a Qualifying Shareholder accepts the Offer Share. The Subscription Price of HK$0.025 represents:

(i) a discount of approximately 89.13% to the closing price of HK$0.23 per New Share based on the closing price of HK$0.023 per Share (before Capital Reorganization) as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 90.12% to the average closing price of approximately HK$0.253 per New Share based on the average closing price of HK$0.0253 for the last ten trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(iii) a discount of approximately 80.39% to the theoretical ex-entitlement price of HK$0.1275 per New Share based on the closing price of HK$0.023 per Share as quoted on the Stock Exchange on the Last Trading Day; and

(iv) a discount of approximately 92.33% to the audited consolidated net asset value of approximately HK$0.326 per New Share based on the audited consolidated net asset value of approximately HK$0.033 per Share as at 31 December 2005.

The Subscription Price was agreed after arm's length negotiations among the Company and the Underwriters with reference to the prevailing market condition, market price of the Shares and the liquidity of the Shares. The Directors consider that the Subscription Price and the discounts for the Subscription Price are fair and reasonable, and that the discounts would be able to encourage the Shareholders to participate in the Open Offer.

(a) Review on Share prices and historical closing prices

The average daily closing price, the highest closing price, the lowest closing price and the average daily trading volume of the Shares as quoted on the Stock Exchange in each of the months during the period commencing from 19 May 2005 (being the commencement of the one-year period preceding the Last Trading Day) up to and including the Latest Practicable Date (the "Review Period") are shown as follows:

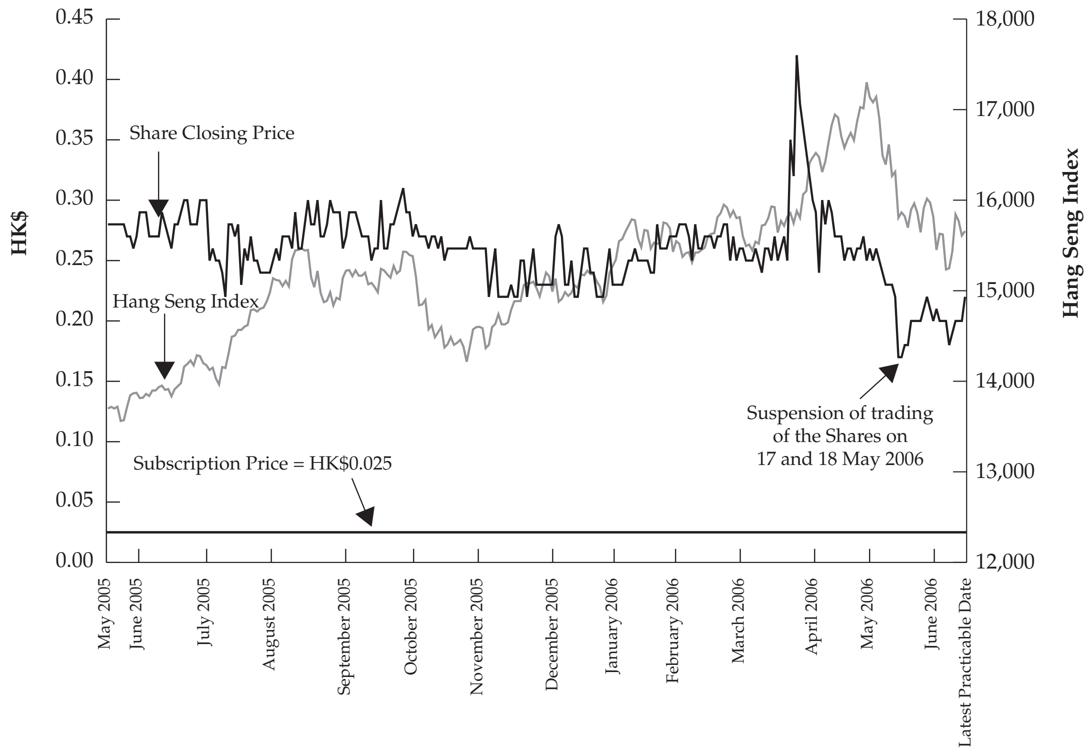
Month	Average daily closing price *(HK$)*	Highest closing price *(HK$)*	Lowest closing price *(HK$)*	Average daily trading volume of the month (Shares)	% of average daily trading volume of the month to the Shares in issue[1]
2005					
May (from 19 May 2005 onwards)	0.0276	0.0280	0.0260	786,889	0.0141%
June	0.0282	0.0300	0.0260	407,273	0.0073%
July	0.0256	0.0300	0.0220	640,000	0.0115%
August	0.0274	0.0300	0.0240	1,941,229	0.0348%
September	0.0278	0.0310	0.0250	2,845,524	0.0510%
October	0.0266	0.0290	0.0250	957,900	0.0172%
November	0.0239	0.0260	0.0220	1,224,091	0.0219%
December	0.0240	0.0280	0.0220	820,500	0.0147%
2006					
January	0.0266	0.0280	0.0230	2,306,632	0.0413%
February	0.0270	0.0280	0.0250	2,016,900	0.0361%
March	0.0275	0.0420	0.0240	9,954,470	0.1784%
April	0.0285	0.0360	0.0240	15,542,353	0.2785%
May[2]	0.0225	0.0270	0.0170	8,469,500	0.1518%
June (up to and including the Latest Practicable Date)	0.0203	0.0220	0.0180	4,401,467	0.0789%

Source: the Stock Exchange web-site (www.hkex.com.hk)

Note 1: The Company has 5,580,897,243 issued Shares as at the Latest Practicable Date.

Note 2: Trading in the Shares was suspended from 17 May 2006 to 18 May 2006.

We also reviewed the historical closing price of the New Shares versus the Subscription Price and the Hang Seng Index during the Review Period. The following chart illustrates the historical closing price of the New Shares (assuming the Capital Reorganisation was effective since 19 May 2005) versus the Subscription Price and the Hang Seng Index during the Review Period:

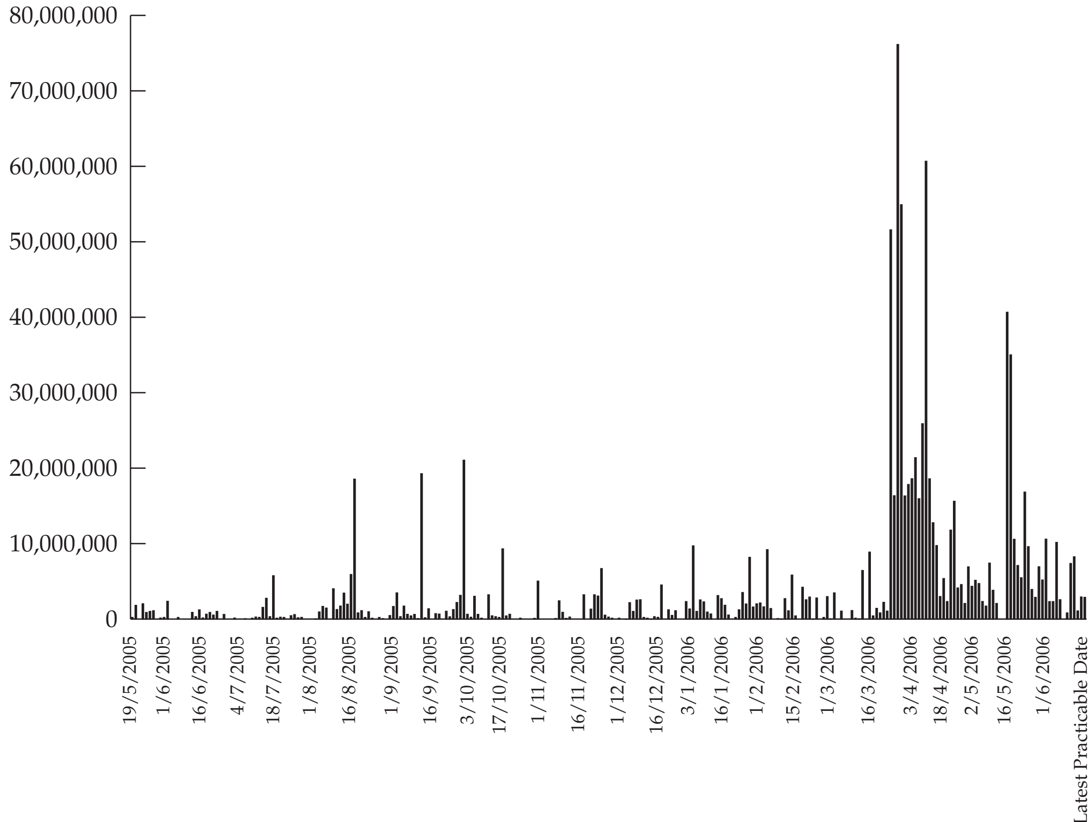


As shown in the above chart, the closing price of the New Shares ranged from HK$0.17 per New Share to HK$0.42 per New Share during the Review Period. During the Review Period, the New Shares were always traded above the Subscription Price of HK$0.025 per Offer Share. The Subscription Price of HK$0.025 per Offer Share represents a discount of approximately 90.35% to the average closing price of approximately HK$0.259 per New Share during the Review Period. We note that it is a common market practice that, in order to enhance the attractiveness of an open offer exercise, the subscription price of an open offer normally represents a discount to the prevailing market prices of the relevant shares. Hence, the fact that the Subscription Price is lower than the prevailing market prices of the New Shares is in line with general practice and is acceptable.

As noted from the graph above, Hang Seng Index dropped 909 points within a six trading day period from a closing maximum of 17,302 points on 8 May 2006 to a level of 16,393 points on 16 May 2006, being the Last Trading Day. Taken into account the prevailing volatile market condition, the Company and the Underwriters noted that the general investment sentiment among industrial stocks listed in Hong Kong is weak. Therefore they took the view that the Subscription Price may require quite a deep discount to the market price and the ex-entitlement price in order to attract the Qualifying Shareholders and/or other investors to invest in the equities of the Company which belong to the industrial sector.

(b) Review on the trading volume of the Shares

The following chart illustrates the historical trading volume of the Shares as quoted on the Stock Exchange during the Review Period:



As shown in the "Percentage of average daily trading volume of the month to the Shares in issue" of the table in the subsection (a) headed "Review on Share prices and historical closing prices" above, we noted the liquidity of the Shares has been low throughout the Review Period. The chart above in this subsection further shows that the liquidity of the Shares was particularly low between June 2005 and February 2006, with an average daily trading volume ranging from 407,273 Shares to 2,845,524 Shares, or approximately 0.0073% to 0.051% of the Company's issued share capital of 5,580,897,243 Shares throughout the period. Between 1 May 2006 and 16 May 2006, being the Last Trading Day, the average daily trading volume was 4,035,400 Shares, or approximately 0.0723% of the Company Shares in issue. After publication of the Announcement and up to the Latest Practicable Date, the average daily trading volume increase to approximately 8,480,783 Shares, or approximately 0.152% of the Company's Shares in issue. In view of the relatively low liquidity of the Shares on the Stock Exchange, we consider open offers and rights issues will be more practicable means for the Company to raise funds as compared to placing of new Shares; meanwhile, an open offer will have better time and cost efficiency over rights issue as it will not have a trading period for nil-paid entitlements. As such, we consider the Open Offer will be in the interests of the Company and Shareholders as a whole when considering equity fund raising.

Comparison with other open offers

In assessing the fairness of the Subscription Price, we consider a broader comparison of open offers of other listed companies to provide a more general reference for the pricing of the Open Offer. To the best of our knowledge, we have identified and reviewed 17 open offers (the "Comparables") announced by the companies that are listed on the Stock Exchange since 19 May 2005 up to the Last Trading Day. Details of the Comparables are summarized in the following table:

Company name (Stock code)	Date of announcement	Offer ratio	Subscription price *(HK$)*	Discount I *(Note 1)*	Discount II *(Note 2)*
The Company	18 May 2006	1 for 1	0.0250	89.13%	80.39%
Heng Tai Consumables Group Limited (197)	1 March 2006	2 for 5	0.7500	47.60%	39.50%
SYSCAN Technology Holdings Limited (8083)	28 February 2006	3 for 1	0.0300	58.90%	26.83%
Uni-Bio Science Group Limited (690)	15 February 2006	2 for 1	0.5000	18.00%	6.90%
Fortuna International Holdings Limited (530)	27 January 2006	2 for 1	0.0100	90.00%	75.00%
South Sea Petroleum Holdings Limited (76)	27 January 2006	1 for 2	0.2000	41.18%	31.03%
MAE Holdings Limited (851)	6 January 2006	1 for 1	1.0000	51.50%	20.90%
TCL Communication Technology Holdings Limited (2618)	22 December 2005	1 for 1	0.2000	17.00%	9.00%
Satellite Devices Corporation (8172)	25 November 2005	3 for 1	0.0650	13.30%	3.70%
ePRO Limited (8086)	17 November 2005	1 for 2	0.1300	18.75%	13.33%
Foundation Group Limited (1182)	18 October 2005	3 for 1	0.0230	77.00%	45.63%
Earnest Investment Holdings Limited (339)	12 October 2005	8 for 1	0.1000	90.70%	52.40%
United Power Investment Limited (674)	29 August 2005	1 for 1	0.1500	67.39%	50.82%
Carico Holdings Limited (729)	5 August 2005	3 for 1	0.1000	60.00%	27.54%
Shang Hua Holdings Limited (371)	7 July 2005	1 for 2	0.1000	83.00%	77.00%
Sino Gas Group Limited (260)	30 May 2005	2 for 1	0.0200	48.72%	23.95%
U-Right International Holdings Limited (627)	23 May 2005	1 for 2	0.2500	31.50%	23.48%
iSteelAsia Holdings Limited (8080)	19 May 2005	1 for 1	0.1566	95.80%	97.90%
Maximum discount				95.80%	97.90%
Minimum discount				13.30%	3.70%
Mean				55.53%	39.18%

Source: www.hkex.com.hk and the respective announcements containing details of the Comparables

Note 1: The discount of the subscription price to the closing price per share on the last trading day prior to the dates of the announcements in relation to the respective open offers.

Note 2: The discount of the subscription price to the theoretical ex-entitlement price per share based on the closing price per share on the last trading day prior to the dates of the announcements in relation to the respective open offers.

We are mindful of the fact that pricing of an open offer may vary under different stock market conditions as well as among companies with different financial standings and business performance. Nevertheless, we consider that a broader comparison of open offers announced recently would provide a more general reference for the reasonableness of the pricing of the Open Offer.

As shown above, the discounts of the Comparables of the subscription price to the closing price on the last trading day prior to the announcement (the "Closing Price Range") range from approximately 13.30% to 95.80% with a mean of approximately 55.53%. The discount of approximately of 89.13% of the Subscription Price to the closing price per Share on the Last Trading Day falls within the Closing Price Range, and is higher than the mean of the Closing Price Range.

The discounts of the Comparables of the subscription price to the theoretical ex-rights price on the last trading day prior to the announcement (the "Theoretical Price Range") range from approximately 3.70% to 97.90% with a mean of approximately 39.18%. The discount of approximately 80.39% of the Subscription Price to the theoretical ex-rights price per Offer Share based on the closing price per New Share on the Last Trading Day also falls within the Theoretical Price Range, and is higher than the mean of the Theoretical Price Range.

We noted that the Subscription Price falls within the Closing Price Range and the Theoretical Price Range of the Comparables, and that the Subscription Price represents deeper discounts than the means of the Closing Price Range and the Theoretical Price Range respectively. We also noted that during the Review Period, the closing prices of the New Shares were consistently below the audited consolidated net asset value of approximately HK$0.326 per New Share based on the audited consolidated net asset value of approximately HK$0.033 per Share as at 31 December 2005 except during 5 trading days, being 28 March 2006, 30 March to 4 April 2006. Consequently, the Subscription Price represented a deep discount of approximately 92.33% to the audited consolidated net asset value of approximately HK$0.326 per New Share. We have discussed with the Directors about the reasons for the deep discounts represented by the Subscription Price compared to the mean of the Closing Price Range, Theoretical Price Range and the audited consolidated net asset value per New Share. First, as mentioned in the section headed "Financial and business highlights of the Group" above in this letter, there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Second, as stated in the Board Letter, there was little cash inflow to the Group for the year ended 31 December 2005 and the Group needs to repay part of bank loans in year 2006. We note from the 2005 Annual Report that the Group had a very high gearing ratio of 332.6% (total borrowings as a percentage of total equity). Any further new borrowings will increase the Group's interest expenses. After completion of the Open Offer, the Company will apply majority of the net proceeds from the Open Offer for bank loan repayment so as to reduce the financial burden of the Group from further external borrowings. Third, in view of the extremely low turnover of the Shares, we believe that with low turnover, it is difficult to attract Qualifying Shareholders to reinvest through the Open Offer at a subscription price without a substantial discount. Therefore, in order to attract the Qualifying Shareholders' interests and participation in the Open Offer so that the Group can secure more funding from the Open Offer and reduce the extent of further bank loans, the Subscription Price represents more substantial discount than most of the Comparables. We consider that a substantial discount is inevitable in order to provide incentives to the Qualifying Shareholders to subscribe for the Open Offer.

In view of the Group's current dire financial position and that the proceeds from the Open Offer would improve the working capital position of the Group and reduce its indebtedness, we consider substantial discount represented by the Subscription Price is inevitable in order to provide incentives to the Shareholders to subscribe for the Open Offer and to increase the attractiveness of the Open Offer. Taking into account that (i) the Open Offer enables the Qualifying Shareholders to maintain their proportionate interests in the Company should they wish to do so and provides an equal opportunity among the Qualifying Shareholders to share future benefits that may be brought about from the expansion of the Group's business; and (ii) although the shareholding interests of those Qualifying Shareholders who do not take up their entitlements under the Open Offer will be diluted, they have been given a fair chance to participate in the Open Offer, we consider that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Alternatives to the Open Offer

As advised by the Directors, they have considered alternative means for the Company to raise funds other than the Open Offer, including but not limited to, debt financing, placing of new Shares and rights issue. The Directors believe that taking additional borrowings or other debt financing would increase the Group's interest expenses in view of the recent increasing trend of interest rate in Hong Kong and the Group's high gearing ratio. We concur with the Directors that bank borrowing and other debt financing will adversely affect the Company's balance sheet and increase the gearing ratio.

Apart from debt financing, common means of equity financing include placing of new shares, open offer and rights issue. The Directors consider that placing of new Shares by its nature excludes existing Shareholders and dilutes their interests in the Company without providing them with an opportunity to share the future benefits of the Company that may be brought about by the expansion of the Group's business. While rights issue and open offer both can raise funds and allow the Qualifying Shareholders to maintain their existing shareholdings in the Company and participate in the future growth and development of the Company, the Company opts for the latter as it does not require time for trading of nil-paid entitlements on the Stock Exchange, and is more time and cost effective. In view of the time and cost efficiency, we concur with the Directors that the Open Offer is a better fund raising method for the Company.

Dilution effect on the shareholding interests of the Independent Shareholders

All Qualifying Shareholders are entitled to subscribe for the Offer Shares. For those Qualifying Shareholders who take up their respective entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer.

Under the Open Offer, there will be no trading arrangement for nil-paid entitlement. The Independent Shareholders who do not accept the Open Offer will not be able to sell their nil-paid entitlements in the open market. The shareholdings interests in the Company of those Qualifying Shareholders who choose not to elect to subscribe for in full their assured entitlements under the Open Offer will be diluted after the completion of the Open Offer by a maximum of 50%.

Pursuant to the terms of the Underwriting Agreement, no provision is stipulated for excess application arrangement of the Offer Share, and it was in such basis that the Underwriters entered into the Underwriting Agreement. In this regard, the Qualifying Shareholders will not be entitled to subscribe for any Offer Shares in excess of their assured entitlements.

We are aware of the aforementioned potential dilution to the Independent Shareholders' shareholding interests in the Company, and the absence of (i) trading arrangement for nil-paid entitlement; and (ii) arrangement for excess application of the Offer Shares. However, we consider that the foregoings should be balanced against the fact that:

- the Independent Shareholders are offered a chance to express their view on the terms of the Open Offer through voting at the SGM;
- the Qualifying Shareholders have their choice whether to accept the Open Offer or not;
- the Open Offer offers the Qualifying Shareholders a chance to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholdings in the Company at a low price as compared to the historical and prevailing market price of the New Shares; and
- those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholdings in the Company after the Open Offer.

Based on the 17 Comparables, three of which did not offer a facility for excess application. We are of the view that the absence of the arrangement for excess application is not an uncommon market practice. Although the absence of a facility for excess application of the Offer Shares will affect the rights of the Qualifying Shareholders by limiting them to further participate in the Open Offer at a low Subscription Price, in view of the substantial discount represented by the Subscription Price to the market price per New Share, the Directors believed that there would be a high level of acceptance of the Offer Shares by the Qualifying Shareholders and therefore there would not be any significant number of Offer Shares available for excess application. Also, given the dreadful financial position of the Group, the Company would like to save costs incurred from the administrative procedures for implementing the arrangement for excess application for the Open Offer. As a result, we concur with the Directors that the absence of a facility for excess application under the Open Offer is fair and reasonable.

Financial effects of the Open Offer

As stated in the Board Letter, all the holders of the Share Options have undertaken to the Company that they will not exercise any subscription rights attached to the Share Options during the period from the date of the Announcement up to and including the Record Date and thus we assess the financial effects of the Open Offer on such basis.

(i) Effect on net tangible assets

A statement of unaudited pro forma consolidated net tangible assets of the Group based on the audited net tangible assets of the Group as at 31 December 2005 adjusted for the effects of the Capital Reorganization and the Open Offer on the net tangible assets of the Group is set out in Appendix I to the Circular (the "Statement").

The audited consolidated net tangible assets of the Group were approximately US$23,319,000 (equivalent to approximately HK$181,888,200) as at 31 December 2005. Based on 558,089,724 New Shares, the net tangible asset value per New Share was US cents 4.18 (equivalent to HK cents 32.59). Upon completion of the Capital Reorganisation and the Open Offer, the unaudited pro forma net tangible assets of the Group and unaudited pro forma net tangible assets of the Group per New Share would increase by approximately 6.84% to approximately US$24,915,000 (equivalent to approximately HK$194,337,000) and decrease by approximately 46.58% to approximately US cents 2.232 (equivalent to HK cents 17.41) per New Share respectively based on the Statement.

In light of the enhancement on the unaudited pro forma consolidated net tangible assets and the lowering of the gearing level (details of which will be discussed in the sub-section headed "Effect on gearing ratio" that follows) of the Group as a result of the Open Offer, we are of the opinion that the Open Offer is in the interests of the Company and the Shareholders as a whole. The decrease in the unaudited pro forma net tangible assets per New Share is an inevitable consequence of the Subscription Price being set at a heavy discount. However, as aforementioned above that in an open offer, it is a common market practice to set the subscription price at discount to the prevailing market price of the shares in order to attract the shareholders to subscribe for the offer shares. In addition, having taken also into account that the Qualifying Shareholders have an equal opportunity to take up the Offer Shares in accordance with their provisional entitlements under the Open Offer and the importance of the Open Offer to the Group, we are of the view that the Open Offer would not be detrimental to the Shareholders despite that the unaudited pro forma consolidated net tangible assets per New Share might be reduced upon completion of the Open Offer.

(ii) Effect on gearing ratio

As aforementioned above, the Group's gearing ratio was approximately 332.6% as at 31 December 2005. As a result of the increase in the net asset value of the Group immediately after the Open Offer, the Company's gearing ratio will be reduced immediately after the Open Offer. We consider the reduced gearing ratio provides the Company with more financial flexibility and hence is in the interests of the Company and the Shareholders.

(iii) Effect on liquidity

According to the 2005 Annual Report, the audited total cash and bank balances of the Group was approximately US$2.64 million (equivalent to approximately HK$20.61 million) as at 31 December 2005. As set forth in the section headed "Reasons for the Open Offer and the use of proceeds" in the Board Letter, the net proceeds of the Open Offer will be applied in repayment of the Group's bank loans and as general working capital. Therefore, the Group would have an improved cash position upon completion of the Open Offer and we consider that the resulting improvement in liquidity of the Group will strengthen the Group's financial position and is therefore in the interests of the Company and the Shareholders as a whole.

Underwriting arrangement

As at the Latest Practicable Date, Mr. Widodo, the Chairman and executive Director of the Company, had a personal interest of approximately 4.45% and a corporate interest through SMI of approximately 35.38% in the Company. Mr. Widodo owns 39.82% in the issued share capital of SMI. Pursuant to the Undertaking, Mr. Widodo has given an undertaking to accept all the 24,827,600 Offer Shares to be provisionally allotted to him pursuant to the Open Offer. As at the Latest Practicable Date, SMI has not indicated whether it would accept its provisional allotted Offer Shares. Mr. Widodo, as one of the Underwriters, has agreed to underwrite the entitlement of SMI to 197,472,000 Offer Shares. Each of Grand Vinco and Celestial has agreed to underwrite up to 167,895,062 Offer Shares under the Open Offer. In light of the above, we consider that the underwriting arrangement has demonstrated the financial commitment of Mr. Widodo to the future development of the Group.

From the Comparables as set out in subsection headed "Comparisons with other open offers" above, we note that the commissions of the respective underwriters ranged form 1% to 3%, save for one of the Comparables which agreed to nil underwriting commission and another two with a fix underwriting fee of HK$1,000 respectively. We consider that the commission charged by the Underwriters of 2.5% in the Open Offer is within the range of the Comparables and is reasonable to the Company.

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, it should also be noted that the Open Offer would not proceed if the Underwriters exercise their termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriters such termination rights are included in the Board Letter. We consider such provisions are in normal commercial terms and in line with the normal market practice.

RECOMMENDATION

Taking into consideration of the above mentioned principal factors and reasons, we consider that, on balance, the terms of the Open Offer and the absence of a facility for excess application under the Open Offer are fair and reasonable so far as the Independent Shareholders are concerned and the Open Offer is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant ordinary resolutions to be proposed at the SGM to approve the Open Offer and that there will be no facility for excess application under the Open Offer.

Yours faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong	**Julisa Fong**
Managing Director	*Director*

1. SHARE CAPITAL

(a) Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Capital Reorganization and the Open Offer are as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
8,000,000,000	Shares	200,000,000
Issued and fully paid:		
5,580,897,243	Shares	139,522,431

Upon completion of the Capital Reorganization and the Open Offer

Authorised:		*HK$*
8,000,000,000	New Shares	200,000,000
Issued and fully paid:		
558,089,724	New Shares	13,952,243
558,089,724	Offer Shares	13,952,243
1,116,179,448		27,904,486

All the Shares in issue, New Shares and Offer Shares to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

The Company had not issued any Shares since 31 December 2005 and up to the Latest Practicable Date. The Shares are listed on the Stock Exchange.

No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

Dealings in the shares of the Company may be settled through CCASS and you should consult your stockbroker or other registered dealer of securities, bank manager, solicitors, professional accountant or other professional adviser for details of the settlement arrangement and how such arrangements may affect your rights and interest.

(b) Share Option Schemes

As at the Latest Practicable Date, the number of underlying Shares of Share Options which have been granted under the Share Option Schemes is 145,300,000. All the holders of the Share Options have undertaken to the Company that they will not exercise any subscription rights attached to the Share Options during the period from the Announcement Date up to and including the Record Date. Save for the Share Options, the Company has no other derivatives, options, warrants and conversion rights which are convertible into Shares.

Details of outstanding Share Options are as follows:

Name of holders	Date of grant	Exercise Period	Exercise price per Share (HK$)	Number of underlying Shares
Mr. Widodo	31/5/1996	1/12/1996 to 30/11/2006	0.260	88,000,000
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	0.129	40,800,000
Continuous contract employees	26/8/1999	14/3/2000 to 13/3/2010	0.129	16,500,000
				145,300,000

2. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following table summarises the results, assets and liabilities of the Group for the last three financial years ended 31 December, 2005, as extracted from the relevant published annual reports of the Company.

Consolidated Income Statements

	For the year ended 31 December		
	2005	**2004**	**2003**
	US$'000	*US$'000*	*US$'000*
Turnover	136,144	149,522	136,589
Loss before income tax	(8,143)	(7,428)	(7,833)
Income tax expense	239	2,929	(323)
Loss before minority interests	(7,904)	(4,499)	(8,156)
Minority interests	–	–	–
Loss attributable to Shareholders	(7,904)	(4,499)	(8,156)

Consolidated Assets and Liabilities

	At 31 December		
	2005	**2004**	**2003**
	US$'000	*US$'000*	*US$'000*
Total assets	127,871	146,396	155,881
Total liabilities	(104,552)	(115,236)	(120,289)
Minority interests	(1,000)	(1,000)	(1,000)
Shareholders' funds	22,319	30,160	34,592

3. AUDITED FINANCIAL STATEMENTS

The following are the audited Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statements of the Group for the two years ended 31 December 2005 and 31 December 2004, and the audited Balance Sheet of the Company and the Group as at 31 December 2005 and 31 December 2004 and accompanying notes as extracted from the 2005 Annual Report of the Group. Reference to page numbers in the audited financial statements of the Company and the Group are to the page numbers of the 2005 Annual Report of the Company.

The report of the auditors on the Group's consolidated financial statements for the year ended 31 December 2005 has been modified to include the disclosure of a material uncertainty concerning going concern basis of accounting. Without qualifying their opinion, the auditors have drawn attention to Note 2 to the consolidated financial statements concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from the failure of such measures. Details of the circumstances relating to this material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern are described in Note 2 to the consolidated financial statements.

Balance Sheet
As at 31st December, 2005
(All amounts in United States dollar unless otherwise stated)

		Group		Company	
		2005	**2004**	**2005**	**2004**
	Note	*$'000*	*$'000*	*$'000*	*$'000*
			Restate		
ASSETS					
Non-current assets					
Investments in subsidiaries	*7*	–	–	28,129	30,529
Property, plant and equipment	*8*	81,005	88,391	3	–
Leasehold land and land use rights	*9*	3,020	3,051	–	–
Deferred income tax assets	*19*	4,402	14,610	–	–
		88,427	106,052	28,132	30,529
Current assets					
Inventories	*10*	18,266	19,395	–	–
Trade receivables	*11*	14,737	13,714	–	–
Prepayments and other receivables	*12*	3,799	4,450	111	116
Cash and cash equivalents	*30(f)*	2,642	2,785	34	5
		39,444	40,344	145	121
Total assets		127,871	146,396	28,277	30,650
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*13*	18,037	18,037	18,037	18,037
Other reserves	*14*	94,773	94,710	111,774	111,774
Accumulated losses		(90,491)	(82,587)	(107,427)	(103,747)
		22,319	30,160	22,384	26,064
Minority interests		1,000	1,000	–	–
Total equity		23,319	31,160	22,384	26,064

		Group		Company	
		2005	2004	2005	2004
	Note	*$'000*	*$'000*	*$'000*	*$'000*
			Restate		
LIABILITIES					
Non-current liabilities					
Borrowings	*15*	57,078	60,870	–	–
Obligations under finance leases	*16*	62	64	–	–
Deferred income tax liabilities	*19*	14	10,487	–	–
		57,154	71,421	–	–
Current liabilities					
Trade payables	*17*	16,956	17,377	–	–
Accruals and other payables	*18*	8,084	10,212	5,893	4,586
Current income tax liabilities		1,884	1,884	–	–
Borrowings	*15*	20,474	14,342	–	–
		47,398	43,815	5,893	4,586
Total liabilities		104,552	115,236	5,893	4,586
Total equity and liabilities		127,871	146,396	28,277	30,650
Net current liabilities		(7,954)	(3,471)	(5,748)	(4,465)
Total assets less current liabilities		80,473	102,581	22,384	26,064

Consolidated Income Statement
For the year ended 31st December, 2005
(All amounts in United States dollar unless otherwise stated)

		Year ended 31st December	
		2005	**2004**
	Note	*$'000*	*$'000*
Sales	*6*	136,144	149,522
Cost of sales	*21*	(116,054)	(123,108)
Gross profit		20,090	26,414
Other gain-net	*20*	477	451
Distribution costs	*21*	(13,817)	(16,693)
Administrative expenses	*21*	(10,793)	(10,313)
Impairment of property, plant and equipment		–	(3,894)
Operating loss		(4,043)	(4,035)
Finance costs	*23*	(4,100)	(3,393)
Loss before income tax		(8,143)	(7,428)
Income tax expense	*24*	239	2,929
Loss attributable to shareholders	*25*	(7,904)	(4,499)
Loss per share – basic	*26*	US(0.14) cents	US(0.08) cents
Loss per share – diluted	*26*	N/A	N/A
Dividends		–	–

Consolidated Statement of Changes in Equity
For the year ended 31st December, 2005
(All amounts in United States dollar unless otherwise stated)

		Attributable to equity holders of the Company				
		Share capital	Other reserves	Accumulated losses	Minority Interests	Total
	Note	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1st January, 2004, as previously reported as equity		18,037	94,643	(78,088)	–	34,592
Balance at 1st January, 2004, as previously separately reported as minority interests		–	–	–	1,000	1,000
Balance at 1st January, 2004, as restated		18,037	94,643	(78,088)	1,000	35,592
Loss for the year		–	–	(4,499)	–	(4,499)
Currency translation differences	*14(a)*	–	67	–	–	67
Balance at 31st December, 2004		18,037	94,710	(82,587)	1,000	31,160
Balance at 1st January, 2005, as per above		18,037	94,710	(82,587)	1,000	31,160
Loss for the year		–	–	(7,904)	–	(7,904)
Currency translation differences	*14(a)*	–	63	–	–	63
Balance at 31st December, 2005		18,037	94,773	(90,491)	1,000	23,319

Consolidated Cash Flow Statement
For the year ended 31st December, 2005
(All amounts in United States dollar thousands unless otherwise stated)

		Year ended 31st December	
		2005	**2004**
	Note	*$'000*	*$'000*
Cash generated from operating activities	27	3,594	9,404
Interest paid		(4,100)	(3,393)
Income tax paid		–	(16)
Net cash (used in)/generated from operating activities		(506)	5,995
Cash flows from investing activities			
Interest received		17	6
Proceeds from disposals of property, plant and equipment		96	16
Acquisition of property, plant and equipment		(1,640)	(1,352)
Net cash used in investing activities		(1,527)	(1,330)
Cash flows from financing activities			
Proceeds from borrowings		11,313	581
Repayments of borrowings		(8,941)	(4,332)
Repayment of principal portion of finance leases		(211)	(502)
Net cash generated from/(used in) financing activities		2,161	(4,253)
Net increase in cash and cash equivalents		128	412
Cash and cash equivalents at beginning of the year		2,785	2,401
Effect of foreign exchange rate changes		(271)	(28)
Cash and cash equivalents at end of the year		2,642	2,785

Notes to the Consolidated Financial Statements
for the year ended 31st December, 2005
(All amounts in United States dollar unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

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

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

2. GOING CONCERN

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

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

The adoption of new/revised HKFRS

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

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

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

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

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

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

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

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

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

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

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

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

The adoption of revised HKAS 17 resulted in:

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

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

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

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

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

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

3.2 Consolidation

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

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

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

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

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

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

3.3 Segment reporting

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

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

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

3.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

3.5 Property, plant and equipment

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

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

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

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

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

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

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

3.6 Impairment of non-financial assets

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

3.7 Inventories

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

3.8 Trade and other receivables

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

3.9 Cash and cash equivalents

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

3.10 Borrowings

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

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

3.11 Deferred income tax

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

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

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

3.12 Employee benefits

(a) Pension obligations

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

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

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

(b) Employee leave entitlements

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

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

(c) Share-based compensation

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

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

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

3.13 Provision

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

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

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

3.14 Revenue recognition

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

(a) Sales of goods

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

(b) Interest income

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

3.15 Leases (as the lessee)

(a) Operating leases

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

(b) Finance lease

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

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

4. FINANCIAL RISK MANAGEMENT

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

(ii) Concentration of customers risk

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

(b) Credit risk

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

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

(c) Liquidity risk

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

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Going concern

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

(b) Useful lives of plant and machinery

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

(c) Estimated impairment of property, plant and equipment

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

(d) Estimated provision for doubtful debts

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

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

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

6. SEGMENT INFORMATION

Primary segment by geographical location of operations:

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

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

Secondary segment by products:

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

7. INVESTMENTS IN SUBSIDIARIES – COMPANY

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

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

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

Name	Place of incorporation and legal form of the entity	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held Directly	Indirectly
Georich Trading Limited	BVI, limited liability company	Trading of veneer and plywood, Hong Kong	$2,510,000	100%	–
Manuply Wood Industries (S) Sdn. Bhd.	Malaysia, limited liability company	Manufacture and sale of veneer and plywood, Malaysia	Malaysian Ringgit 55,000,000	–	100%
Pacific Plywood Limited	Samoa, limited liability company	Trading of plywood and other wood products, Hong Kong	$3,000,000	–	100%
SMI Global Corporation	United States of America, limited liability company	Trading of wood products, United States of America	$1,000	–	100%
SMI Management & Co. Pte. Ltd.	Singapore, limited liability company	Property holding and provision of management service, Singapore	Singapore dollar 20,000,000	–	100%
Sino Realm Investments Limited	BVI, limited liability company	Investment holding, BVI	$1	–	100%

Note 1 An equity joint venture is a joint venture in which the joint venture partners' profit sharing ratios and shares of net assets upon the expiration of the joint venture period are in proportion to their equity interests set out in the joint venture agreement.

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

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

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT – GROUP

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

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

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

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

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

9. LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

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

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

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

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

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

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

10. INVENTORIES – GROUP

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

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

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

11. TRADE RECEIVABLES – GROUP

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

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

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

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

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

12. PREPAYMENTS AND OTHER RECEIVABLES – GROUP

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

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

13. SHARE CAPITAL – GROUP AND COMPANY

The details of share capital are as follows:

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

Share Options

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

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

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

				Number of shares to be issued under options granted under share option scheme				
Name	Date of Grant	Exercise Period	Subscription price per share	Beginning of year	Granted during the year	Exercised during the year	Cancelled during the year	End of year
Mr. Budiono Widodo	31/5/1996	1/12/1996 to 30/11/2006	HK$0.260	88,000,000	–	–	–	88,000,000
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	40,800,000	–	–	–	40,800,000
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	16,500,000	–	–	–	16,500,000
Others	26/8/1999	14/3/2000 to 13/3/2010	HK$0.129	31,000,000	–	–	(31,000,000)	–
				176,300,000	–	–	(31,000,000)	145,300,000

14. OTHER RESERVES

a) GROUP

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

Note (a)

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

b) COMPANY

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

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

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

15. BORROWINGS – GROUP

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

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

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

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

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

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

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

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

c) The Group has the following undrawn borrowing facilities:

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

16. OBLIGATIONS UNDER FINANCE LEASES – GROUP

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

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

17. TRADE PAYABLES – Group

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

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

18. ACCRUALS AND OTHER PAYABLES

a) GROUP

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

b) COMPANY

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

19. DEFERRED INCOME TAX – GROUP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20. OTHER GAIN-NET

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

21. EXPENSES BY NATURE

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

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

22. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

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

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

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

* *Retired on 17th June, 2005.*

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

No Directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Director for the year.

(b) Five highest paid individuals

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

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

The emoluments fell within the following bands:

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

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

23. FINANCE COSTS

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

24. INCOME TAX EXPENSE

(i) Bermuda

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

(ii) Hong Kong

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

(iii) Malaysia

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

(iv) The PRC

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

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

(v) Others

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

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

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

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

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

25. LOSS ATTRIBUTABLE TO SHAREHOLDERS

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

26. LOSS PER SHARE

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

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

27. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

28. COMMITMENTS – GROUP

(a) Lease commitments

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

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

(b) Other commitments

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

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

29. CONTINGENT LIABILITIES

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

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

30. BANKING FACILITIES – GROUP

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

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

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

The above facilities were secured by:

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

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

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

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

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

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

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

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

31. PENSION SCHEMES

The employees of the Singapore and Malaysia subsidiaries are members of the Central Provident Funds operated by the governments of those countries. The subsidiaries are required to contribute a percentage in the range of 12% to 16% of their covered payroll to the Central Provident Funds (the "Funds"). The only obligation of the Group with respect to the Funds is the required contributions to the Funds and there is no forfeiture of contributions under the schemes.

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

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

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

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

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

32. RELATED-PARTY TRANSACTIONS

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

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

4. UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is an illustrative and pro forma statement of adjusted consolidated net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the proposed Capital Reorganization and Open Offer as if they had taken place on 31 December 2005. This statement has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Company had the proposed Capital Reorganization and Open Offer been completed as at 31 December 2005 or any future date:

Audited consolidated net tangible assets of the Group as at 31 December 2005	Add: Estimated net proceeds from the Open Offer	Unaudited pro forma net tangible assets of the Group	Unaudited pro forma net tangible assets of the Group per New Share after the Capital Reorganization and the Open Offer
US$'000	*US$'000*	*US$'000*	*US cents*
(Note 1)	*(Note 2)*		*(Note 3)*
23,319	1,596	24,915	2.232

Notes:

1. The consolidated net tangible assets as at 31 December 2005 have been extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2005. The report of the auditors dated 7 April 2006 on the Group's consolidated financial statements as at and for the year ended 31 December 2005 has been modified to include the disclosures of a material uncertainty. The auditors, without qualifying their opinion, have drawn attention to "Going Concern" in Note 2 to the consolidated financial statements concerning the adoption of the going concern basis on which the accounts have been prepared. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Group's bankers and the Group's ability to generate sufficient cash flows from future operations to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from the failure of such measures. Details of the circumstances relating to this material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern are described in "Going Concern" in Note 2 to the consolidated financial statements.

2. The estimated net proceeds from the issue of the 558,089,724 Offer Shares are based on the Subscription Price of HK$0.025 per Offer Share, after deduction of the related expenses of approximately HK$1,500,000. Translation of amounts in HK$ into US$ has been made at the exchange rate of US$1.00 = HK$7.80.

3. The unaudited pro forma net tangible assets of the Group per New Share after the Capital Reorganization and the Open Offer is based on the unaudited pro forma consolidated net tangible assets of US$24,915,000 and 1,116,179,448 New Shares, which is the aggregate of 558,089,724 New Shares after the completion of Capital Reorganization and 558,089,724 Offer Shares to be issued pursuant to the Open Offer.

4. No adjustment has been made to reflect any trading results or other transaction of the Group entered into subsequent to 31 December 2005. As mentioned in the "Working Capital" section, as set out on page 93 of the circular, as of 30 April 2006, the Group has short term bank loans and facilities drawn down amounting to approximately US$4,963,000 from six bankers which will fall due or be subject to renewal between May 2006 and May 2007. Out of these bank loans and drawdown facilities, the Group intends to make full repayment to three bankers in the aggregate amount of approximately US$1,153,000 when they are due. The directors considered that based on their previous experience in dealing with the remaining three bankers and on the assumptions that there will be no material change in the Group's operations, the Group will be able to renew these short term bank loans and facilities up to a date not earlier than 30 June 2007 as and when they fall due. Accordingly, the directors do not foresee that there will be any working capital gap for the Group. As at the Latest Practicable Date, these banks have not expressed indications that these short term bank loans and facilities will not be renewed when they fall due. After taking into account of the above, the Directors are of the view that it is reasonable to expect that the Group has no foreseeable funding gap in the near term. In case the Group fails to renew these short term bank loans and facilities of which approximately US$3,810,000 will fall due in the second quarter of 2007, it will seek new external financing. In the event that the Group fails to renew its existing bank loans or obtain alternative means of financing, the liquidity position of the Group will be adversely affected and the Group's ability to continue its operation will be uncertain. The unaudited pro forma net tangible assets of the Group does not reflect the impact on the Group's net tangible assets should it fail to renew the loans nor obtain alternative financing.

5. COMFORT LETTER ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from PricewaterhouseCoopers in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in this appendix.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

The Directors
Pacific Plywood Holdings Limited

23 June 2006

Dear Sirs,

We report on the statement of unaudited pro forma consolidated net tangible assets of Pacific Plywood Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 88 to 89 under the heading of "Unaudited Pro Forma Consolidated Net Tangible Assets of the Group" (the "unaudited pro forma financial information") in Appendix I of the Company's circular dated 23 June 2006, in connection with the proposed Capital Reorganisation and proposed Open Offer by the Company (the "Circular"). The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the proposed Capital Reorganisation and proposed Open Offer might have affected the relevant financial information of the Group. The basis of preparation of the statement of unaudited pro forma financial information is set out on pages 88 to 89 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 31 December 2005 with the audited consolidated financial statements of the Group as at 31 December 2005, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the statement of unaudited pro forma consolidated net tangible assets as disclosed pursuant to paragraph 4.29 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2005 or any future date.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

6. INDEBTEDNESS

(a) Borrowings and other utilized banking facilities

As at the close of business on 30 April 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Group had outstanding borrowings of approximately US$79,909,000, comprising the following:

(i) Long-term bank borrowings of approximately US$60,650,000 of which approximately US$4,216,000 was due for repayment within the next 12 months. These loans were denominated in United States dollar, Singapore dollar and Malaysian Ringgit and bore interest at rates ranging from 3.81% to 8.25% per annum.

(ii) Short-term borrowings of approximately US$3,529,000, which will fall due or subject to renewal between May 2006 to May 2007. These loans were mainly denominated in United States dollar, Malaysian Ringgit and Reminbi and bore interest at rates ranging from approximately 5.88% to 7.25% per annum.

(iii) Banker's acceptance overdraft and other banking facilities of approximately US$15,730,000 in aggregate.

As at the close of business on 30 April 2006, the Group had drawn down other bank facilities, including bank guarantee and letter of credit of approximately US$1,279,000 in aggregate.

(b) Collaterals

The borrowings and other bank facilities were secured by:

(i) Pledges of certain property, plant and equipment of the Group with a net book value of approximately US$69,785,000.

(ii) Pledges of the leasehold land of the Group with a net book value of approximately US$3,010,000.

(iii) Floating charges on certain inventories of the Group with a net book value of approximately US$11,110,000.

(iv) Floating charges on certain trade receivables of the Group of approximately US$7,727,000.

(v) Floating charges on certain prepayment and other receivables of the Group of approximately US$1,111,000.

(vi) Floating charges on certain bank balances of the Group of approximately US$46,000.

(vii) Corporate guarantees given by the Company and its subsidiary.

(viii) Personal guarantees given by a Director of the Company and a director of its subsidiary to banks in respect of certain bank loans and trade facilities granted to the Group.

(c) Contingent liabilities

As at 30 April 2006, the Group had no material contingent liabilities.

(d) Commitments

As at 30 April 2006, the Group had future aggregate minimum lease payments in respect of land, buildings and machinery under various non-cancelable operating leases arrangement amounting US$1,893,000.

Under the agreement with the joint venture partner of a PRC subsidiary of the Group, the Group has committed to pay pre-determined annual fees to the PRC joint venture partner up to May 2015. As at 30 April 2006, such a commitment amounted to approximately US$4,821,000.

(e) Disclaimer

Save as disclosed in the preceding paragraphs (a) to (d) and apart from intra-group liabilities, at the close of business on 30 April 2006, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills and payables) or acceptance credits, debentures, mortgages, charges, hire purchase or other finance lease commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 April 2006.

7. WORKING CAPITAL

The Directors, including the independent non-executive Directors, are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds, the present available bank loans and facilities totalled approximately US$86,889,000 as at 30 April 2006 (comprising utilized facilities, which include short term loans of approximately US$3,529,000, long term loans of approximately US$60,650,000 of which approximately US$4,216,000 was due for repayment within the next 12 months, banker's acceptance, overdraft and other facilities of approximately US$15,730,000 and bank guarantee and letter of credits drawn down of approximately US$1,279,000 and unutilized facilities of approximately US$5,701,000) and in the absence of unforeseen circumstances, the Group will have sufficient working capital for its recent requirements.

As of 30 April 2006, the Group has short term bank loans and facilities drawn down amounting to approximately US$4,963,000 from six bankers which will fall due or be subject to renewal between May 2006 and May 2007. Out of these bank loans and drawdown facilities, the Group intends to make full repayment to three bankers in the aggregate amount of approximately US$1,153,000 when they are due. The directors considered that based on their previous experience in dealing with the remaining three bankers and on the assumptions that there will be no material change in the Group's operations, the Group will be able to renew these short term bank loans and facilities up to a date not earlier than 30 June 2007 as and when they fall due. Accordingly, the directors do not foresee that there will be any working capital gap for the Group. However, the Directors' experience and beliefs cannot be served as evidence of the existence of the banking facilities during the period of the working capital forecast of the Group, ie. from June 2006 to June 2007. Hence, a confirmation from the financial adviser to the Company or the Company's auditors regarding the sufficiency of working capital of the Group cannot be obtained as required under Rule 9.12(10) of the Listing Rules. As at the Latest Practicable Date, these banks have not expressed indications that these short term bank loans and facilities will not be renewed when they fall due. After taking into account of the above, the Directors are of the view that it is reasonable to expect that the Group has no foreseeable funding gap in the near term. In case the Group fails to renew these short term bank loans and facilities of which approximately US$3,810,000 will fall due in the second quarter of 2007, it will seek new external financing. In the event that the Group fails to renew its existing bank loans or obtain alternative means of financing, the liquidity position of the Group will be adversely affected and the Group's ability to continue its operation will be uncertain.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2005, the date to which the latest published audited financial statements of the Group were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained herein misleading.

2. DISCLOSURE OF INTERESTS

Director's and chief executive's interests

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Long Position in the Shares:

	Capacity	**Interest in Shares**	**% of Total Shares Outstanding (on existing or on enlarged basis)**
Mr. Budiono Widodo	Personal	248,276,000	
	Corporate	1,974,720,000	
	Underwriting arrangement	2,222,996,000	
	Total	4,445,992,000	39.83%
Mr. Yu Chien Te	Personal	58,873,200	1.05%

Note: As at the Latest Practicable Date, SMI International Limited ("SMI") held 1,974,720,000 shares of the Company. Mr. Budiono Widodo, a director of the Company, held 39.82% of the outstanding shares of SMI.

Long Position in equity derivatives in respect of the Shares:

Directors	description of equity derivatives	Number of Underlying Shares	Percentage in the issued share capital of the Company
Mr. Widodo	Share Options granted under Share Option Schemes	88,000,000	1.58%
Mr. Liao Yun Kuang	Share Options granted under Share Option Schemes	40,800,000	0.73%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

Save as disclosed in this appendix, as at the Latest Practicable Date, none of the Directors was a director or an employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Substantial Shareholders' interests

So far as is known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in the Shares:

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. SMI International Limited is owned by Mr. 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 represent same parcel of Shares arising from entering into Underwriting Agreement.

4. These interests represent same parcel of Shares arising from entering into sub-underwriting arrangement with one of the Underwriters.

5. These interests represent same parcel of Shares arising from entering into sub-underwriting arrangement with one of the Underwriters.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interest or short positions in the shares or underlying shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. EXPERT AND CONSENT

The following are the qualifications of the experts who have given their advice or opinion which is contained in this circular:

Name	**Qualification**
Veda Capital	Licensed corporation under the SFO for type 6 regulated activities
PricewaterhouseCoopers	Certified Public Accountants

Each of Veda Capital and PricewaterhouseCoopers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and reference to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, neither Veda Capital nor PricewaterhouseCoopers was beneficially interested in the share capital of any member of the Group, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did they have any interest, either direct or indirect, in any assets which had been since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there is no litigation, arbitration or claim of material importance in which any member of the Group is engaged or pending or threatened against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

6. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, only the Underwriting Agreement has been entered by the Company and its subsidiaries, which is not a contract entered into in the ordinary course of business.

7. EXPENSES

The expenses in connection to the Capital Reorganization and the Open Offer, including the underwriting commission, printing, registration, legal and professional and accounting charges are estimated to be approximately HK$1.5 million and payable by the Company.

8. MISCELLANEOUS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to any member of the Group since 31 December 2005, being the dated to which the latest published audited accounts of the Company were made up.

(b) As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

(c) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The principal place of business of the Company in Hong Kong is at Room 1802, 88 Gloucester Road, Wanchai, Hong Kong.

(f) The secretary of the Company is Mr. Lau Kin Wah, CPA and the qualified accountant of the Company is Mr. Phua Sian Chin, FCPA, Australia.

(g) The principal bankers of the Company are Malayan Banking Berhad of Menara Maybark, 100, Jalan Tun Perak, 50500 Kuala Lumpur, Malaysia and DBS Bank of 6 Shenton Way, #18-08 DBS Building, Tower Two, Singapore 068809.

(h) The authorized representatives of the Company are Mr. Sardjono Widodo and Mr. Lau Kin Wah both of Room 1802, 88 Gloucester Road, Wanchai, Hong Kong.

(i) The legal advisers of the Company in relation to the Capital Reorganization and the Open Offer are:

    (a) on Hong Kong laws: D. S. Cheung & Co. of Rooms 1910-1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong; and

    (b) on Bermuda laws: Appleby Spurling Hunter of 5511, The Center, 99 Queen's Road Central, Hong Kong.

(j) The auditors of the Company are PriceWaterhouseCoopers of 22 Floor, Prince Building Central, Hong Kong

(k) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours (Saturdays and public holidays excepted) at Room 1802, 88 Gloucester Road, Wanchai, Hong Kong from the date of this circular up to and including 30 June 2006 and at the SGM:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the years ended 31 December 2004 and 31 December 2005;

(c) the material contract as referred to in the section headed "material contracts" in this appendix;

(d) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix;

(e) the letter from PriceWaterhouseCoopers, the text of which is set out in Appendix I of this circular;

(f) the letter from the Independent Board Committee, the text of which is set out on page 32 of this circular; and

(g) the letter of advice from Veda Capital, the text of which is set out on pages 33 to 46 of this circular.

PACIFIC PLYWOOD HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 767)

NOTICE IS HEREBY GIVEN that a special general meeting of Pacific Plywood Holdings Limited (the "Company") will be held at 10:30 a.m. on Wednesday, 19 July 2006 at Taishan Room, Island Shangri-la Hotel, Level 5, Pacific Place, Supreme Court Road, Hong Kong for the purpose of considering and, if thought fit, passing the following Resolutions numbered 1 as a special resolution, and numbered 2 and 3 as ordinary resolutions of the Company:

SPECIAL RESOLUTION

1. "**THAT** subject to the fulfillment of all the conditions set out in the section headed "Conditions of the Capital Reorganization" in the circular of the Company dated 23 June 2006 (the "**Circular**"), a copy of which has been produced to the meeting marked "A" and initialed by the Chairman for the purpose of identification, and with effect from 9:30 a.m. on Thursday, 20 July 2006 being the next business date (not being a Saturday and Sunday) following the date on which this resolution is passed (the "**Effective Date**"):

   (a) every ten (10) issued and unissued shares of HK$0.025 each in the share capital of the Company be consolidated into one (1) share of HK$0.25 (the "**Consolidated Share**") in the share capital of the Company (the "**Share Consolidation**"), and any fractional entitlements to the then issued Consolidated Shares resulting from the Share Consolidation shall be aggregated and sold in the form of Consolidated Shares for the benefit of the Company in such manner and on such terms as the directors of the Company (the "**Directors**") may think fit;

   (b) subject to and forthwith upon the Share Consolidation taking effect, the issued share capital of the Company be reduced by canceling the paid up capital to the extent of HK$0.225 on each then issued Consolidated Share on the Effective Date such that the nominal value of all the issued Consolidated Shares will be reduced from HK$0.25 to HK$0.025 each (the "**New Share**") resulting in the reduction of issued share capital of the Company from HK$139,522,431 to HK$13,952,243 (the "**Capital Reduction**");

   (c) subject to and forthwith upon the Capital Reduction taking effect, each of the authorized but unissued Consolidated Shares in the capital of the Company be sub-divided into ten (10) shares of HK$0.025 each ("the "**Subdivision**");

(d) subject to and forthwith upon the Capital Reduction and the Subdivision taking effect, the entire amount standing to the credit of the share premium account of the Company as at 31 December 2005 (approximately HK$707,086,000) be reduced to nil (the "**Share Premium Cancellation**"); and

(e) the credits arising from the Capital Reduction and the Share Premium Cancellation be transferred to the contributed surplus account of the Company where it will be utilized by the Directors in the best interests of the Company in accordance with the Bye-laws of the Company and all applicable laws, including towards application thereafter against the accumulated losses of the Company as at 31 December 2005 (the "**Credit Application**"); and

(f) the Directors be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable, or expedient in connection with the implementation of the Share Consolidation, the Capital Reduction, the Subdivision, the Share Premium Cancellation (collectively, the "**Capital Reorganization**") and the Credit Application."

ORDINARY RESOLUTIONS

2. "**THAT**, subject to the passing of Resolutions numbered 1 and 3 and the fulfilment of other conditions in the Underwriting Agreement as defined in the Circular, a copy of which has been tabled at the meeting and initialed by the Chairman for the purpose of identification marked "B":

(a) the issue by way of open offer (the "**Open Offer**") of 558,089,724 New Shares of HK$0.025 each in the capital of the Company upon the Capital Reorganization (as defined in special resolution No. 1 in the notice of the meeting which this resolution forms part) becoming effective (the "**Offer Shares**") to those shareholders of the Company whose names appear on the register of members of the Company at the close of business on a date to be fixed by the Directors (the "**Record Date**"), other than Excluded Shareholders (as defined in the Circular which is referred to in Resolution Numbered 1 in the notice of the meeting which this resolution forms part) in the proportion of one (1) Offer Share for every one (1) New Share then held on the Record Date at the subscription price of HK$0.025 per Offer Share and on the terms and conditions as set out in the Circular, be and is hereby approved;

(b) the Underwriting Agreement (as defined in the Circular) be and is hereby approved, confirmed and ratified and any Director be and is hereby authorised to do such acts or execute such other documents which may be necessary, desirable or expedient in his opinion to carry into effect or to give effect to the terms of the Underwriting Agreement; and

(c) the Directors be and are hereby authorised to do all such acts and things and execute all such documents which in their opinion may be necessary, desirable or expedient to carry out or give effect to any or all the transactions contemplated in this resolution and the Circular."

3. "**THAT**, subject to the passing of Resolution numbered 2 and the fulfilment of other conditions in the Underwriting Agreement as defined in the Circular, there be and is no facility for excess applications for the assured allotments of Offer Shares by Qualifying Shareholders (as defined in the Circular) in the Open Offer according to the terms of the Open Offer as set out in the Underwriting Agreement and the Circular."

By Order of the Board
Pacific Plywood Holdings Limited
Mr. Sardjono Widodo
Managing Director

Hong Kong, 23 June 2006

Head office and Principal place of business in Hong Kong:
Room 1802, 88 Gloucester Road
Wanchai, Hong Kong

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Notes:

(1) A form of proxy for use at the meeting is enclosed herewith.

(2) The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorized in writing, or if the appointer is a corporation, either executed under its common seal or under the hand of any officer, attorney or other person authorized to sign the same.

(3) Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(4) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time appointed for holding the meeting.

(5) Completion and return of the form of proxy will not preclude members from attending and voting at the special general meeting or any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.

(6) Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the meeting, either in person or by proxy, in respect of such share(s) as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.