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

Annual Report 2005

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Corporate Information

Executive Directors
Mr. WIDODO Budiono, *Chairman*
Mr. WIDODO Sardjono, *Managing Director*
Mr. LIAO Yun Kuang, *President*
Mr. YU Chien Te

Non-Executive Directors
Mr. USMAN Marzuki
Mr. WIDJAJA Kusnadi
Mr. CHEN Chung I
Mr. HALIM Sudjono
Mr. KUSNADI Pipin
Mr. NGAI Kwok Chuen

Company Secretary
Mr. LAU Kin Wah, *CPA*

Qualified Accountant
Mr. PHUA Sian Chin, *FCPA, Australia*

Audit Committee Members
Mr. USMAN Marzuki, *Chairman*
Mr. WIDJAJA Kusnadi
Mr. NGAI Kwok Chuen

Remuneration Committee Members
Mr. LIAO Yun Kuang, *Chairman*
Mr. USMAN Marzuki
Mr. WIDJAJA Kusnadi

Auditors
PricewaterhouseCoopers Certified Public Accountants
22nd Floor
Prince's Building
Central
Hong Kong

Principal Bankers
Malayan Banking Berhad
DBS Bank

Public Relations Consultant
Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

Share Registrar And Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office
Canon's Court
22 Victoria Street
Hamilton, HM12
Bermuda

Principal Office
Room 1802
88 Gloucester Road
Wanchai
Hong Kong

Mr. Budiono Widodo
Chairman

To Our Shareholders

Although the global economy continued to rebound in 2005, it was a testing year for the plywood industry facing severe cost and pricing pressure. Market sentiment was further hampered by the trade negotiations impasse between China and her major trading partners in Europe, the US and Japan. Other factors that made the business environment even more challenging included the uncertain exchange rates of currencies of the Group's major trading countries (resulting from the un-pegging of the RMB and the Malaysian Ringgit viz-a-viz the US Dollar), prospective weakening of the US Dollar and US Fed interest rate hikes.

The sales of the Group dropped almost 9% compared with last year's US$149.5 million. This was caused primarily by the unfavorable pricing of flooring products in the second half of 2005 in the PRC market, 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. Despite its efforts in closely monitoring costs and expenses and applying stringent cost control measures, the Group incurred a loss of US$7.9 million, as compared to last year's loss of US$4.5 million. Our gross margin was under high pressure as a result of continuous hike in the prices of log, lumber and crude oil related products and services.

The PRC market experienced lower sales of plywood-based flooring in 2005. Nevertheless, we will continue to focus on this market as it has been enjoying robust economic growth and is laden with potential. For the North American market, despite strong housing demand in the US, our sales were affected by the competitive pricing from producers in South America. The demand from Japan was moderate attributable to the weak Japanese yen and soft consumption; and demand from Europe, where economic growth had been slow, was also moderate and stable compared with last year. The Group secured new clients in the Middle East and South-East Asia but these markets have yet to contribute significantly to the Group's sales. We will continue to develop and enhance our positioning and customer relationship in these new markets.

On the operation front, we focused on consolidating our resources, strengthening our product mix, achieving a flexible capacity mix, as well as enhancing our customer service and rationalizing our cost. Our flooring products remained as our top selling items, while our traditional products, which include veneer, MR plywood, WBP plywood, flooring and moulding, continued to provide a strong revenue base for the Group. Despite the testing environment, we maintained a very healthy production capacity with average plant utilization rate at over 80%.

Looking to the future, the Group's performance will be subjected to a host of factors. They include the pace of recovery of housing markets and consumer sentiment in Japan, whether the growth rates of the US housing markets can be sustained, how resilient will global trade be and whether economic growth in the PRC will continue, 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 log producing countries, and the U.S. Fed interest rates trend which will affect the cost of business transactions.

Going forward, we will continue to maintain good relationship with existing and new log and lumber suppliers to ensure we have uninterrupted supply of good quality raw materials for smooth production and timely delivery of products to our clients. The Group will also focus on improving product quality and provide excellent services that exceed customers' expectations. In addition, the Group will optimize its product and material mix to improve and enhance cost efficiency. All these measures will enable the Group to maintain its leading position in the industry.

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff for their dedication and invaluable efforts. We would also like to thank our shareholders, investors and customers for their continuing support and confidence in us.

Budiono Widodo
Chairman
Hong Kong, 7th April, 2006

Manufacturing Business

During the year under review, the escalating costs of log, lumber and crude oil related services and materials are out of skew with market pricing. This is further compounded by the inventory built-up in the later part of 2004 by buyers in anticipation of price escalation. Log and lumber pricing were especially volatile. Their prices surged over 10% fueled largely by the tightening of harvesting restrictions by supplier countries, which affected global supply, and stronger demands from the PRC and India to support infrastructure development. The importing countries adopting and stepping up "green labeling" practices also continued to affect and compound the global demand-supply condition.

Furthermore, though log prices stabilized at the end of 2005, it is expected to rise again as the seasonal monsoon period set in posing restriction on log harvests and thus its supply. In the face of all these pressures, our efforts to apply better technical know-how and enhance our production processes paid off. These efforts included cutting log waste and hence improving log recovery rates which helped to lower direct material costs and optimize our product and capacity mix. Our optimized recovery rate was over 50% exceeding the industry norm.

By maintaining a diverse product mix and flexible capacity mix, the Group can effectively counter increasing material costs and pricing pressures. Among all products, flooring products that saw a drop in revenue last year but had been contributing to the bulk of the Group's revenue in past years, still delivered the highest margin. Other traditional products, like Veneer, Mouldings, Structural and Laminated Veneer Lumber also together provided a strong and stable revenue base. During the year, apart from continuing to modify our production processes and enhance product quality to meet customers' demand, we also continued to undertake research and development initiatives to exploit new products and markets.

Our production plants are in Dalian and Changchun in China and Manuply in Malaysia. The Manuply plant maintained the highest production volumes, running at over 85% of its production capacity. It produced and sold the most profitable and well-received products to its major markets in Japan, the PRC, Europe and South-East Asia.

Market Overview

During the year under review, Japan remained our largest market, contributing almost 42% of the Group's total sales. Though the continued improvement of the Japanese economy benefited the plywood market, demand softened moderately in 2005 with Japanese yen persistently weak and the lingering soft consumption sentiment viz-a-viz higher pricing. The Group's ability to supply high quality plywood products in demand by Japanese customers and meet the stringent specifications of the building authority of the country is its clear edge in the market. During the year under review, the Group also expanded and enhanced the quality of its plywood-based flooring for the Japanese market, which enabled it to secure higher margins.

The PRC market has been our focus in the past few years, and contributed albeit almost 19% of the Group's total sales in 2005. Sales of plywood-based flooring in the PRC slowed down as compared with last year since buyers were drawing from inventory beginning from late 2004. Sales to the European market remained stable during the year, while sales to the US market dropped slightly due to the impact of competitive pricing from producers in South America. The Group also expanded its business into the Middle East and South-East Asia.

During the year under review, the Group had developed a few new products, including specialty plywood, for customers in Europe and the Philippines. The Group will step up product and market development to facilitate seizing of opportunities in existing and emerging markets.

Prospects

Going forward, we expect market conditions to further consolidate in the first half of 2006, and inventories to deplete and cost versus pricing to rationalize in major markets such as the PRC and Japan in the second half of the year. These will lift demand and pricing for timber products.

With GDP growing at 8% to 10% over the past few years and projected to grow at similar rates in the future, the PRC is expected to remain as the market with the highest growth potential for the Group. We will continue to expand our product mix to ensure we have a diverse range of products to meet the needs of our customers. Japan has been our traditional market where we have excellent relationship with customers who are willing to pay premium prices for our quality products that meet their existing and new stringent standards. In the US, re-building needs as a result of destruction caused by natural disasters such as hurricanes Katrina, Rita and Wilma have bred opportunities in this market. In new markets, such as the Middle East and the South-East Asia that have yet to bring in significant sales and profit, we will continue to develop and enhance our position and relationship with customers.

We will also focus on consolidating our existing capacities and resources, and at the same time, we will keep exploiting and capitalizing on any opportunities to expand our business in new and emerging markets.

To maximize our productivity and offer an optimized product mix, we will continuously improve product quality, cost effectiveness and customer service. We are determined to further enhance our performance and returns to our shareholders.

Financial Review

Liquidity and financial resources

As at 31st December, 2005, net current liabilities was approximately US$8.0 million, compared to US$3.5 million as at 31st December, 2004, representing an increase in net current liabilities of US$4.5 million.

Capital structure

During the year ended 31st December, 2005, there was no material change in the Group's capital structure.

Significant investments, acquisitions and disposals

The Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the year ended 31st December, 2005.

Employees

As at 31st December, 2005, the Group had 5,246 staff, 3,658 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 1,545 at facilities in Dalian and Changchun, 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$73.8 million, floating charges on certain inventories of approximately US$9.3 million, trade receivables of approximately US$4.7 million, bank balances of approximately US$0.5 million, other assets of approximately US$0.9 million, corporate guarantees given by the Company and personal guarantees given by a director of the Company.

Future plans for material investment or capital assets

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

Gearing ratio

The net assets of the Group as at 31st December, 2005 was approximately US$23.3 million, compared to US$31.2 million as at 31st December, 2004. Total bank borrowings of the Group was approximately US$77.6 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 333% comparing to 241% as at 31st December, 2004.

Foreign exchange exposures

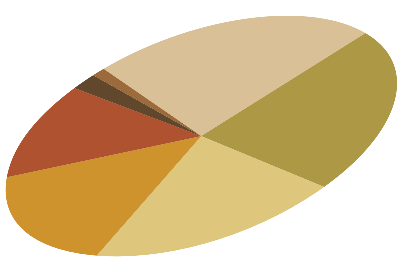
Major currencies of the Group include United States Dollars, Singapore Dollars, Malaysian Ringgits and Renminbi. Due to the delink of Malaysian Ringgits and Renminbi with United States Dollars, the Group is expected to face with greater foreign currency exposure. Management will arrange the necessary hedging where costs and benefits are justified.

Contingent liabilities

As at 31st December, 2005, the Group had no material contingent liabilities.

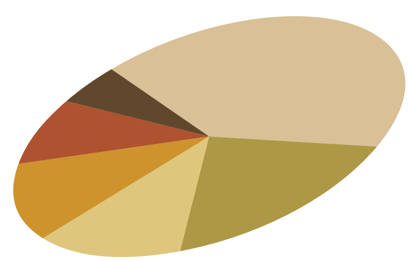
Sardjono Widodo
Managing Director
Hong Kong, 7th April, 2006

2005 Sales By Product Categories



- **24.2%** Weather and boil proof plywood
- **23.3%** Structural
- **19.8%** Moisture resistant pylwood
- **17.7%** Flooring
- **12.1%** Jamb and mouldings
- **1.9%** Veneer
- **1.0%** Others

2005 Sales By Geographical Areas*



- **41.9%** Japan
- **18.8%** The People's Republic of China
- **13.8%** Europe
- **12.4%** North America
- **8.4%** South East Asia
- **4.7%** Others

* Sales and distribution of merchandise by geographical areas is determined on the basis of the location to where the merchandise is delivered.

Executive Directors

Mr. Budiono Widodo, aged 62, is a founder and the Chairman of the Group and is responsible for strategic development of the Group. He is also a director of each of the subsidiaries of the Company except Glowing Schemes Sdn. Bhd. He started in the forestry business in Indonesia in 1979 and has over 15 years of experience in the timber industry, starting as a log exporter and then becoming a plywood manufacturer and trader. Apart from the plywood business, he is also engaged in other industries including property and hotels.

Mr. Sardjono Widodo, aged 38, is the Managing Director of the Group and a son of Mr. Budiono Widodo. He is also a director of each of the subsidiaries of the Company except Glowing Schemes Sdn. Bhd. He holds a Diploma in Mechanical Engineering and has been in the wood industry for over 10 years.

Mr. Liao Yun Kuang, aged 53, is the President of the Group. He is also a director of each of the subsidiaries of the Company except Changchun Winpro Wood Industries Co., Ltd. He holds a Bachelor Degree in Business Administration from Tam Kang University in Taiwan. Prior to joining the timber industry, Mr. Liao has worked for two large conglomerates in Taiwan and has more than 10 years experience in general management.

Mr. Yu Chien Te, aged 52, is a Vice President of the Group. He is also a director of Dalian Global Wood Products Co., Ltd. He graduated in Electrical Engineering in Taiwan and has more than 20 years of experience in the plywood and wood-related industry.

Non-executive Directors

Mr. Marzuki Usman, aged 63, holds a Master Degrees in Economics from University of Gajah Mada as well as Duke University in Durham, North Carolina, USA. He was the Minister of Tourism (Arts and Culture) in Indonesia from May 1998 to October 1999. From May 1999, he also assumed the job as Minister for Investment and head of Agency for Investment Coordination Board until October 1999.

Mr. Chen Chung I, aged 58, holds a Bachelor Degree in Arts (majoring in Economics) from Soo Chow University, Taiwan. Prior to his retirement, Mr. Chen worked in an established firm in Taiwan, whose main business is manufacturing and trading of machinery and equipment for plywood and other wood-related products.

Mr. Pipin Kusnadi, aged 60, is the commissioner for over 10 companies in Jakarta and has been in the wood industry since 1991.

Mr. Ngai Kwok Chuen, aged 48, is a Senior Sales & Marketing Manager of Phillip Securities (HK) Limited. Mr. Ngai has broad experience in capital and money market, corporate finance and securities industry.

Mr. Kusnadi Widjaja, aged 50, is a certified member of the Capital Market Professional Standards in Jakarta, Indonesia. He has more than 15 years of experience in the field of finance and securities trading and investment management. He is currently a Special Assistant to the Chief Executive Office of an Indonesian group of companies with extensive business interests in logging and shipping.

Mr. Sudjono Halim, aged 43, a son-in-law of Mr. Budiono Widodo, graduated with a Master Degree in Business Administration from the California State University in Los Angeles, USA. He also holds a Bachelor Degree in Electronic and Electrical Engineering from the University of Southern California in Los Angeles, USA. He has more than 15 years business experience in corporate financing, securities, trading, investment and manufacturing in Indonesia and Singapore.

Company Secretary

Mr. Lau Kin Wah, aged 40, is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong. He joined the Group on 1st October, 1998.

Management and Senior Staff

Mr. Phua Sian Chin, aged 56, is the Chief Financial Officer of the Group and Qualified Accountant of the Company. He holds a Bachelor Degree in Accountancy from the University of Singapore and is a FCPA, Singapore and FCPA, Australia. He had held regional financial head positions with well-known multinational companies involved in the manufacturing and distribution of marine, industrial and pharmaceutical chemicals, garments, electrical and electronic products. He was also the financial head for property development, investment and management groups in Singapore and Indonesia for over 6 years. He joined the group on 14th February, 2000.

Mr. Su Wen Chang, aged 52, is a Vice President of the Group. He graduated in electrical engineering in Taiwan. Prior to joining the Group in 1992, he worked in the timber industry in Taiwan, Singapore and Indonesia for nearly 20 years. Mr. Su joined the Group on 16th March, 1992.

Mr. Tan Jeng Sze, aged 34, is the Accountant, Financial Compliance of the Group. He holds a Master Degree in Business Administration and a Bachelor of Business (Major in Accounting) from Edith Cowan University, Western Australia. He has also obtained his Graduate Diploma in Banking & Finance from Curtin University of Technology, Western Australia. He is a CPA, Australia and CPA, Singapore. He is also a registered member of Information Systems Audit and Control Association, USA and the Institute of Internal Auditor of Singapore. Prior to this appointment, he was with KPMG Singapore as an auditor for 5 years. He joined the Group on 21st July, 2003.

Mr. Sim Kok Leong, aged 42, is the Group Finance Vice General Manager of the Group. He holds a Master Degree in Business Administration from the University of Dubuque and a Bachelor Degree in Business Administration from the National University of Singapore. He has more than 10 years of international banking exposure, and was with one of the top 20 international banks before he joined the Group on 11th October, 1999.

Miss Kon Siew Foon, aged 41, is the Senior Accounting Manager of the Group. She graduated from University of Malaya, Malaysia in 1990 majoring in accounting. Upon graduation, she worked as an auditor for 2 years. She joined the Group on 2nd May, 1992.

Mr. Chen De Jung, aged 40, is the Senior Human Resource Manager of the Group. He graduated from Connecticut University in USA with a Master Degree in Business Administration in 1996. Upon graduation, he worked in one of the largest telecommunication companies in USA. He joined the Group on 31st October, 1996.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of members of Pacific Plywood Holdings Limited (the "Company") will be held at Aberdeen, Level 3, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on Friday, 16th June, 2006 at 10:00 a.m. for the following purposes:–

ORDINARY BUSINESS

1. To receive and consider the audited accounts and the Directors' report and auditors' report for the year ended 31st December, 2005.

2. To re-elect Directors and to fix their remuneration and to dispose of vacant office(s).

3. To appoint auditors and to authorize the board of Directors to fix their remuneration.

SPECIAL BUSINESS

4. To consider and, if thought fit, pass the following resolution as ordinary resolution:–

(A) "**THAT**:–

(i) subject to sub-paragraph (ii) of this resolution, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot and issue additional shares in the capital of the Company and to make or grant offers, agreements, warrants and options which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to a Rights Issue or the exercise of subscription or conversion rights under any warrants of the Company or any securities which are convertible into shares of the Company or any share option scheme, shall not exceed twenty per cent of the nominal amount of the issued share capital of the Company on the date of this resolution and this approval shall be limited accordingly; and

(iii) for the purposes of this resolution:–

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:–

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

(B) "**THAT**:–

(i) subject to paragraph (ii) below, the exercise by the Directors during the Relevant Period of all the powers of the Company to repurchase issued shares in the capital of the Company, subject to and in accordance with all applicable laws and the Bye-laws of the Company, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of the share capital which the Company is authorized to repurchase pursuant to the approval in paragraph (i) above shall not exceed ten per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of this resolution and the said approval shall be limited accordingly; and

(iii) for the purposes of this resolution:–

"Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:–

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or any applicable law to be held; and

(c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting."

(C) "**THAT** conditional upon resolution no. 4(B) above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to resolution no. 4(A) above."

By order of the Board
Budiono Widodo
Chairman

Hong Kong, 7th April, 2006

Financial Summary

(Amounts expressed in United States dollar unless otherwise stated)

Income Statements

The following is a summary of the audited consolidated results of Pacific Plywood Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the respective years as hereunder stated.

	For the year ended 31st December,				
	2005	2004	2003	2002	2001
	$'000	$'000	$'000	$'000	$'000
Sales	**136,144**	149,522	136,589	121,449	117,740
Loss before income tax	**(8,143)**	(7,428)	(7,833)	(4,583)	(70,874)
Income tax expense	**239**	2,929	(323)	713	2,231
Loss before minority interests	**(7,904)**	(4,499)	(8,156)	(3,870)	(68,643)
Minority interests	**–**	–	–	–	7,629
Loss attributable to shareholders	**(7,904)**	(4,499)	(8,156)	(3,870)	(61,014)
Dividends	**–**	–	–	–	–

Balance Sheets

The following is a summary of the audited consolidated balance sheets for the Group as at the respective dates as hereunder stated.

	As at 31st December,				
	2005	2004	2003	2002	2001
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	**81,005**	88,391	100,277	115,233	121,514
Leasehold land and land use rights	**3,020**	3,051	3,082	3,113	3,144
Deferred income tax assets	**4,402**	14,610	11,797	11,818	–
Current assets	**39,444**	40,344	40,725	42,900	33,725
Current liabilities	**(47,398)**	(43,815)	(54,903)	(52,507)	(50,256)
Long-term borrowings	**(57,078)**	(60,870)	(54,610)	(66,416)	(61,225)
Other non-current liabilities	**(62)**	(64)	(159)	(137)	(94)
Deferred income tax liabilities	**(14)**	(10,487)	(10,617)	(10,315)	(13)
	23,319	31,160	35,592	43,689	46,795
Representing:					
Share capital	**18,037**	18,037	18,037	18,037	18,037
Reserves	**4,282**	12,123	16,555	24,652	27,758
Minority interests	**1,000**	1,000	1,000	1,000	1,000
Shareholders' equity	**23,319**	31,160	35,592	43,689	46,795

Corporate Governance Report

The Board believes that a high standard of corporate governance is crucial to the development of the Group. In addition to complying with statutory and regulatory standards, the Group is committed to maintain a high standard of corporate governance with emphasis on transparency, accountability and fairness.

The Board is composed of a group of professionals and businessmen with different expertise in skill and experience. In order to ensure independence and objectivity in the management, non-executive Directors represent a majority of the Board.

BOARD OF DIRECTORS

The board is responsible for establishing the strategic direction and the overall management of the Group's business. Day-to-day operation, particularly, certain manufacturing operational management is however, delegated to the management.

The number of board meeting held during the year ended 31st December, 2005 and the directors' respective attendance record are summarized as follows:–

	Number of meeting attended *(8 meetings in total)*
Executive Directors	
Budiono Widodo, *Chairman*	6
Sardjono Widodo, *Managing Director*	8
Liao Yun Kuang, *President*	6
Yu Chien Te	2
Peng Chiu Ching (retired on 17th June, 2005)	3
Non-executive Directors	
Sudjono Halim	6
Kusnadi Pipin	4
Chen Chung I	2
Independent non-executive Directors	
Marzuki Usman	6
Kusnadi Widjaja	6
Ngai Kwok Chuen	6

Regular Board meetings are convened and held by the Company and directors are given adequate notice to attend such regular Board meetings or other Board meetings. Directors are also provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as Directors. Minutes of regular Board meetings, other Board meetings or other committees meetings are recorded in sufficient detail. Draft of these minutes are circulated to all Directors for their comments before they are finalized for records.

Under code provision A.1.3, notice of at least 14 days should be given for a regular Board meeting to give all Directors an opportunity to attend. In relation to this provision, a regular Board meeting was convened by a notice of less than 14 days during the year ended 31st December, 2005. Nevertheless, presence of all Directors was secured for this meeting.

During the period from 22nd June, 2002 to 28th June, 2004, Mr. Ngai Kwok Chuen was a non-executive director of the Company and he was re-designated as an independent non-executive director since 28th June, 2004. The Board considered Mr. Ngai to be independent because he had been only a non-executive director for a short period of time before his re-designation and he possessed the necessary quality to act as an independent non-executive director.

As disclosed in the section of Biographical Details of Directors and Senior Management, Mr. Sardjono Widodo, Managing Director and Mr. Sudjono Halim, a non-executive director are the son and son-in-law of Mr. Budiono Widodo, Chairman respectively.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

In addition to his duties as the Chairman, Mr. Budiono Widodo is also responsible for the strategic planning and overseeing certain aspects of the Group's operation. Such duties overlap with those of Mr. Sardjono Widodo, the Chief Executive Officer, who is his son. Nevertheless, the Board considers that this will not impair the balance of power and authority of the Board and management of the Group. The balance of power and authority is ensured by the operation of the Board, which comprises ten directors. All of them are experienced businessmen or professionals and they meet regularly to review the Group's performance. For decisions which may have significant effect on the Group's business, all directors' presence is secured as far as possible. The Board therefore has confidence in Mr. Budiono Widodo and trusts that his rich experience in plywood industry will contribute significantly to the Group's business.

NON-EXECUTIVE DIRECTORS

All the non-executive directors of the Company are appointed for a specific term of one year but they are also subject to retirement by rotation in accordance with the Company's Bye-laws.

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 year ended 31st December, 2005.

REMUNERATION OF DIRECTORS

The Remuneration Committee is 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 primary role of the Remuneration Committee under its terms of reference is to support and advise the Board in fulfilling the Board's responsibility to the shareholders of the Company to (a) establish remuneration policies and structure of directors and senior management; (b) review and approve performance-based remuneration by reference to the goals, objectives and performance of the Group; and (c) to determine the specific remuneration packages and or compensation for all executive Directors and senior management; and (d) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

During the year ended 31st December, 2005, the Remuneration Committee met once with full attendance to review and consider the terms under the service contracts signed between the Company and each of the executive Directors and remuneration package of the non-executive Directors of the Company.

NOMINATION OF DIRECTORS

The Board will meet to discuss nomination of directors when circumstances required. Upon receipt of a nomination from the members of the Board, a Board meeting will then be convened to consider and discuss the nomination. Academic and professional qualifications, business experience, expertise and knowledge as well as other requirements under the Listing Rules will be assessed to determine if the nomination is suitable.

During the year ended 31st December, 2005, no director was nominated to the Board and no new director was appointed.

AUDITORS' REMUNERATION

During the year ended 31st December, 2005, the Group engaged PricewaterhouseCoopers to perform audit and audit related services at a fee of approximately US$237,000, which include the service fee of approximately US$12,000 for an engagement to apply certain agreed-upon procedures to the Group's 2005 interim financial statements.

AUDIT COMMITTEE

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

The number of committee meetings held during the year ended 31st December, 2005 and the committee members' respective attendance record are summarized as follows:–

	Number of meeting attended (3 meetings in total)
Marzuki Usman *(Chairman)*	2
Kusnadi Widjaja	3
Ngai Kwok Chuen	3

The Audit Committee has adopted terms of reference which are in line with the Code and the Corporate Governance Code issued by the Stock Exchange.

The Audit Committee met to review the interim financial information for the six months ended 30th June, 2005 and the annual financial statements for the year ended 31st December, 2005. The Audit Committee also met once at end of the year to review and adopt an internal audit charter, which establishes the framework and defines the functions, authorities and responsibilities of the internal audit of the Company. The internal audit charter was subsequently submitted to and finally adopted by the Board.

COMMUNICATION WITH SHAREHOLDERS

The Board maintains an on-going dialogue with shareholders through annual general meetings or special general meetings and shareholders are encouraged to participate. Under code provision E.1.2, the Chairman of the Board should attend the annual general meeting.

Due to certain urgent matters to be attended by Mr. Budiono Widodo, Chairman of the Board, he did not attend the Company's 2005 annual general meeting. In order to remedy the situation and ensure the smooth communications between the Board and shareholders, Mr. Sardjono Widodo, Managing Director and Mr. Liao Yun Kuang, President of the Company, attended the Company's 2005 annual general meeting to answer questions raised by shareholders.

The Directors have the pleasure of presenting the annual report together with the audited consolidated financial statements of Pacific Plywood Holdings Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31st December, 2005.

Principal activities and geographical analysis of operations

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

The Group's sales for the year ended 31st December, 2005 is analysed as follows:

		$'000
a.	**Sales and distribution of merchandise by product categories**	
	Weather and boil proof plywood	32,976
	Structural	31,693
	Moisture resistant plywood	26,996
	Flooring	24,053
	Jamb and mouldings	16,499
	Veneer	2,566
	Others	1,361
		136,144
b.	**Sales and distribution of merchandise by geographical areas***	
	Japan	57,093
	The People's Republic of China	25,618
	Europe	18,780
	North America	16,883
	South East Asia	11,391
	Others	6,379
		136,144

* Sales and distribution of merchandise by geographical areas is determined on the basis of the location to where the merchandise is delivered.

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

Results and appropriations

Details of the Group's results for the year ended 31st December, 2005 are set out in the consolidated income statement on page 31 of this annual report.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 14 to the accompanying consolidated financial statements.

Donations

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

Property, plant and equipment

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

Bank loans and banking facilities

Particulars of bank loans and banking facilities are set out in Notes 15 and 30 to the accompanying consolidated financial statements respectively.

Commitments and contingent liabilities

Details of commitments and contingent liabilities are set out in Notes 28 and 29 to the accompanying consolidated financial statements respectively.

Pension schemes

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

Share capital

Details of movements in share capital of the Company are set out in Note 13 to the accompanying consolidated financial statements.

Distributable reserves

As at 31st December, 2005, the Company did not have any distributable reserve, as the lower of amount calculated under section 79B of the Hong Kong Companies Ordinance and the relevant legislations applicable in Bermuda, available for distribution to the shareholders.

Pre-emptive rights

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

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 12 to 13 of this annual report.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year ended 31st December, 2005.

Share options

The Company has a share option scheme, approved by shareholders at the General Meeting on 21st June, 2002 to terminate the old option scheme. Under this scheme, the Board may grant options to any participant who, in the absolute discretion of the Board, has made valuable contribution to the business of the Group. The subscription price will be a price determined by the Board and at least the highest of: (a) the closing price of the shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of grant of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the shares. The total number of shares which may be issued upon exercise of options must not exceed 30% of the number of shares in issue from time to time and in addition, 10% of the number of shares in issue as at the date of approval of the option scheme.

(All amounts in United States dollar unless otherwise stated)

Share options *(Continued)*

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

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

Directors

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

Executive Directors

Mr. Budiono Widodo, *Chairman*
Mr. Sardjono Widodo, *Managing Director*
Mr. Liao Yun Kuang, *President*
Mr. Yu Chien Te
Mr. Peng Chiu Ching Retired on 17th June, 2005

Non-Executive Directors

Mr. Chen Chung I
Mr. Pipin Kusnadi
Mr. Sudjono Halim
Mr. Marzuki Usman
Mr. Ngai Kwok Chuen
Mr. Kusnadi Widjaja

Mr. Sardjono Widodo was re-designated as the Managing Director of the Company on 2nd March, 2005.

In accordance with the Bye-laws of the Company and Code Provision A.4 under Appendix 14 to the Listing Rules, Mr. Budiono Widodo, Mr. Sardjono Widodo, Mr. Liao Yun Kuang and Mr. Pipin Kusnadi will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

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

Directors' service contracts

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

(All amounts in United States dollar unless otherwise stated)

Directors' interests in contracts

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

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

Directors and chief executive's interests in shares

As at 31st December, 2005, the Directors and chief executive of the Company and their associates had the following beneficial interests in the equity of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Ordinary shares with par value of HK$0.025 each.

	Personal Interest	Corporate Interest*	Total	% of Total Shares Outstanding
Mr. Budiono Widodo	248,276,000	1,974,720,000	2,222,996,000	39.83%
Mr. Yu Chien Te	58,873,200	Nil	58,873,200	1.05%

* As at 31st December, 2005, SMI International Limited ("SIL") held 1,974,720,000 shares (2004 – 1,974,720,000 shares) of the Company. Mr. Budiono Widodo, a director of the Company, held 39.82% of the outstanding shares of SIL.

Save as disclosed herein and the Section "Share options", as at 31st December, 2005, none of the Directors, the chief executive of the Company or their associates had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.

Directors' interests in competing business

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

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

During the year ended 31st December, 2005, P.T. STUD recorded a sales of $77.95 million, which was analysed by product range as follows:

	$'million
Container flooring	43.49
Industrial plywood	25.50
Film face plywood	8.96
Total	77.95

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

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

(All amounts in United States dollar unless otherwise stated)

Substantial shareholders

As at 31st December, 2005, the persons interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Long position in ordinary shares of the Company:

Name	Capacity and nature of interest	Number of shares held	Percentage of the Company's issued share capital
Mr. Budiono Widodo	Beneficial owner and held by controlled corporation	2,222,996,000	39.83%
SMI International Limited *	Beneficial owner	1,974,720,000	35.38%
Delta Cempaka Pte. Ltd. **	Beneficial owner	449,245,000	8.05%
Mr. Simon Eddy	Held by controlled corporation	449,245,000	8.05%
Mr. Ng Soat Hong	Held by controlled corporation	449,245,000	8.05%
Mr. Tjong Jauw Sing	Beneficial owner	421,905,593	7.56%

* SMI International Limited is owned by Mr. Budiono Widodo for 39.82% and its interest in the issued share capital of the Company is included in the interests held by Mr. Budiono Widodo.

** 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.

Management contracts

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

Major customers and suppliers

For the year ended 31st December, 2005, the five largest customers of the Group accounted for approximately 43.62% of the Group's total sales and the five largest suppliers accounted for approximately 25.34% of the Group's total purchases (not including purchases of capital nature). In addition, the largest customer of the Group accounted for approximately 18.48% of the Group's total sales while the largest supplier accounted for approximately 6.47% of the Group's total purchases. At no time during the year have the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or five largest suppliers.

Connected transactions

Significant related party transactions entered by the Group during the year ended 31st December, 2005, which do not constitute connected transactions under the Listing Rules, are disclosed in Note 32 to the accompanying consolidated financial statements.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Board of Directors confirms that the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31st December, 2005.

Auditors

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

On behalf of the Board of Directors

BUDIONO WIDODO
Chairman

Hong Kong, 7th April, 2006

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF PACIFIC PLYWOOD HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 29 to 74 which have been prepared in accordance with Hong Kong Financial Reporting Standards.

Respective responsibilities of directors and auditors

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Material uncertainty concerning going concern basis of accounting

Without qualifying our opinion, we draw attention to Note 2 to the accounts concerning the adoption of the going concern basis on which the accounts have been prepared. As explained in Note 2 to the accounts, the accounts 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 7th April, 2006

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

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

		Group		Company	
	Note	**2005 $'000**	2004 $'000 Restate	**2005 $'000**	2004 $'000
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

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 7th April, 2006 and signed on behalf of the Board by:

BUDIONO WIDODO
Chairman

SARDJONO WIDODO
Managing Director

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		**–**	–

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

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

	Note	Attributable to equity holders of the Company				
		Share capital $'000	Other reserves $'000	Accumulated losses $'000	Minority Interests $'000	Total $'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**

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

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

The notes on pages 34 to 74 are an integral part of these consolidated financial statements.

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.

(All amounts in United States dollar unless otherwise stated)

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

(All amounts in United States dollar unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Property, plant and equipment *(Continued)*

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Employee benefits *(Continued)*

(a) Pension obligations (Continued)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 $'000	Hong Kong $'000	Singapore $'000	Malaysia $'000	Elimination $'000	Consolidated $'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

6. SEGMENT INFORMATION *(Continued)*

Primary segment by geographical location of operations (continued):

	2004					
	The PRC $'000	Hong Kong $'000	Singapore $'000	Malaysia $'000	Elimination $'000	Consolidated $'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

6. SEGMENT INFORMATION *(Continued)*

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

(All amounts in United States dollar unless otherwise stated)

7. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

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%
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%

(All amounts in United States dollar unless otherwise stated)

7. INVESTMENTS IN SUBSIDIARIES – COMPANY *(Continued)*

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

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
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 $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	Construction-in-progress ("CIP") $'000	Total $'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

8. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

	2004							
	Buildings $'000	Leasehold improvements $'000	Plant and machinery $'000	Furniture, fittings and equipment $'000	Motor vehicles $'000	Jetty $'000	CIP $'000	Total $'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

8. PROPERTY, PLANT AND EQUIPMENT – GROUP *(Continued)*

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 $'000	2004 $'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 $'000	2004 $'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 **$'000**	2004 $'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 **'000**	2004 '000	**2005** **$'000**	2004 $'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.

(All amounts in United States dollar unless otherwise stated)

13. SHARE CAPITAL – GROUP AND COMPANY *(Continued)*

Share Options *(Continued)*

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 $'000	2004 $'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.

15. BORROWINGS – GROUP *(Continued)*

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

	2005 $'000	2004 $'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 $'000	2004 $'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 $'000	2004 $'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 **$'000**	2004 $'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 **$'000**	2004 $'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 **$'000**	2004 $'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.

19. DEFERRED INCOME TAX – GROUP *(Continued)*

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).

19. DEFERRED INCOME TAX – GROUP *(Continued)*

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.

22. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

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.

24. INCOME TAX EXPENSE *(Continued)*

(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 **$'000**	2004 $'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 **$'000**	2004 $'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 **$'000**	2004 $'000	**2005** **$'000**	2004 $'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 **$'000**	**Unutilised** **$'000**	**Total facilities** **$'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 $'000	Unutilised $'000	Total facilities $'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	

30. BANKING FACILITIES *(Continued)*

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.

31. PENSION SCHEMES *(Continued)*

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)).