# Pacific Plywood Holdings Limited

*(incorporated in Bermuda with limited liability)*
**(Stock Code: 767)**

## INTERIM RESULTS

The Directors of Pacific Plywood Holdings Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2007, together with the comparative figures for the corresponding period in 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

| | Note | For the six months ended 30th June, 2007 US$'000 (Unaudited) | 2006 US$'000 (Unaudited) |
|---|---|---|---|
| Sales | 3 | **73,178** | 71,081 |
| Cost of sales | | **(56,189)** | (60,343) |
| **Gross profit** | | **16,989** | 10,738 |
| Other loss – net | | **(48)** | (351) |
| Distribution costs | | **(6,075)** | (6,393) |
| Administrative expenses | | **(4,757)** | (5,218) |
| **Operating profit/(loss)** | | **6,109** | (1,224) |
| Finance costs | | **(2,483)** | (2,474) |
| **Profit/(Loss) before income tax** | 4 | **3,626** | (3,698) |
| Income tax | 5 | **15** | – |
| **Profit/(Loss) for the period** | | **3,641** | (3,698) |
| Attributable to: | | | |
| Shareholders of the Company | | **3,641** | (3,698) |
| Minority interests | | **–** | – |
| | | **3,641** | (3,698) |
| Earnings/(Loss) per share – Basic and diluted | 6 | **US0.32 cents** | US(0.66) cents |
| Dividend | 7 | **–** | – |

## CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

| | Note | 30th June, 2007 US$'000 (Unaudited) | 31st December, 2006 US$'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **72,632** | 74,371 |
| Leasehold land and land use rights | | **2,974** | 2,989 |
| Deferred income tax assets | | **4,716** | 4,716 |
| **Total non-current assets** | | **80,322** | 82,076 |
| **Current assets** | | | |
| Inventories | | **23,315** | 18,542 |
| Trade receivables | 9 | **17,307** | 15,095 |
| Prepayments and other receivables | | **3,583** | 2,369 |
| Cash and cash equivalents | | **3,775** | 3,235 |
| **Total current assets** | | **47,980** | 39,241 |
| **Total assets** | | **128,302** | 121,317 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | 8 | | |
| Share capital | | **3,955** | 3,598 |
| Other reserves | | **8,142** | 4,048 |
| Retained earnings | | **21,035** | 17,394 |
| | | **33,132** | 25,040 |
| Minority interests | | **1,000** | 1,000 |
| **Total equity** | | **34,132** | 26,040 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **50,460** | 53,096 |
| Obligations under finance leases | | **158** | 69 |
| Deferred income tax liabilities | | **–** | 15 |
| **Total non-current liabilities** | | **50,618** | 53,180 |
| **Current liabilities** | | | |
| Trade payables | 10 | **17,246** | 16,631 |
| Accruals and other payables | | **3,980** | 3,942 |
| Current income tax liabilities | | **1,884** | 1,884 |
| Borrowings | | **20,442** | 19,640 |
| **Total current liabilities** | | **43,552** | 42,097 |
| **Total liabilities** | | **94,170** | 95,277 |
| **Total equity and liabilities** | | **128,302** | 121,317 |
| **Net current assets/(liabilities)** | | **4,428** | (2,856) |
| **Total assets less current liabilities** | | **84,750** | 79,220 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

## 1. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of this condensed consolidated interim financial information are consistent with those of the annual financial statements for the year ended 31st December, 2006, as described in the annual financial statements for the year ended 31st December, 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December, 2007.

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation to Financial Statements : Capital Disclosures |
| HKFRS 7 | Financial Instruments : Disclosures |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC)-Int 10 | Interim Financial Reporting and Impairment |

The adoption of the above standards and interpretations did not have any significant financial impact to the Group. Full disclosures as required under HKAS 1 and HKFRS 7 will be made in the annual accounts for the year ending 31st December, 2007.

The following new standards and interpretations have been issued but are not effective for 2007 and have not been early adopted. The Directors anticipate that adoption of these new standards and interpretations will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |

## 2. GOING CONCERN BASIS OF ACCOUNTING

As at 30th June, 2007, the Group had net current assets of approximately US$4,428,000 (net current liabilities of US$2,856,000 as at 31st December, 2006). However, the outstanding bank borrowings amounted to approximately US$70,902,000 (US$72,736,000 as at 31st December, 2006), out of which approximately US$20,442,000 (US$19,640,000 as at 31st December, 2006) is due for repayment and renewal within the next twelve months. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

## 3. SEGMENTAL INFORMATION – UNAUDITED

Primary segment by geographical locations of operations:

The segment results and other information for the six months ended 30th June, 2007 are as follows:

| | For the six months ended 30th June, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | **The PRC** *US$'000* (Unaudited) | **Hong Kong** *US$'000* (Unaudited) | **Singapore** *US$'000* (Unaudited) | **Malaysia** *US$'000* (Unaudited) | **Elimination** *US$'000* (Unaudited) | **Consolidated** *US$'000* (Unaudited) |
| **Sales** | | | | | | |
| – External | 19,022 | 1,396 | – | 52,760 | – | 73,178 |
| – Inter-segment | – | – | – | 54 | (54) | – |
| Total sales | 19,022 | 1,396 | – | 52,814 | (54) | 73,178 |
| **Result** | | | | | | |
| Segment result | (2,579) | 28 | 99 | 9,235 | | 6,783 |
| Unallocated corporate expenses | | | | | | (674) |
| Operating profit | | | | | | 6,109 |
| Finance costs | | | | | | (2,483) |
| Income tax | | | | | | 15 |
| Profit for the period | | | | | | 3,641 |
| **Other information** | | | | | | |
| Capital expenditures | 725 | – | 4 | 1,485 | | 2,214 |
| Unallocated capital expenditures | | | | | | – |
| | | | | | | 2,214 |

| | For the six months ended 30th June, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | **The PRC** | **Hong Kong** | **Singapore** | **Malaysia** | **Elimination** | **Consolidated** |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| Depreciation | **714** | **1** | **142** | **3,431** | | **4,288** |
| Amortization charge | **–** | **–** | **–** | **15** | | **15** |
| Unallocated depreciation/ amortization | | | | | | **–** |
| | | | | | | **4,303** |

The segment assets and liabilities as at 30th June, 2007 are as follows:

| | | | | | | |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Segment assets | **35,025** | **503** | **13,275** | **74,666** | | **123,469** |
| Unallocated corporate assets | | | | | | **4,833** |
| | | | | | | **128,302** |
| **Liabilities** | | | | | | |
| Segment liabilities | **7,627** | **38** | **90** | **14,530** | | **22,285** |
| Unallocated corporate liabilities | | | | | | **71,885** |
| | | | | | | **94,170** |

Primary segment by geographical locations of operations:

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

| | For the six months ended 30th June, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | The PRC | Hong Kong | Singapore | Malaysia | Elimination | Consolidated |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Sales** | | | | | | |
| – External | 27,458 | 2,177 | – | 41,446 | – | 71,081 |
| – Inter-segment | – | – | – | 172 | (172) | – |
| Total sales | 27,458 | 2,177 | – | 41,618 | (172) | 71,081 |
| **Result** | | | | | | |
| Segment result | (1,089) | 37 | 72 | 390 | | (590) |
| Unallocated corporate expenses | | | | | | (634) |
| Operating loss | | | | | | (1,224) |
| Finance costs | | | | | | (2,474) |
| Income tax | | | | | | – |
| Loss for the period | | | | | | (3,698) |

| | For the six months ended 30th June, 2006 | | | | | |
|---|---|---|---|---|---|---|
| | The PRC | Hong Kong | Singapore | Malaysia | Elimination | Consolidated |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Other information** | | | | | | |
| Capital expenditures | 125 | – | 13 | 128 | | 266 |
| Unallocated capital expenditures | | | | | | – |
| | | | | | | 266 |
| Depreciation | 850 | 4 | 142 | 3,768 | | 4,764 |
| Amortization charge | – | – | – | 15 | | 15 |
| Unallocated depreciation/ amortization | | | | | | – |
| | | | | | | 4,779 |

The segment assets and liabilities as at 31st December, 2006 are as follows:

| | The PRC | Hong Kong | Singapore | Malaysia | Elimination | Consolidated |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Segment assets | 31,111 | 557 | 13,356 | 71,378 | | 116,402 |
| Unallocated corporate assets | | | | | | 4,915 |
| | | | | | | 121,317 |
| **Liabilities** | | | | | | |
| Segment liabilities | 4,039 | 82 | 143 | 17,412 | | 21,676 |
| Unallocated corporate liabilities | | | | | | 73,601 |
| | | | | | | 95,277 |

Secondary segment by products:

| | **For the six months ended 30th June,** | | | | | | **As at** | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | | | 2006 | | | **30th June, 2007** | 31st December, 2006 |
| | **Sales** | **Operating profit/(loss)** | **Capital expenditures** | Sales | Operating profit/(loss) | Capital expenditures | **Assets** | Assets |
| | ***US$'000*** | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* | *US$'000* | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | (Unaudited) | (Unaudited) | (Unaudited) | **(Unaudited)** | (Audited) |
| Weather and boil proof plywood | **28,377** | **4,967** | **787** | 24,128 | 227 | 38 | **39,575** | 38,964 |
| Moisture resistant plywood | **12,994** | **2,088** | **322** | 9,766 | 15 | 29 | **16,210** | 18,164 |
| Flooring | **12,812** | **2,192** | **233** | 8,203 | 93 | 14 | **11,727** | 7,166 |
| Structural | **9,091** | **(512)** | **327** | 14,791 | 272 | 81 | **15,748** | 16,110 |
| Jamb and mouldings | **8,245** | **(465)** | **283** | 11,635 | 366 | 46 | **13,592** | 13,959 |
| Veneer | **190** | **4** | **–** | 980 | 17 | 2 | **–** | 1,149 |
| Others | **1,469** | **(83)** | **257** | 1,578 | 50 | 33 | **12,695** | 6,837 |
| Unallocated | **–** | **(2,082)** | **5** | – | (2,264) | 23 | **18,755** | 18,968 |
| Total | **73,178** | **6,109** | **2,214** | 71,081 | (1,224) | 266 | **128,302** | 121,317 |

## 4. PROFIT/(LOSS) BEFORE INCOME TAX – UNAUDITED

Profit/(Loss) before income tax was determined after charging/(crediting) the following:

| | For the six months ended 30th June, | |
|---|---|---|
| | **2007** | 2006 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| *After charging/(crediting):–* | | |
| Depreciation of property, plant and equipment | **4,288** | 4,764 |
| Amortization charge of leasehold land | **15** | 15 |
| Write-back of provision for doubtful receivables | **(105)** | – |
| Interest expense on | | |
| – Bank overdrafts and loans | **2,131** | 2,240 |
| – Finance lease | **9** | 5 |
| – Others | **343** | 229 |
| Staff costs | | |
| – Wages and salaries | **1,443** | 1,528 |
| – Pension costs | **144** | 182 |

## 5. INCOME TAX – UNAUDITED

### (i) Bermuda

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

### (ii) Hong Kong

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

### (iii) Malaysia

No taxation has been provided by a subsidiary in Malaysia because it had unutilized tax allowances to offset its estimated assessable profit for the six months ended 30th June, 2007. The applicable income tax rate of this subsidiary is 27% (2006 – 28%).

### (iv) The PRC

The Group's joint venture enterprise ("JV") established in Dalian, the PRC is subject to PRC enterprise income tax ("EIT") on the taxable income as reported in its 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", the JV is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses brought forward from the previous five years. The applicable EIT rate of the JV is 15% (15% preferential state income tax and 0% local income tax).

No taxation has been provided for as the JV had no estimated assessable profit for the current period.

**(v) Others**

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

The amount of taxation credited to the consolidated income statement represents:

| | For the six months ended 30th June, | |
|---|---|---|
| | **2007** | 2006 |
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Deferred taxation relating to the reversal of temporary differences | **15** | – |

## 6. EARNINGS/(LOSS) PER SHARE – UNAUDITED

The calculation of basic earnings/(loss) per share is based on the consolidated profit attributable to shareholders of approximately US$3,641,000 (2006 – loss of approximately US$3,698,000) and on the weighted average number of 1,153,379,448 shares (2006 – 558,089,724 shares) in issue during the period.

There was no dilutive effect on earnings/(loss) per share for the six months ended 30th June, 2007 and 30th June, 2006 since all outstanding share options were anti-dilutive.

## 7. DIVIDEND

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

## 8. MOVEMENT OF RESERVES – UNAUDITED

| | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Reserves | | | | | | |
| | Share capital | Share premium | Cumulative translation differences | Contributed surplus | Retained earnings (Accumulated losses) | Total | Minority interests | Total equity |
| | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* | *US$'000* |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Balance at 1st January, 2007 | 3,598 | – | (3,202) | 7,250 | 17,394 | 25,040 | 1,000 | 26,040 |
| Issue of new shares (*) | 357 | 3,888 | – | – | – | 4,245 | – | 4,245 |
| Profit for the period | – | – | – | – | 3,641 | 3,641 | – | 3,641 |
| Currency translation differences | – | – | 206 | – | – | 206 | – | 206 |
| Balance at 30th June, 2007 | 3,955 | 3,888 | (2,996) | 7,250 | 21,035 | 33,132 | 1,000 | 34,132 |
| Balance at 1st January, 2006 | 18,037 | 90,652 | (3,693) | 7,814 | (90,491) | 22,319 | 1,000 | 23,319 |
| Loss for the period | – | – | – | – | (3,698) | (3,698) | – | (3,698) |
| Currency translation differences | – | – | 73 | – | – | 73 | – | 73 |
| Balance at 30th June, 2006 | 18,037 | 90,652 | (3,620) | 7,814 | (94,189) | 18,694 | 1,000 | 19,694 |

(*) In May 2007, the Company completed a placement of 111,600,000 new shares to independent third parties and received gross proceeds of HK$33,480,000. This amount was used as general working capital of the Group.

## 9. TRADE RECEIVABLES – UNAUDITED

The aging analysis of trade receivables is as follows:

| | **30th June, 2007** *US$'000* **(Unaudited)** | 31st December, 2006 *US$'000* (Audited) |
|---|---|---|
| 0–30 days | **10,669** | 9,678 |
| 31–60 days | **1,698** | 2,050 |
| 61–90 days | **3,710** | 2,538 |
| 91–180 days | **1,177** | 401 |
| 181–360 days | **24** | 26 |
| Over 360 days | **2,906** | 3,383 |
| | **20,184** | 18,076 |
| *Less:* Provision for doubtful receivables | **(2,877)** | (2,981) |
| | **17,307** | 15,095 |

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

Certain subsidiaries of the Group transferred receivable balances amounting to approximately US$1,518,000 (US$1,009,000 as at 31st December, 2006) to banks in exchange for cash. The transactions have been accounted for as a collateralized borrowing.

## 10. TRADE PAYABLES – UNAUDITED

The aging analysis of trade payables is as follows:

| | **30th June, 2007** *US$'000* **(Unaudited)** | 31st December, 2006 *US$'000* (Audited) |
|---|---|---|
| 0–30 days | **7,398** | 7,284 |
| 31–60 days | **4,925** | 3,748 |
| 61–90 days | **2,773** | 2,240 |
| 91–180 days | **1,709** | 3,257 |
| 181–360 days | **423** | 91 |
| Over 360 days | **18** | 11 |
| | **17,246** | 16,631 |

**BUSINESS REVIEW**

In the first half of 2007, the selling prices of the Group's products continued to be favourable, a trend which began in late 2006. At the same time, the tropical log price which started to surge from early 2006 have eased in the first half due to drop in competitive demands from Japan and China, but the pine lumber prices continued to be affected by the surge in demand as a result of the impending rise in export duty on the Russian pine logs from 6.5% to 20% by July 2007 and finally to 80% by January 2009 as announced in late 2006. For the period ended 30th June, 2007, the Group recorded a turnover of US$73.2 million, up 2.95% against US$71.1 million in the same period last year. Net profit attributable to shareholders was US$3.6 million as compared to a net loss attributable to shareholders of US$3.7 million in the same period last year.

The Group's operating costs had remained relatively stable and its profit margin improved when compared with a year ago. Moving into June 2007, the dry season favouring logs harvesting, log price has begun to ease further. The Group does not expect log price to go up again before the end of the year when the monsoon season begins.

Among the Group's major markets, Japan had a high inventory level and was experiencing congestion at her ports. Most buyers, especially trading houses, thus were not in a hurry to order and this had affected the plant performance in Dalian. The market is expected to regain momentum in the fourth quarter of 2007. The Europe market, where wood product imports were subjected to stricter requirements like certification by the Forest Stewardship Council (FSC) however, fared relatively better in terms of product sales price though the volume has also declined.

The moulding products sold by the Group to the US included mainly door frames for exterior as well as interior home furbishing. During the first half of 2007, with the carry-over of decline in new homes completed in the US from 2006, the Group's sales to this market was affected. In the PRC market, prices of the Group's plywood-based container flooring products continued to improve in the first half of the year when compared with the previous corresponding period and the volume had also increased.

As for new markets, Korea and Thailand reported favourable performances, making up for volume decline to the Philippines and Middle East. The Group ventured into Australia and Vietnam in the review period, and continued to explore the Indian market. By focusing on marketing of high value added products and stepping up direct marketing to end-users, the Group was able to secure new clients in Australia, Vietnam, Europe and Japan.

The Group is committed to research and development of new or enhanced products to meet the demands of existing and new customers. During the six months under review, the Group looked into the production of pre-coating container flooring seeking to modify the coating line for mass production. The Group also developed several new products during this period, which included bracing plywood for the Australian market, 5mm jelutong plywood for the Hong Kong market, pre-coating container flooring for the PRC market and dura jamb that appeals to the US market.

During the six months under review, the Group continued to modify and improve production processes so as to keep enhancing the quality of its products and production efficiency. For instance, to increase recovery rate and reduce work-in-process, the Group set up a special team during this period to “mix and match” lumbers that were previously deemed inappropriate for use in production.

## OUTLOOK

The Group expects demand for plywood to remain fairly stable in the second half of 2007. As for product price, taking into account changes in the overall operational environment, including the revised VAT refund policy in China effective 1st July, 2007, and the increase in export duty on pine logs imposed by the Russian Government, which will benefit its production facility in Malaysia, the Group believes the prices of its products will remain relatively stable if not improve in the fourth quarter 2007.

Regarding the performance of moulding products, the Group expects both their sales prices and order volumes in the US market to improve in the second half of 2007. As for the Japanese softwood-related market served mainly by the Group's factory in the PRC, its response to price increase is still uncertain. But with unfortunate earthquakes having taken place in different parts of Japan recently, the market is going to need wood-related products for reconstruction and with the increasing building activities in summer, the overstocking is expected to ease.

Geographically, the Group will continue to focus on traditional markets including Japan, Europe, North America and the PRC, which are the world's largest wood-consuming economies. At the same time, the Group will keep on exploring and developing new markets such as India, Vietnam and Australia.

Going forward, the Group will continue to consolidate resources and explore ways to boost cost effectiveness and growth of its business. Related measures include sourcing for timber concessions, outsourcing processes and/or upstream semi-finished products, re-engineering processes to cut down duplication and processing time, and crafting customer and market-focused strategies. In addition, the Group is currently working to secure the FSC certification that will enable it to capture a greater market share and premium prices for its products especially in the European market.

Moreover, the Group will build on its sophisticated production and technical capabilities and the expertise of its management team to achieve growth. It will continue to entrust young and talented employees with leading roles in managing day-to-day operations of its plants. To maintain industry leadership, the Group will continue to innovate in product development and ensure integrity of the production processes so as to put out the best quality products, effectively control cost and provide customers with reliable delivery service.

## FINANCIAL REVIEW

### Liquidity and financial resources

During the six months ended 30th June, 2007, the Group continued its profitability in financial year ended 31st December, 2006 and reported a profit attributable to shareholders of US$3.6 million. The earnings before interest, tax and depreciation for the six months ended 30th June, 2007 was US$10.4 million, which was substantially higher than that of US$3.5 million for the corresponding period in 2006. The operating activities generated a cash inflow of US$2.8 million as compared to US$1.6 million for the six months ended 30th June, 2006. As at 30th June, 2007, net current assets were approximately US$4.4 million, compared to net current liabilities of US$2.9 million as at 31st December, 2006. All in all, the Group’s efforts to streamline its operation as well as adopt prudent financial management over the years finally bear fruits. The Group is confident that, bearing unforeseen unfavourable market conditions, this trend would continue in the second half of 2007.

**Capital structure**

During the period ended 30th June, 2007, the Company placed 111,600,000 new shares to independent third parties and received gross proceeds of HK$33.48 million.

**Significant investments, acquisitions and disposals**

The Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the six months ended 30th June, 2007.

**Employees**

As at 30th June, 2007, the Group had 4,360 staff, 3,438 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 885 at facilities in Dalian, the PRC. In-house training programmes were provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

**Details of charges on assets**

Bank loans and other banking facilities of the Group were secured by pledges of certain property, plant and equipment and leasehold land with a net book value of approximately US$69 million, floating charges on certain inventories of approximately US$14 million, trade receivables of approximately US$6.3 million, bank balances of approximately US$1.2 million, other assets of approximately US$1.8 million, corporate guarantees given by the Company and personal guarantees given by a Director of the Company.

**Future plans for material investment or capital assets**

The markets for timber and related products have improved over the past two years and the Group's financial position has also strengthened during this period. The Directors believe that timber is a scarce natural resource will continue to be a market trend in the foreseeable future. As a result and along this trend, the Directors have been looking out for projects that are relevant and suitable to the Group and will bring in long-term benefits to the Group's current business and future diversification. Moreover, no definite capital commitment was made as at the balance sheet date.

**Gearing ratio**

The net assets of the Group as at 30th June, 2007 were approximately US$34.1 million, compared to US$26.0 million as at 31st December, 2006. Total bank borrowings of the Group was approximately US$70.9 million and the gearing ratio (total bank borrowings to total net assets) was accordingly 208% comparing to 279% as at 31st December, 2006.

**Foreign exchange exposures**

Major currencies of the Group include United States Dollars, Singapore Dollars, Malaysian Ringgits and Chinese Renminbi. Due to the delink of Malaysian Ringgits and Chinese Renminbi with United States Dollars, the Group is expected to face with greater foreign currency exposure. The Group has not used any forward contracts or currency borrowings to hedge its currency exposure.

### Contingent liabilities

As at 30th June, 2007, the Group had no contingent liabilities.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June, 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

## CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2007, with deviations from code provision A.2.1.

### Code provision A.2.1

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

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

## AUDIT COMMITTEE

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

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

The unaudited condensed consolidated financial information for the six months ended 30th June, 2007 has been reviewed by the Audit Committee of the Company.

## REMUNERATION COMMITTEE

The Remuneration Committee was duly constituted on 29th June, 2005 and comprises an executive director, Mr. Liao Yun Kuang (chairman) and two independent non-executive directors, Mr. Marzuki Usman and Mr. Kusnadi Widjaja.

The Remuneration Committee met once in 2006 with full attendance and reviewed the terms of the service contracts signed between the Company and each of the executive Directors and remuneration package of the non-executive directors of the Company.

## CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the terms as contained in the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 of the Listing Rules) as the Company's code of conduct for securities transactions and dealings ("Model Code"). All existing directors of the Company, upon specific enquiry, have confirmed that they have complied with the Model Code during the six months ended 30th June, 2007.

## PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT

This interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at http://www.hkex.com.hk under "Latest Listed Companies Information" and at the website of the Company at http://www.irasia.com/listco/hk/pphl/index.htm under "Announcements & Notices".

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

*Executive Directors*
Dr. Budiono Widodo *(Chairman)*
Mr. Sardjono Widodo *(Managing Director)*
Mr. Liao Yun Kuang *(President)*
Mr. Yu Chien Te

*Non-executive Directors*
Mr. Sudjono Halim
Mr. Pipin Kusnadi

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

By Order of the Board
**Budiono Widodo**
*Chairman*

Hong Kong, 14th August, 2007