Pacific Plywood Holdings Limited
太平洋實業控股有限公司

Stock Code: 0767

2006
ANNUAL REPORT

Contents

Corporate Information

Executive Directors
Dr. 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

Auditor
PricewaterhouseCoopers
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Prince's Building
Central
Hong Kong

Principal Bankers
Malayan Banking Berhad
DBS Bank

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Strategic Financial Relations Limited
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Registered Office
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Wanchai
Hong Kong

Chairman's Statement

Budiono Widodo
Chairman

To Our Shareholders

Market conditions improved in 2006 with prices back on the up trend. This was partly the result of increasing costs of logs and lumber which forced marginal producers out of business and affected supply. Increasing demand from fast growing economies like the PRC and India have also pushed up production costs of importing countries.

The Group achieved a turnover of US$153,1 million, an increase of 12.5% over that of last year, driven mainly by rising prices. The increase in selling prices of the Group's products and a reversal of the impairment provision made last year had more than offset the increased log and lumber costs, the exchange losses resulted from the stronger Malaysian Ringgits and Renminbi, and the loss incurred from the disposal of loss making subsidiaries. Hence, the Group managed a mild turnaround of US$0.5 million, against last year's loss of US$7.9 million. Despite that the rising costs of logs and lumber, increased selling prices boosted our gross margin when compared with that of last year.

The US market fared well the past year in spite of rising interest rates. The Japanese and European markets delivered stable performances as corresponding economies improved and consumption sentiment remained strong. In the PRC, prices of plywood-based floorings began to improve in 2006 and steady increase in demand for flooring products is expected. Demand from the Group's newly developed markets, including the Middle East and South-East Asia, has been quite strong. The Group will continue to develop these markets and explore new ones.

On the operation front, we consolidated our resources and strengthened our product mix. The Group's major products include flooring products, MR plywood, WBP plywood, and moulding. They continued to provide the Group with a strong revenue base with profit margins evenly spread. During the year under review, we maintained a very healthy production capacity with average plant utilization rate of close to 80%.

During the year, the Group disposed of Changchun Winpro Wood Industries Co., Ltd in the PRC which had been in loss the past years. The loss on disposal was about US$1.8 million.

Chairman's Statement

Looking to the future, the Group expects demand for and pricing of its products to remain stable in 2007 barring any unforeseen circumstances including outbreak of Avian flu, inflationary pressures and interest rate adjustments in the US and the PRC, stability of the US dollars versus other major currencies and fluctuation of crude oil prices. With the disposal of the loss making plant in Changchun, the PRC, the Group's performance will improve.

To maintain its industry leadership, the Group will continue to build on the strengths of its management team, in particular the technical and production knowledge and skills of the team members. Younger and talented employees are empowered to lead day-to-day management and operations of the Group's plants. They are dedicated in upholding the Group's key management beliefs: innovation in product development methodology, uncompromising quality assurance, effective cost controls, thorough understanding of customer and market needs, and reliable delivery.

On behalf of the Board, I would like to express my gratitude to the management and staff for their dedication and contribution during the year. We would also like to thank all shareholders, investors and customers for their continuing support and confidence in the Group.

Budiono Widodo
Chairman
Hong Kong, 18th April, 2007

Management Discussion and Analysis

From left to right: Liao Yun Kuang, Budiono Widodo, Sardjono Widodo

Business Review

Manufacturing Business

During the year under review, log and lumber prices went up by an average of over 15%, with types in strong demand in fast growing economies like the PRC and India surging more than 30%. The higher prices pushed up the Group's direct costs, and the hike in crude oil prices increased its freight, distribution, utility and glue costs. Despite having to face cost pressures, the Group managed to reduce operating costs by applying a series of stringent cost control measures.

Logging restrictions and green-labelling practices continue to affect the global demand-supply situation and hence the Group's production costs. In combat, the Group has been relentless in increasing recovery rates through process re-engineering and ensuring the cost effectiveness of operations. Furthermore, with certified sources of raw material and supply covered by controlled concessions subject to periodical inspections by relevant authorities, and enjoying strong relationships with logs/lumber suppliers, the Group is assured of consistent material supply.

To effectively counter increasing material costs, the Group strives to maintain a diverse product mix and monitor closely the revenue contribution of different products. During the year under review, among all products, WBP plywood continued to contribute to the bulk of the Group's revenue. Other traditional products, like Veneer, Mouldings, Structural and Laminated Veneer Lumber together also brought in strong and stable revenue. Apart from modifying its production processes and enhancing product quality to meet customers' demand, the Group also continued research and development of new products and ways to expand into new markets.

During the year under review, the Group maintained its production output. The Group's overall production capacity is only about 8% less after it disposed of the production plant in Changchun, the PRC. Its production plants in Dalian, the PRC and Manuply, Malaysia ran smoothly with the latter boasting the highest production volumes at over 85% of its production capacity. It produced and sold the most profitable and well-received products to the Group's major markets in Japan, the PRC, Europe and South-East Asia.

To control costs and improve productivity, the Group undertook a number of important initiatives including outsourcing certain upstream processes and semi-finished products. The Manuply plant used harder wood types and greater volume of smaller and lower grade logs to reduce material costs. And for the plant in China, the Group restructured the remuneration system for workers, shortened the production cycle by combining different processes, and streamlined production lines and plant layout.

During the year under review, the Group focused on strengthening strategic alliances with its partners. Its factory in Dalian, the PRC, commenced cooperation with a well-known purchasing house in US and another in Japan. The Group expects to maintain a stable market share riding on its strategic alliances and marketing initiatives such as increasing the sales of higher value-added products to avoid direct competition, and stepping up direct marketing to end-users to secure stable demand.

Market Overview

During the year under review, the Japanese market though softened, remained the Group's top market. It accounted for nearly 34% of the Group's total turnover. The market values the ability of the Group in supplying high quality plywood products that meet the stringent

Management Discussion and Analysis

specifications of the country's building authority. By the end of the financial year, prices of the plywood-based flooring products for Japan was back on the up trend. The Group expects sales to the market to be stable in the coming year. While demand softened in Japan, sales picked up in Europe during the year. All taken into account, both the Japanese and the European markets had been relatively stable bolstered by sustained consumption sentiment and improving economies. The two markets together made up over 50% of the Group's turnover.

Sales to the US market increased last year despite the continued competition from South American producers. The Group managed to mitigate the pressure from competition by focusing on serving major regular customers in mainly the northern part of the US and Vancouver, Canada to avoid direct clash with South American producers targeting the Southern part of the US. The fact that the Group mainly markets softwood mouldings as opposed to hardwood mouldings supplied by the South American producers also helped. The Group sells moulding products in the US that are used mainly in homes. However, the sector was affected by a significant slowdown in housing demand and increasing mortgage rates in the last quarter of the financial year.

During the year under review, the PRC market contributed approximately 11% of the Group's total turnover. Prices for plywood-based flooring in the PRC market began to climb in 2006 from the record low in 2005. The Group expects demand to steadily increase as stocks built up in the past year are used up by customers. Demand from new markets, including the Middle East and South-East Asia was strong in 2006. Demand from these markets is expected to remain stable and start contributing profit to the Group in the near future. The Group has made inroads in the Philippines and India.

The Group is committed to understanding customer needs and market trends to help it develop new and enhanced products, including jumbo-size plywood, SASH window parts and thin layer floor-base. During the period under review, major efforts were made by the Group to introduce jumbo-size plywood into markets in Europe, Japan and Southeast Asia and to expand its shares in those markets. By developing new products and markets, the Group hopes seize opportunities in existing and emerging markets.

Prospects

In 2007, global demand for logs will continue to exceed supply as a result of stringent export regulations, increasing export duties and green labeling requirements of European, American and Japanese consumers and authorities. Generally, we expect prices and demand to remain stable and plan to closely monitor and improve production processes to cap cost escalation.

Furthermore, the Group will continue to focus on its traditional markets including Japan, the PRC, Europe and North America, which together consume the most wood products in the world. At the same time, we will continue to explore and grow recently secured markets such as Korea, the Philippines and the Middle East.

Going forward, we will continue to consolidate our capacities and resources and explore opportunities for growing our business. These opportunities include sourcing for timber concessions to enhance vertical integration, outsourcing of processes and/or upstream semi-finished products, re-engineering of processes to minimize redundant effort and cut processing time, crafting customer and market-focused strategies.

To maximize productivity and offer an optimized product mix, we will constantly review and modify different production processes to assure cost effectiveness and improve the quality of our products and customer service. We are dedicated to providing customers with quality services and maximizing returns to our shareholders.

Financial Review

Liquidity and financial resources

The Group turned a new page in its financial performance during the year 2006. The profit attributable to shareholders was US$0.5 million, while there was a loss of US$7.9 million in 2005. The earnings before interest, tax and depreciation for 2006 was US$15.0 million, which was substantially higher than that of US$5.3 million for 2005. The operating activities generated a positive cash inflow of US$5.8 million, as compared to an outflow of US$0.5 million for 2005. As at 31st December, 2006, net current liabilities was approximately US$2.9 million, compared to US$8.0 million as at 31st December, 2005, representing a decrease in net current liabilities of US$5.1 million. All in all, the Group's efforts to streamline its operation as well as adopt prudent financial management over the years finally bear fruits. The Group is confident that, bearing unforeseen unfavourable market conditions, this trend would continue in 2007.

Capital structure

During the year ended 31st December, 2006, the Company approved a capital reorganization, which included share consolidation, capital reduction, share premium cancellation and the elimination of the accumulated deficit. In August, 2006, the Company completed an open offer of 558,089,724 new shares to its existing shareholders and received a gross proceeds of approximately US$1.8 million. The effects of the capital reorganization and the open offer are summarized in note 14 and 15 to the consolidated financial statements.

Management Discussion and Analysis

Significant investments, acquisitions and disposals

During the year ended 31st December, 2006, the Group disposed of two subsidiaries to an independent third party at a consideration of US$0.4 million, resulting in a consolidated loss of approximately US$1.8 million. Other than that, the Group has no significant investments and material acquisitions and disposal of subsidiaries and associates during the year ended 31st December, 2006.

Employees

As at 31st December, 2006, the Group had 4,174 staff, 3,271 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 863 at facilities in Dalian, the PRC. In-house training programmes were provided for staff to enhance skills and job knowledge. Management will continue to foster close co-operation with the staff.

Details of charges on assets

Bank loans and other banking facilities of the Group were secured by pledges of certain property, plant and equipment and leasehold land with a net book value of approximately US$71.5 million, floating charges on certain inventories of approximately US$11.6 million, trade receivables of approximately US$3.9 million, bank balances of approximately US$0.7 million, other assets of approximately US$1.3 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, 2006 was approximately US$26.0 million, compared to US$23.3 million as at 31st December, 2005. Total bank borrowings of the Group was approximately US$72.7 million and the gearing ratio (total bank borrowing to total net assets) was accordingly 280% comparing to 333% as at 31st December, 2005.

Foreign exchange exposures

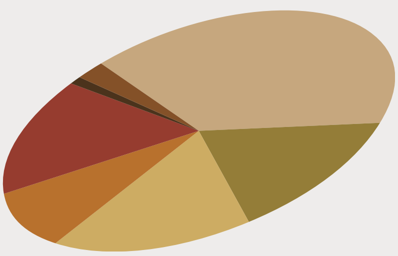
Major currencies of the Group include United States Dollars, Singapore Dollars, Malaysian Ringgits and Renminbi. Due to the delink of Malaysian Ringgits and Renminbi with United States Dollars, the Group is expected to face with greater foreign currency exposure. The Group has not used any forward contracts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

Contingent liabilities

As at 31st December, 2006, the Group had no material contingent liabilities.

Sardjono Widodo
Managing Director
Hong Kong, 18th April, 2007

2006 Sales By Product Categories



39.5% Weather and boil proof plywood

17.2% Moisture resistant pylwood

15.2% Jamb and mouldings

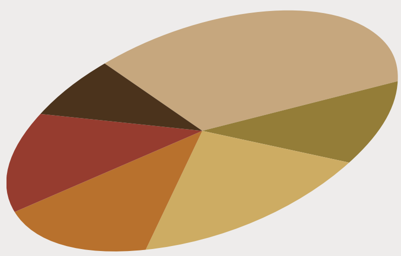
14.7% Structural

10.4% Flooring

0.9% Veneer

2.1% Others

2006 Sales By Geographical Areas*



33.8% Japan

18.2% Europe

15.8% North America

14.0% South East Asia

11.0% The People's Republic of China

7.2% Others

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

Biographical Details of Directors and Senior Management

Executive Directors

Dr. Budiono Widodo, aged 63, 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 27 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 39, is the Managing Director of the Group and a son of Dr. 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 12 years.

Mr. Liao Yun Kuang, aged 54, is the President of the Group. He is also a director of each of the subsidiaries of the Company. 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 25 years experience in general management.

Mr. Yu Chien Te, aged 53, 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 64, holds a Master Degree 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 59, 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 61, is the commissioner for over 10 companies in Jakarta and has been in the wood industry since 1991.

Mr. Ngai Kwok Chuen, aged 49, holds a Diploma of Finance & Accounting from ABRS Management and Technology Institute, Mr. Ngai has over 25 years of experience in the finance and securities market, he is currently handling investments for his own clients on a freelance basis.

Mr. Kusnadi Widjaja, aged 51, 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 44, a son-in-law of Dr. 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 41, 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 57, 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.

Biographical Details of Directors and Senior Management

Mr. Su Wen Chang, aged 53, 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. Goh Lian Seng, aged 42, is the Chief Planning Officer of the Group. He graduated from University of Malaya, Malaysia in April 1990 majoring in accounting. He also holds a Master Degree in Business Administration from University of Birmingham, United Kingdom in 2001. He is also a member of Malaysia Institute of Accountants (MIA) and Malaysia Institute of Certified Public Accountants (MICPA). He joined one of the top accounting firms as an auditor for six years before he joined the Group as a financial analyst. He joined the Group on 1st July, 1996.

Mr. Sim Kok Leong, aged 43, 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 42, 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 41, is the Chief Administrative Officer 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.

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,				
	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Sales	**153,101**	136,144	149,522	136,589	121,449
Profit/(Loss) before income tax	**458**	(8,143)	(7,428)	(7,833)	(4,583)
Income tax	**–**	239	2,929	(323)	713
Profit/(Loss) before minority interests	**458**	(7,904)	(4,499)	(8,156)	(3,870)
Minority interests	**–**	–	–	–	–
Profit/(Loss) attributable to shareholders	**458**	(7,904)	(4,499)	(8,156)	(3,870)
Dividends	**–**	–	–	–	–

Financial Summary

(Amounts expressed in United States dollar unless otherwise stated)

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,				
	2006	2005	2004	2003	2002
	$'000	$'000	$'000	$'000	$'000
Property, plant and equipment	**74,371**	81,005	88,391	100,277	115,233
Leasehold land and land use rights	**2,989**	3,020	3,051	3,082	3,113
Deferred income tax assets	**4,716**	4,402	14,610	11,797	11,818
Current assets	**39,241**	39,444	40,344	40,725	42,900
Current liabilities	**(42,097)**	(47,398)	(43,815)	(54,903)	(52,507)
Long-term borrowings	**(53,096)**	(57,078)	(60,870)	(54,610)	(66,416)
Other non-current liabilities	**(69)**	(62)	(64)	(159)	(137)
Deferred income tax liabilities	**(15)**	(14)	(10,487)	(10,617)	(10,315)
	26,040	23,319	31,160	35,592	43,689
Representing:					
Share capital	**3,598**	18,037	18,037	18,037	18,037
Reserves	**21,442**	4,282	12,123	16,555	24,652
Minority interests	**1,000**	1,000	1,000	1,000	1,000
Shareholders' equity	**26,040**	23,319	31,160	35,592	43,689

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, 2006 and the directors' respective attendance record are summarized as follows:

	Number of meeting attended *(10 meetings in total)*
Executive Directors	
Budiono Widodo, *Chairman*	9
Sardjono Widodo, *Managing Director*	10
Liao Yun Kuang, *President*	10
Yu Chien Te	6
Non-executive Directors	
Sudjono Halim	6
Kusnadi Pipin	5
Chen Chung I	4
Independent non-executive Directors	
Marzuki Usman	7
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.

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 Dr. 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, Dr. Budiono Widodo is also responsible for the strategic planning and overseeing certain aspects of the Group's operation. Such duties overlap with those of 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 Dr. Budiono Widodo and trusts that his rich experience in plywood industry will contribute significantly to the Group's business.

Corporate Governance Report

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, 2006.

Remuneration of Directors

The Remuneration Committee is duly constituted 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, 2006, 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, 2006, no director was nominated to the Board and no new director was appointed.

Auditor's Remuneration

During the year ended 31st December, 2006, the Group engaged PricewaterhouseCoopers to perform audit and audit related services at a fee of approximately US$319,000, which include the service fee of approximately US$15,000 and US$26,000 for engagements to apply certain agreed-upon procedures to the Group's 2006 interim financial statements and the Group's capital reorganization and open offer respectively.

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, 2006 and the committee members' respective attendance record are summarized as follows:

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

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.

Corporate Governance Report

The main duties of the Audit Committee are as follows:

a. To review with the internal and external auditors the adequacy and effectiveness of the Group's internal control and service systems and practices;

b. To consider the appointment of the external auditors, its remuneration and any questions of resignation or dismissal;

c. To discuss with the external auditors before the audit commences, the nature and scope of the audit;

d. To review the half year and annual financial statements before submission to the board, focusing particularly on:

   - Any changes in accounting policies and practices;
   - Significant adjustment resulting from audit;
   - The going concern assumption;
   - Significant and unusual events;
   - Compliance with accounting standards or any other legal requirements

e. To discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss;

f. To perform any other functions as may be agreed by the Audit Committee and the Board.

The Audit Committee met to review the annual financial statements for the year ended 31st December, 2005 and the interim financial information for the six months ended 30th June, 2006.

Internal controls

The Group has in place a group Internal Audit function, which assists the Audit Committee with assessment on the adequacy and integrity of the systems of internal control. Internal audit function reports directly to the Audit Committee. Internal audit function undertakes the audit of the Group's operating units, reviewing the units' compliance to internal control procedures, highlighting weaknesses and making appropriate recommendations for improvements.

The Board notes that all internal control systems contain inherent limitations and no system of internal control could provide absolute assurance against the occurrence of material errors, poor judgment in decision making, human error losses, fraud and other irregularities.

During the year, the board of directors has reviewed the effectiveness of the existing system of internal control and found no material weaknesses that have resulted in any material losses or major breakdown that would require disclosure in this annual report. Management will continue to review and take measures to strengthen the internal control environment.

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 Dr. Budiono Widodo, Chairman of the Board, he did not attend the Company's 2006 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 2006 annual general meeting to answer questions raised by shareholders.

Report of the Directors

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

Principal activities and geographical analysis of operations

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

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

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

* 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.

Report of the Directors

Results and appropriations

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

The Directors do not recommend the payment of a dividend.

Reserves

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

Donations

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

Property, plant and equipment

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

Bank loans and overdrafts

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

Commitments

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

Pension schemes

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

Share capital

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

Distributable reserves

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

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

Pre-emptive rights

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

Five year financial summary

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

Purchase, sale or redemption of securities

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

Share options

In compliance with the amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange, the Company has adopted a share option scheme ("the Scheme"), as approved by shareholders at the Annual General Meeting on 21st June, 2002. Details of the Scheme have been set out in the "Letter from the Board" dated 13th May, 2002. Under the Scheme, the Company may grant options to any participant who, in the absolute discretion of the Board, has made valuable contribution to the business of the Group. The subscription price will be a price determined by the Board and at least the highest of: (a) the closing price of the shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on the date of grant of the option, which must be a business day; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the shares. The total number of shares which may be issued upon exercise of options must not exceed 30% of the number of shares in issue from time to time and in addition, 10% of the number of shares in issue as at the date of approval of the option scheme.

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

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

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

Report of the Directors

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

Directors

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

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

Non-Executive Directors
Mr. Chen Chung I
Mr. Pipin Kusnadi
Mr. Sudjono Halim

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

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

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

Directors' service contracts

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

Directors' interests in contracts

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

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

Directors and chief executive's interests in shares

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

Ordinary shares with par value of HK$0.025 each.

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

Note:

1. As at 31st December, 2006, Wealth Summit Holdings Limited held 24,827,600 shares of the Company. Dr. Budiono Widodo, a director of the Company, held 100% of the outstanding shares of Wealth Summit Holdings Limited.

2. As at 31st December, 2006, Bank of East Asia (Trustee) Limited, being the trustee of the Peace Trust, held indirectly 394,944,000 shares of the Company. Dr. Budiono Widodo and Mr. Sardjono Widodo are named beneficiaries of The Peace Trust.

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

Report of the Directors

Directors' interests in competing business

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

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

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

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

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

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

Substantial shareholders

As at 31st December, 2006, the persons interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Long position in ordinary shares of the Company:

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

Report of the Directors

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

Notes:

1 Reference to 394,944,000 shares of the Company relate to the same block of shares in the Company which represent the total number of shares of the Company held indirectly by Peace Avenue Group Limited (as explained in note 2 below).

2 Precious Win Group Limited and SMI International Limited are owned by Peace Avenue Group Limited for 65.25% and 39.82% respectively and their interests in the issued share capital of the Company are included in the interests held by Peace Avenue Group Limited.

Management contracts

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

Major customers and suppliers

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

Connected transactions

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

Sufficiency of public float

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

Auditor

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

On behalf of the Board of Directors

BUDIONO WIDODO
Chairman

Hong Kong, 18th April, 2007

Report of the Auditor

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PACIFIC PLYWOOD HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Plywood Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 23 to 64, which comprise the consolidated and Company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty concerning going concern basis of accounting

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18th April, 2007

Balance Sheets

As at 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

		Group		Company	
		2006	2005	**2006**	2005
	Note	**$'000**	$'000	**$'000**	$'000
ASSETS					
Non-current assets					
Investments in subsidiaries	*7*	**–**	–	**28,129**	28,129
Property, plant and equipment	*8*	**74,371**	81,005	**3**	3
Leasehold land and land use rights	*9*	**2,989**	3,020	**–**	–
Deferred income tax assets	*20*	**4,716**	4,402	**–**	–
		82,076	88,427	**28,132**	28,132
Current assets					
Inventories	*10*	**18,542**	18,266	**–**	–
Trade receivables	*11*	**15,095**	14,737	**–**	–
Prepayments and other receivables	*12*	**2,369**	3,799	**31**	111
Cash and cash equivalents	*13*	**3,235**	2,642	**165**	34
		39,241	39,444	**196**	145
Total assets		**121,317**	127,871	**28,328**	28, 277
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	*14*	**3,598**	18,037	**3,598**	18,037
Other reserves	*15*	**4,048**	94,773	**20,581**	111,774
Retained earnings/(Accumulated losses)		**17,394**	(90,491)	**(1,532)**	(107,427)
Minority interests		**1,000**	1,000	**–**	–
Total equity		**26,040**	23,319	**22,647**	22,384

Balance Sheets *(Cont'd)*

As at 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

	Note	Group		Company	
		2006	2005	**2006**	2005
		$'000	$'000	**$'000**	$'000
LIABILITIES					
Non-current liabilities					
Borrowings	*16*	**53,096**	57,078	**–**	–
Obligations under finance leases	*17*	**69**	62	**–**	–
Deferred income tax liabilities	*20*	**15**	14	**–**	–
		53,180	57,154	**–**	–
Current liabilities					
Trade payables	*18*	**16,631**	16,956	**–**	–
Accruals and other payables	*19*	**3,942**	8,084	**5,681**	5,893
Current income tax liabilities		**1,884**	1,884	**–**	–
Borrowings	*16*	**19,640**	20,474	**–**	–
		42,097	47,398	**5,681**	5,893
Total liabilities		**95,277**	104,552	**5,681**	5,893
Total equity and liabilities		**121,317**	127,871	**28,328**	28,277
Net current liabilities		**(2,856)**	(7,954)	**(5,485)**	(5,748)
Total assets less current liabilities		**79,220**	80,473	**22,647**	22,384

The notes on pages 28 to 64 are an integral part of these consolidated financial statements.

Approved by the Board of Directors on 18th April, 2007 and signed on behalf of the Board by:

BUDIONO WIDODO
Chairman

SARDJONO WIDODO
Managing Director

Consolidated Income Statement

For the year ended 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

		Year ended 31st December	
		2006	2005
	Note	**$'000**	$'000
Sales	*6*	**153,101**	136,144
Cost of sales	*22*	**(125,690)**	(116,054)
Gross profit		**27,411**	20,090
Other gain-net	*21*	**233**	477
Distribution costs	*22*	**(14,063)**	(13,817)
Administrative expenses	*22*	**(10,204)**	(10,793)
Loss on disposal of subsidiaries	*28*	**(1,766)**	–
Write-back on impairment losses on property, plant and equipment	*8*	**3,990**	–
Operating profit/(loss)		**5,601**	(4,043)
Finance costs	*24*	**(5,143)**	(4,100)
Profit/(Loss) before income tax		**458**	(8,143)
Income tax	*25*	**–**	239
Profit/(Loss) attributable to shareholders		**458**	(7,904)
Earnings/(Loss) per share – basic	*27*	**US 0.06 cents**	US (1.42) cents
Earnings/(Loss) per share – diluted	*27*	**N/A**	N/A
Dividends		**–**	–

The notes on pages 28 to 64 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

		Attributable to equity holders of the Company				
		Share capital	**Other reserves**	**(Accumulated losses)/ Retained earnings**	**Minority Interests**	**Total**
	Note	$'000	$'000	$'000	$'000	$'000
Balance at 1st January, 2005		18,037	94,710	(82,587)	1,000	31,160
Loss for the year		–	–	(7,904)	–	(7,904)
Currency translation differences	*15(a)*	–	63	–	–	63
Balance at 31st December, 2005		18,037	94,773	(90,491)	1,000	23,319
Balance at 1st January, 2006, as per above		18,037	94,773	(90,491)	1,000	23,319
Capital reduction	*14 & 15(a)*	(16,234)	16,234	–	–	–
Issuance of new shares	*14*	1,795	–	–	–	1,795
Adjustment of accumulated losses	*15(a)*	–	(107,427)	107,427	–	–
Profit for the year		–	–	458	–	458
Disposal of subsidiaries	*15(a)*	–	(23)	–	–	(23)
Currency translation differences	*15(a)*	–	491	–	–	491
Balance at 31st December, 2006		**3,598**	**4,048**	**17,394**	**1,000**	**26,040**

The notes on pages 28 to 64 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

	Note	Year ended 31st December 2006 $'000	2005 $'000
Cash flows from operating activities			
Cash generated from operations	*28*	**10,898**	3,594
Interest paid		**(5,143)**	(4,100)
Net cash generated from/(used in) operating activities		**5,755**	(506)
Cash flows from investing activities			
Interest received		**31**	17
Proceeds from disposals of property, plant and equipment		**126**	96
Proceeds from disposals of subsidiaries		**353**	–
Acquisition of property, plant and equipment		**(1,671)**	(1,640)
Net cash used in investing activities		**(1,161)**	(1,527)
Cash flows from financing activities			
Proceeds from issuance of new shares		**1,795**	–
Proceeds from borrowings		**3,147**	11,313
Repayments of borrowings		**(8,938)**	(8,941)
Repayment of principal portion of finance leases		**(76)**	(211)
Net cash (used in)/generated from financing activities		**(4,072)**	2,161
Net increase in cash and cash equivalents		**522**	128
Cash and cash equivalents at beginning of the year		**2,642**	2,785
Effect of foreign exchange rate changes		**71**	(271)
Cash and cash equivalents at end of the year		**3,235**	2,642

The notes on pages 28 to 64 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

1. GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in thousands of units of United States dollars ("$'000"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18th April, 2007.

2. GOING CONCERN

As at 31st December, 2006, the Group had net current liabilities of $2,856,000 (2005 – $7,954,000) and outstanding bank loans of $72,736,000 (2005 – $77,552,000), of which approximately $19,640,000 (2005 – $20,474,000) 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.

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 2007. 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, 2006. The Directors are confident that the Group will continue to obtain the ongoing support from its bankers, and accordingly, the Directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis. The accounts do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of preparation

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

(All amounts in United States dollar unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

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

The following amendments to standards and interpretations are mandatory for financial year ended 31st December, 2006.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 1 & HKFRS 6 (Amendments)	First time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluating of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the above amendments to standards and interpretations did not have any significant changes to the Group.

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

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Agreements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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 unless the transaction provides evidence 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 (Note 3.6). The results of subsidiaries are accounted for 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 operations 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 United States 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 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 charged in the income statement during the financial period in which they are incurred.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Property, plant and equipment (Continued)

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).

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other (losses)/gains – net, in the income statements.

3.6 Impairment of investment in subsidiaries and 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reversed, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the income statement.

3.7 Leasehold land and land use rights

Prepayments made for leasehold land and land use rights are stated at cost less accumulated amortization and accumulated impairment losses (if any). Prepayments mainly represents consideration paid for the rights to use the land on which various plants and buildings are situated for a certain period from the date the respective right was granted. Amortization of leasehold land prepayments and land use rights is calculated on a straight-line basis over the period of the lease.

3.8 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 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.

3.9 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized 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 (more than 30 days overdue) 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited against selling and marketing costs in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 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.

3.11 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 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.

3.12 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.

3.13 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)

3.13 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, 2006 according to the transitional provisions of HKFRS 2.

3.14 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)

3.15 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:

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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.

3.16 Leases (as the lessee)

(a) *Operating leases*

Leases of assets 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 in which 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, concentration of customers risk and cash flow interest rate 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 Chinese 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. The Group has not used any forward contracts or currency borrowings to hedge its currency exposure.

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, 2006 and 2005, the Group's sales to top 5 customers accounted for approximately 56.56% and 59.72% of the total sales respectively. Out of the top 5 customers, the Group's sales to the largest customer, an independent third party amounted to $30,985,000 for the year ended 31st December, 2006 (2005 – $29,204,000). As at 31st December 2006, trade receivable balance due from this customer amounted to $7,860,000 (2005 – $6,894,000). The Group aims to maintain long-term relationship with reputable customers in the expansion of its business.

(iii) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets except for the cash and cash equivalents, details of which have been disclosed in Note 13. The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in Note 16. These borrowings expose the Group to cash flow interest rate risk. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(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.

The potential credit risk exposure in the event that the largest customer failing to perform its obligations as at 31st December, 2006 is disclosed in Note 4 (a) (ii).

(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 of 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 equipment

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:

	The PRC $'000	Hong Kong $'000	Singapore $'000	Malaysia $'000	Elimination $'000	Consolidated $'000
			2006			
Sales						
– External	51,230	4,012	–	97,859	–	153,101
– Inter-segment	–	–	–	172	(172)	–
Total sales	51,230	4,012	–	98,031	(172)	153,101
Result						
Segment result	(4,415)	79	4,119	7,349	–	7,132
Unallocated corporate expenses						(1,531)
Operating profit						5,601
Finance costs						(5,143)
Income tax						–
Profit attributable to shareholders						458
Assets						
Segment assets	31,111	557	13,356	71,378	–	116,402
Unallocated corporate assets						4,915
						121,317
Liabilities						
Segment liabilities	4,039	82	143	17,412	–	21,676
Unallocated corporate liabilities						73,601
						95,277
Other information						
Capital expenditure	548	–	28	1,237	–	1,813
Unallocated capital expenditure						–
						1,813
Depreciation	1,685	7	281	7,405	–	9,378
Amortization charge	–	–	–	31	–	31
Unallocated depreciation/ amortization						1
						9,410

6. SEGMENT INFORMATION (Continued)

Primary segment by geographical location of operations: (Continued)

	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						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 expenditure	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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2006
(All amounts in United States dollar unless otherwise stated)

6. SEGMENT INFORMATION (Continued)

Secondary segment by products:

	2006				2005			
	Sales	**Operating profit (loss)**	**Assets**	**Capital expenditure**	Sales	Operating profit (loss)	Assets	Capital expenditure
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Flooring	**15,952**	**1,159**	**7,166**	**124**	24,053	642	13,380	233
Structural	**22,548**	**283**	**16,110**	**88**	31,693	(813)	29,714	259
Moisture resistant plywood	**26,298**	**1,551**	**18,164**	**315**	26,996	724	24,654	419
Jamb & mouldings	**23,208**	**574**	**13,959**	**76**	16,499	(673)	11,366	98
Weather and boil proof plywood	**60,482**	**4,542**	**38,964**	**675**	32,976	917	26,237	458
Veneer	**1,364**	**27**	**1,149**	**20**	2,566	68	10	–
Others	**3,249**	**80**	**6,837**	**108**	1,361	(58)	689	8
Unallocated	**–**	**(2,615)**	**18,968**	**407**	–	(4,850)	21,821	248
Total	**153,101**	**5,601**	**121,317**	**1,813**	136,144	(4,043)	127,871	1,723

7. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2006	2005
	$'000	$'000
Investment at cost – unlisted shares	**30,529**	30,529
Less: Provision for impairment	**(2,400)**	(2,400)
	28,129	28,129

The following is a list of the principal subsidiaries at 31st December, 2006:

Name	**Place of incorporation and kind of legal 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%	–
Dalian Global Wood Products Company Limited	PRC, co-operative joint venture *Note 1*	Manufacture and sale of wood products, The PRC	$29,600,000	–	100%

(All amounts in United States dollar unless otherwise stated)

7. INVESTMENTS IN SUBSIDIARIES – COMPANY (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital/paid up capital	Interest held Directly	Interest held Indirectly
Daunting Services Ltd.	BVI, limited liability company	Dormant, BVI	$1	–	100%
Glowing Schemes Sdn. Bhd.	Malaysia, limited liability company	Dormant, Malaysia	Malaysian Ringgits 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 Ringgits 55,000,000	–	100%
Pacific Plywood Limited	Samoa, limited liability company	Trading of plywood and other wood products, Hong Kong	$3,000,000	–	100%
SMI Global Corporation	United States of America, limited liability company	Trading of wood products, United States of America	$1,000	–	100%
SMI Management & Co. Pte. Ltd.	Singapore, limited liability company	Property holding and provision of management service, Singapore	Singapore dollars 20,000,000	–	100%
Sino Realm Investments Limited	BVI, limited liability company	Investment holding, BVI	$1	–	100%

Notes:

1. 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 29(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.

2. During the year, the Group disposed of two subsidiaries, namely Farship International Limited and Changchun Winpro Wood Industries Co., Ltd. to an independent third party at a consideration of $400,000, resulting in a consolidated disposal loss of approximately $1,766,000.

8. PROPERTY, PLANT AND EQUIPMENT – GROUP

	2006							
	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	39,954	487	137,112	3,102	1,614	1,563	7	183,839
Disposal of subsidiaries	(4,047)	–	(5,429)	(145)	(117)	–	–	(9,738)
Additions	45	7	1,147	128	24	–	92	1,443
Disposals	–	–	(32)	(122)	(158)	–	–	(312)
Transfers	–	–	60	–	–	–	(60)	–
Exchange differences	1,648	37	910	93	11	–	1	2,700
End of year	37,600	531	133,768	3,056	1,374	1,563	40	177,932
Accumulated depreciation								
Beginning of year	8,629	252	72,020	2,416	1,028	388	–	84,733
Disposal of subsidiaries	(1,189)	–	(2,267)	(127)	(80)	–	–	(3,663)
Charge for the year	903	62	8,141	152	90	31	–	9,379
Disposals	–	–	(17)	(120)	(18)	–	–	(155)
Exchange differences	270	24	349	82	6	–	–	731
End of year	8,613	338	78,226	2,403	1,026	419	–	91,025
Accumulated impairment loss								
Beginning of year	5,525	–	12,576	–	–	–	–	18,101
Disposal of subsidiaries	–	–	(2,147)	–	–	–	–	(2,147)
Write-back	(3,579)	–	(411)	–	–	–	–	(3,990)
Exchange differences	315	–	257	–	–	–	–	572
End of year	2,261	–	10,275	–	–	–	–	12,536
Net book value								
End of year	26,726	193	45,267	653	348	1,144	40	74,371
Beginning of year	25,800	235	52,516	686	586	1,175	7	81,005

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

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 differences	(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 differences	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 differences	(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

Depreciation expense of $8,722,000 (2005 – $8,676,000) has been expensed in cost of sales and $657,000 (2005 – $688,000) in administrative expenses.

Certain buildings of the Group with a net book value of approximately $4,229,000 (2005 – $4,248,000) represented buildings of Dalian Global, which are located on land belongs to the Chinese joint venture partner of Dalian Global.

Certain property, plant and equipment of the Group with a net book value of approximately $68,502,000 (2005 – $70,765,000) have been pledged as security for certain banking facilities of the Group (Note 16 and 30(a)).

Certain plant and equipment of the Group with a net book value of approximately $340,000 (2005 – $205,000) 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:

	2006 $'000	2005 $'000
Outside Hong Kong, held on:		
Malaysia – Leases of over 50 years	**2,989**	3,020

	2006 $'000	2005 $'000
Opening	**3,020**	3,051
Addition	**370**	–
Amortisation of prepaid operating lease payment	**(31)**	(31)
Disposal of subsidiaries	**(370)**	–
Closing	**2,989**	3,020

The leasehold land of the Group with a net book value of approximately $2,989,000 (2005 – $3,020,000) has been pledged as security for certain banking facilities of the Group (Note 30(b)).

10. INVENTORIES – GROUP

	2006 $'000	2005 $'000
Raw materials	**7,480**	6,495
Work-in-progress	**5,255**	5,073
Finished goods	**5,807**	6,698
	18,542	18,266

The cost of inventories recognized as expense and included in cost of sales amounted to $83,380,000 (2005 – $78,137,000).

As at 31st December, 2006, inventories amounting to approximately $11,645,000 (2005 – $9,251,000) 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, 2006, the aging analysis of the trade receivables were as follows:

	2006 $'000	2005 $'000
0 – 30 days	**9,678**	9,692
31 – 60 days	**2,050**	3,219
61 – 90 days	**2,538**	1,011
91 – 180 days	**401**	98
181 – 360 days	**26**	415
Over 360 days	**3,383**	4,073
	18,076	18,508
Less: Provision for impairment of receivables	**(2,981)**	(3,771)
	15,095	14,737

The carrying value of trade receivables approximate their fair value due to the short-term maturing.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2006 $'000	2005 $'000
Chinese Renminbi	**7,870**	8,007
United States Dollars	**7,225**	6,730
	15,095	14,737

As at 31st December, 2006, trade receivables amounting to approximately $3,915,000 (2005 – $4,660,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 30(d)).

As at 31st December, 2006, certain subsidiaries of the Group transferred receivable balances amounting to approximately $1,009,000 (2005 – $2,004,000) to banks in exchange for cash. The transactions have been accounted for as collateralized borrowings (Note 16).

The Group has recognised a loss of $91,000 (2005 – $592,000) for the impairment of its trade receivables during the year ended 31st December, 2006. The loss has been included in administrative expenses in the consolidated income statement.

12. PREPAYMENTS AND OTHER RECEIVABLES – GROUP

	2006 $'000	2005 $'000
Prepayments and deposits		
– Purchase of raw materials	**574**	2,140
– Others	**798**	678
Value-added tax ("VAT") refund receivable	**228**	289
Other receivables	**1,007**	1,819
	2,607	4,926
Less: Provision for impairment of prepayments and other receivables	**(238)**	(1,127)
	2,369	3,799

As at 31st December, 2006, prepayments and other receivables amounting to approximately $1,321,000 (2005 – $893,000) were subject to floating charges as collateral for certain banking facilities of the Group (Note 30(e)).

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 **$'000**	2005 $'000	**2006** **$'000**	2005 $'000
Cash at bank and in hand	**3,235**	2,642	**165**	34
Denominated in:				
Hong Kong Dollars	**228**	46	**165**	34
Chinese Renminbi	**441**	1,033	**–**	–
United States Dollars	**1,566**	714	**–**	–
Singapore Dollars	**288**	316	**–**	–
Malaysian Ringgits	**712**	533	**–**	–
	3,235	2,642	**165**	34

The weighted average effective interest rate was 2.27% and 1.64% per annum during the years ended 31st December, 2006 and 2005 respectively. Cash at bank earns interest at floating rates based on daily bank deposit rates.

Floating charges on certain bank balances of the Group of approximately $703,000 (2005 – $524,000) (Note 30(f)).

14. SHARE CAPITAL – GROUP AND COMPANY

The details of share capital are as follows:

	Number of shares		Amount	
	2006	2005	**2006**	2005
	'000	'000	**$'000**	$'000
Authorised –				
Ordinary shares of HK$0.025 each	**8,000,000**	8,000,000	**25,806**	25,806
Issued and fully paid –				
Ordinary shares of HK$0.025 each	**1,116,179**	5,580,897	**3,598**	18,037

(a) Movement of Issued and fully paid ordinary shares

	Number of shares	Amount
	'000	$'000
Balance at 1st January, 2006, as per above	5,580,897	18,037
Capital reduction	(5,022,808)	(16,234)
Issuance of new shares	558,090	1,795
Balance at 31st December, 2006	**1,116,179**	**3,598**

(b) Capital reduction

On 19th July, 2006, shareholders of the Company approved (in a special general meeting of the Company) the Capital Reorganization of the Company. This involved (a) Share Consolidation by consolidating every 10 shares of HK$0.025 each into 1 consolidated share of HK$0.25 each; (b) Capital Reduction by reducing the nominal value of the then issued consolidated shares from HK$0.25 to HK$0.025 each; (c) Subdivision by subdividing each authorized but un-issued consolidated share into 10 new shares of HK$0.025 each. As a result of the Capital Reorganization, the authorized share capital of the Company remains at HK$200,000,000 and was represented by 8,000,000,000 shares after capital reduction and subdivision ("the Shares") and the issued share capital was approximately HK$13,952,000 and was represented by 558,089,724 Shares of HK$0.025 each.

(c) Open Offer

In August 2006, the Company completed an open offer of 558,089,724 new Shares to its existing shareholders on the basis of one new Share for every one existing Share held. As a result of this open offer, 558,089,724 new Shares were issued and the Company received a gross proceeds of approximately HK$13,952,000. This amount was used as a general working capital of the Group as well as to repay part of the Group's bank borrowings during year 2006.

(All amounts in United States dollar unless otherwise stated)

14. SHARE CAPITAL – GROUP AND COMPANY (Continued)

(d) Share Options

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

Under the Scheme, the Company may grant options to any participant, 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 Stock Exchange'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 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 at the date of approval of the option scheme.

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

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

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

15. OTHER RESERVES

(a) GROUP

	Share premium $'000	Contributed surplus $'000	Translation $'000	Total $'000
Balance at 1st January, 2005	90,652	7,814	(3,756)	94,710
Currency translation differences	–	–	63	63
Balance at 31st December, 2005	90,652	7,814	(3,693)	94,773
Balance at 1st January, 2006	90,652	7,814	(3,693)	94,773
Capital reduction	–	16,234	–	16,234
Share premium cancellation	(90,652)	90,652	–	–
Adjustment of accumulated losses	–	(107,427)	–	(107,427)
Disposal of subsidiaries	–	(23)	–	(23)
Currency translation differences	–	–	491	491
Balance at 31st December, 2006	**–**	**7,250**	**(3,202)**	**4,048**

The contributed surplus of the Group as at 31st December, 2005 represents the waiver in 1995 of an amount due to director and the difference between the net assets of the subsidiaries acquired pursuant to a group reorganization in 1995 over the nominal value of the Company's consideration in exchange therefor. During the year ended 31st December, 2006, other than the increase of the contributed surplus from capital reduction and share premium cancellation, part of the contributed surplus has been used to set off against the accumulated losses of the Company as at 31st December, 2005 and the balance was reduced to approximately $7,250,000 (2005 - $7,814,000).

(b) COMPANY

	Share premium $'000	Contributed surplus $'000	Total $'000
Balance at 31st December, 2005	90,652	21,122	111,774
Balance at 1st January, 2006	90,652	21,122	111,774
Capital reduction	–	16,234	16,234
Share premium cancellation	(90,652)	90,652	–
Adjustment of accumulated losses	–	(107,427)	(107,427)
Balance at 31st December, 2006	**–**	**20,581**	**20,581**

The contributed surplus of the Company as at 31st December, 2005 represents the difference between the net assets of the subsidiaries acquired pursuant to a group reorganization in 1995 over the nominal value of the Company's consideration in exchange therefor. During the year ended 31st December, 2006, other than the increase of the contributed surplus from capital reduction and share premium cancellation, part of the contributed surplus has been used to set off against the accumulated losses of the Company as at 31st December, 2005 and the balance was reduced to approximately $20,581,000 (2005 – $21,122,000). The contributed surplus of the Company may be applied in such manner as is permitted by the laws of Bermuda and the Company's Bye-laws, including for capitalization issues, for distribution to shareholders and to set off accumulated losses of the Company, if any.

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

16. BORROWINGS – GROUP

	2006 $'000	2005 $'000
Non-current		
Bank borrowings	**53,096**	57,078
Current		
Banker's acceptance and other banking facilities	**11,352**	10,579
Bank borrowings		
– short term bank borrowings	**2,548**	3,817
– current portion of long term bank borrowings	**4,731**	4,074
Collateralized borrowings *(Note 11)*	**1,009**	2,004
	19,640	20,474
Total borrowings	**72,736**	77,552

The long term bank borrowings bore interest at commercial banking rates ranging from 4.75% to 8.50% (2005 – 3.25% to 8.25%) 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 5.58% to 7.25% (2005 – 3.37% to 7.25%) 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, 2006, the carrying amounts of bank borrowings approximate their fair value.

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

	2006 $'000	2005 $'000
Bank loans repayable within a period		
– Within 1 year	**4,731**	4,074
– between 1 and 2 years	**5,288**	4,496
– between 2 and 5 years	**15,945**	15,855
– Over 5 years	**31,863**	36,727
	57,827	61,152
Less: Amount due within 1 year included in current liabilities	**(4,731)**	(4,074)
	53,096	57,078

16. BORROWINGS – GROUP (Continued)

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

	2006 **$'000**	2005 $'000
United States Dollars	**51,850**	55,844
Singapore Dollars	**6,776**	6,497
Malaysian Ringgits	**11,562**	13,555
Chinese Renminbi	**2,548**	1,656
	72,736	77,552

The fair values of current borrowings equal their carrying amounts as the impact of discounting is not significant.

(c) The Group has the following undrawn borrowing facilities:

	2006 **$'000**	2005 $'000
Floating rate		
– expiring within one year	**620**	250
– expiring beyond one year	**7,425**	5,056
Fixed rate		
– expiring within one year	**–**	277
	8,045	5,583

17. OBLIGATIONS UNDER FINANCE LEASES – GROUP

As at 31st December, 2006, the Group's finance lease liabilities, net of finance lease charges, were repayable as follows:

	2006 **$'000**	2005 $'000
Future minimum payments payable within a period		
– not exceeding 1 year	**128**	59
– more than 1 year but not exceeding 2 years	**69**	52
– more than 2 years but not exceeding 5 years	**–**	10
	197	121
Less: Amounts payable within 1 year included under accruals and other payables *(Note 19)*	**(128)**	(59)
	69	62

18. TRADE PAYABLES – GROUP

As at 31st December, 2006, the aging analysis of the trade payables were as follows:

	2006	2005
	$'000	$'000
0 – 30 days	**7,284**	7,362
31 – 60 days	**3,748**	3,129
61 – 90 days	**2,240**	1,633
91 – 180 days	**3,257**	2,916
181 – 360 days	**91**	910
Over 360 days	**11**	1,006
	16,631	16,956

19. ACCRUALS AND OTHER PAYABLES – GROUP

(a) GROUP

	2006	2005
	$'000	$'000
Customer deposits	**50**	2,042
Accrued expenses	**1,338**	1,812
Salary and welfare payable	**1,768**	2,810
Obligations under finance leases – current portion *(Note 17)*	**128**	59
Others	**658**	1,361
	3,942	8,084

(b) COMPANY

	2006	2005
	$'000	$'000
Salary and welfare payable	**441**	2,058
Payables due to subsidiaries	**5,029**	3,702
Others	**211**	133
	5,681	5,893

The amount due to subsidiaries is unsecured, interest free and repayable on demand.

20. 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.

	2006 **$'000**	2005 $'000
Deferred income tax assets	**4,716**	4,402
Deferred income tax liabilities	**(15)**	(14)
	4,701	4,388

Deferred income tax assets and liabilities of Manuply Wood Industries(s) Sdn. Bhd. ("Manuply"), prior to offsetting of balances within the same taxation jurisdiction are as follows:

	2006 **$'000**	2005 $'000
Deferred income tax assets	**15,718**	14,670
Deferred income tax liabilities	**(11,002)**	(10,268)
	4,716	4,402

The deferred income tax assets recognized in the consolidated balance sheet as at 31st December, 2006 related to Manuply which was profitable for both the years ended 31st December, 2005 and 2006. The Directors are of the view that Manuply will generate sufficient taxable profit in future to fully utilize the deferred income tax assets.

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

	Tax losses and unused tax credits	
	2006 **$'000**	2005 $'000
Deferred income tax assets		
Beginning of year	**14,670**	14,610
Deferred taxation credited to the consolidated income statement *(Note 25)*	**–**	60
Exchange differences	**1,048**	–
End of year	**15,718**	14,670

20. DEFERRED INCOME TAX – GROUP (Continued)

	Accelerated tax depreciation	
	2006	2005
	$'000	$'000
Deferred income tax liabilities		
Beginning of year	**10,282**	10,487
Deferred taxation credited to the consolidated income statement *(Note 25)*	**–**	(179)
Exchange differences	**735**	(26)
End of year	**11,017**	10,282

Deferred income tax assets are recognised for tax loss and unused tax credits carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. As at 31st December, 2006, a subsidiary of the Group has tax losses of approximately $501,000 (2005 – $468,000) and unused tax credits of approximately $55,635,000 (2005 – $51,924,000) 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 accelerated tax depreciation. As at 31st December, 2006, two subsidiaries of the Group have taxable temporary differences of approximately $39,345,000 (2005 – $36,742,000).

As at 31st December, 2006, major unprovided deferred income tax assets of the Group are as follows:

	2006	2005
	$'000	$'000
Relating to:		
– Unused tax credits	**683**	560
– Tax losses	**2,422**	3,197
– Accelerated tax depreciation	**1,625**	2,098
– Others	**1,319**	–
End of year	**6,049**	5,805

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

21. OTHER GAIN-NET

	2006 **$'000**	2005 $'000
Net foreign exchange (losses)/gains	**(1,085)**	217
Interest income	**31**	17
Others	**1,287**	243
	233	477

22. EXPENSES BY NATURE

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

	2006 **$'000**	2005 $'000
Changes in inventories of finished goods and work in progress	**919**	341
Raw materials and consumables used	**82,461**	77,796
Reversal of inventories to net realisable value, net	**(829)**	(152)
Freight and other related charges	**14,063**	13,817
(Reversal)/Provision for impairment of receivables, net	**(205)**	587
Staff costs (excluding directors' emoluments)		
– Wages and salaries	**2,959**	2,880
– Pension costs *(Note 31)*	**346**	346
Staff secondment service fee	**1,800**	1,800
Directors' emoluments *(Note 23(a))*	**913**	919
Depreciation of property, plant and equipment		
– owned assets	**9,369**	9,344
– assets held under finance leases	**10**	20
Amortization of leasehold land *(Note 9)*	**31**	31
Operating lease expenses on land, buildings and machinery	**543**	406
Loss/(Gain) on disposals of property, plant and equipment	**31**	(32)
Auditors' remuneration	**324**	279

23. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31st December, 2006 is set out below:

Name of Director	Fees $'000	Salary $'000	Contributions to pension schemes $'000	Total $'000
Executive Directors				
Dr. Budiono Widodo	**–**	**456**	**–**	**456**
Mr. Sardjono Widodo	**180**	**–**	**–**	**180**
Mr. Liao Yun Kuang	**72**	**65**	**3**	**140**
Mr. Yu Chien Te	**16**	**82**	**3**	**101**
Non-Executive Directors				
Mr. Pipin Kusnadi	**6**	**–**	**–**	**6**
Mr. Chen Chung I	**6**	**–**	**–**	**6**
Mr. Sudjono Halim	**6**	**–**	**–**	**6**
Independent non-Executive Directors				
Mr. Marzuki Usman	**6**	**–**	**–**	**6**
Mr. Ngai Kwok Chuen	**6**	**–**	**–**	**6**
Mr. Kusnadi Widjaya	**6**	**–**	**–**	**6**
	304	**603**	**6**	**913**

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
Executive Directors				
Dr. 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. Peng Chiu Ching *	–	7	–	7
Non-Executive Directors				
Mr. Pipin Kusnadi	6	–	–	6
Mr. Chen Chung I	6	–	–	6
Mr. Sudjono Halim	6	–	–	6
Independent non-Executive Directors				
Mr. Marzuki Usman	6	–	–	6
Mr. Ngai Kwok Chuen	6	–	–	6
Mr. Kusnadi Widjaya	6	–	–	6
	304	607	8	919

* *Retired on 17th June, 2005.*

No Directors waived any emoluments during the year ended 31st December, 2006 and 2005. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Director for the year ended 31st December, 2006 and 2005.

23. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005 – three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005 – two) highest paid individuals during the year are as follows:

	2006 $'000	2005 $'000
Basic salaries and allowances	**272**	241
Bonus	**28**	25
Contributions to pension schemes	**3**	4
	303	270

The emoluments of these two (2005: two) individuals fell within the following bands:

	Number of individuals 2006	2005
– Nil to $128,200 (Nil to HK$1,000,000)	**–**	1
– $128,201 to $192,300 (HK$1,000,001 to HK$1,500,000)	**2**	1
	2	2

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

24. FINANCE COSTS

	2006 $'000	2005 $'000
Interest on bank loans	**4,659**	3,770
Interest on other loans wholly repayable within 5 years	**473**	313
Interest element of finance leases	**11**	17
	5,143	4,100

25. INCOME TAX

(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 Wood Industries (S) Sdn. Bhd. ("Manuply"), because it had unutilised tax allowances to offset its estimated assessable profit for the year ended 31st December, 2006. The applicable income tax rate of Manuply is 28% (2005 – 28%).

(iv) The PRC

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

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

(v) Others

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

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

	2006 **$'000**	2005 $'000
Current income tax		
– Overseas taxation	**–**	–
Deferred income tax relating to the origination and reversal of temporary differences *(Note 20)*	**–**	(239)
	–	(239)

25. INCOME TAX (Continued)

(v) Others (Continued)

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:

	2006 $'000	2005 $'000
Profit/(Loss) before income tax	**458**	(8,143)
Weighted average applicable tax rate	**28%**	28%
Tax calculated at the weighted average applicable tax rate	**128**	(2,280)
Effect of different applicable taxation rates in other countries	**(723)**	(15)
Expenses not deductible for tax purposes	**618**	714
Tax incentive	**(1,845)**	(2,186)
Utilisation of previously unrecognized tax losses	**(1,383)**	(48)
Temporary differences and tax losses for which no deferred income tax asset was recognized	**3,205**	3,815
Prior year tax adjustment	**–**	(239)
Tax charge	**–**	(239)

26. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of a loss of approximately $1,532,000 (2005 – $3,680,000).

27. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's consolidated profit attributable to shareholders of approximately $458,000 (2005 – loss of approximately $7,904,000) and on the weighted average number of 744,119,632 shares (2005 – 558,089,724 shares) in issue during the year.

There was no dilutive effect on earnings/(loss) per share for the year ended 31st December, 2006 and 2005 since all outstanding share options were anti-dilutive.

28. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit/(loss) before income tax to cash generated from operations:

	2006 $'000	2005 $'000
Profit/(Loss) before income tax	**458**	(8,143)
Adjustment for:		
Depreciation	**9,379**	9,364
Amortization of leasehold land	**31**	31
Interest expense	**5,143**	4,100
Interest income from bank deposits	**(31)**	(17)
(Reversal)/Provision for impairment of receivables, net	**(205)**	587
Reversal of inventories to net realisable value, net	**(829)**	(152)
Reversal of impairment loss on property, plant and equipment	**(3,990)**	–
Loss on disposal of subsidiaries	**1,766**	–
Loss/(Gain) on disposal of property, plant and equipment	**31**	(32)
Operating profit before working capital changes	**11,753**	5,738
(Increase)/Decrease in inventories	**(310)**	1,271
Decrease in prepayments and other receivables	**957**	633
Increase in trade receivables	**(339)**	(1,624)
Decrease/(Increase) in trade payables	**1,216**	(421)
Decrease in accruals and other payables	**(2,379)**	(2,003)
Net cash generated from operations	**10,898**	3,594

(b) Disposal of subsidiaries

	2006 $'000
Net assets disposed of	
Cash and cash equivalents	**47**
Prepayments	**3**
Deposit and other receivables	**471**
Trade receivables	**185**
Inventories	**862**
Property, plant and equipment	**4,314**
Amount due to related companies	**(10)**
Bank borrowings – short term	**(389)**
Trade payables	**(1,531)**
Accruals and other payables	**(1,833)**
Capital reserve	**(23)**
Translation	**70**
	2,166
Loss on disposal of subsidiaries	**(1,766)**
Proceeds	**400**
Satisfied by:	
Cash	**400**

28. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

Analysis of the net cash inflow in respect of the disposal of subsidiaries:

	2006 $'000
Cash consideration	400
Cash and cash equivalents disposed	(47)
Net cash inflow in respect of the disposal of subsidiaries	353

29. COMMITMENTS – GROUP

(a) Lease commitments

As at 31st December, 2006, the Group had future aggregate minimum lease payments in respect of land, buildings and machinery under various non-cancellable operating leases arrangements as follows:

	2006 $'000	2005 $'000
No later than 1 year	383	422
Later than 1 year and not later than 5 years	199	564
Later than 5 years	–	802
	582	1,788

(b) Other commitments

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

	2006 $'000	2005 $'000
Payable during the following periods:		
– No later than 1 year	500	500
– Later than 1 year and not later than 5 years	2,110	2,080
– Later than 5 years	1,878	2,408
	4,488	4,988

30. BANKING FACILITIES – GROUP

As at 31st December, 2006, the Group had aggregate banking facilities as follows:

	2006			
	Utilised $'000	**Unutilised $'000**	**Total facilities $'000**	*Note*
– Bank loans	**60,375**	**–**	**60,375**	*(a) – (h)*
– Trade facilities	**14,531**	**8,045**	**22,576**	*(a) – (h)*
	74,906	**8,045**	**82,951**	

	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	

The above facilities were secured by:

(a) Pledges of certain property, plant and equipment of the Group with a net book value of approximately $68,502,000 (2005 – $70,765,000) (Note 8);

(b) Pledges of certain leasehold land of the Group with a net book value of approximately $2,989,000 (2005 – $3,020,000) (Note 9);

(c) Floating charges on certain inventories of the Group with a net book value of approximately $11,645,000 (2005 – $9,251,000) (Note 10);

(d) Floating charges on certain trade receivables of the Group of approximately $3,915,000 (2005 – $4,660,000) (Note 11);

(e) Floating charges on certain prepayments and other receivables of the Group of approximately $1,321,000 (2005 – $893,000) (Note 12);

(f) Floating charges on certain bank balances of the Group of approximately $703,000 (2005 – $524,000) (Note 13);

(g) Corporate guarantees given by the Company; 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 13% of their covered payroll to the Central Provident Funds (the "Funds"). The only obligation of the Group with respect to the Funds is the required contributions to the Funds and there is no forfeiture of contributions under the schemes.

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

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

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

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

	2006 **$'000**	2005 $'000
Gross employer's contributions	**346**	346

32. RELATED-PARTY TRANSACTIONS

(a) Ultimate Holding Company

The Group is controlled by Peace Avenue Group Limited (incorporated in British Virgin Islands), which indirectly controls approximately 35.38% of the Company's shares. The remaining interests are widely held. Peace Avenue Group Limited is a wholly owned subsidiary of Aroma Pinnacle Inc. (incorporated in British Virgin Islands). The Directors regard Aroma Pinnacle Inc. as the ultimate holding company.

(b) Personal Guarantees

During the year ended 31st December, 2006, 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 $66,662,000 (2005 – $68,531,000) (Note 30(h)).

(c) Open Offer

In August 2006, the Company completed an open offer of 558,089,724 new shares to its existing shareholders on the basis of one new share for every one existing share held (Note 14). Pursuant to an underwriting agreement, Dr. Budiono Widodo, as one of the underwriters, had agreed to underwrite the entitlement of SMI International Limited, a substantial shareholder of the Company, to the 197,472,000 offer shares.

(d) Key Management Compensation

Key management compensation of the Group is disclosed in Note 23.

(e) Co-operative Joint Venture Partner

Under the co-operative joint venture agreement for the establishment of Dalian Global dated 2nd July 1995, the PRC joint venture partner was entitled to appoint two out of six directors of Dalian Global. These two directors, being directors of the PRC joint venture partner, are also directors of Dalian Globlal, and thus, the PRC joint venture partner is regarded as a related party.

Under the joint venture agreement, the Group committed to pay to the PRC joint venture partner pre-determined annual fees up to May 2015. During the year ended 31st December, 2006, the fee paid to the PRC joint venture partner under this arrangement amounted to $478,000 (2005 – $487,000) (Note 29(b)).

33. EVENTS AFTER THE BALANCE SHEET DATE

On 16th March, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the PRC State Council. The Group will continue to evaluate the impact as more detailed regulations are announced.