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

Stock Code: 0767

2007
INTERIM REPORT

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

	Note	30th June, 2007 US$'000 (Unaudited)	31st December, 2006 US$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	7	**72,632**	74,371
Leasehold land and land use rights	7	**2,974**	2,989
Deferred income tax assets		**4,716**	4,716
Total non-current assets		**80,322**	82,076
Current assets			
Inventories		**23,315**	18,542
Trade receivables	8	**17,307**	15,095
Prepayments and other receivables		**3,583**	2,369
Cash and cash equivalents		**3,775**	3,235
Total current assets		**47,980**	39,241
Total assets		**128,302**	121,317
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	9	**3,955**	3,598
Other reserves		**8,142**	4,048
Retained earnings		**21,035**	17,394
		33,132	25,040
Minority interests		**1,000**	1,000
Total equity		**34,132**	26,040
LIABILITIES			
Non-current liabilities			
Borrowings	10	**50,460**	53,096
Obligations under finance leases		**158**	69
Deferred income tax liabilities		**–**	15
Total non-current liabilities		**50,618**	53,180
Current liabilities			
Trade payables	11	**17,246**	16,631
Accruals and other payables		**3,980**	3,942
Current income tax liabilities		**1,884**	1,884
Borrowings	10	**20,442**	19,640
Total current liabilities		**43,552**	42,097
Total liabilities		**94,170**	95,277
Total equity and liabilities		**128,302**	121,317
Net current assets/(liabilities)		**4,428**	(2,856)
Total assets less current liabilities		**84,750**	79,220

The notes on pages 4 to 11 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

		For the six months ended 30th June,	
		2007	2006
	Note	***US$'000***	*US$'000*
		(Unaudited)	(Unaudited)
Sales	*6*	**73,178**	71,081
Cost of sales		**(56,189)**	(60,343)
Gross profit		**16,989**	10,738
Other loss – net		**(48)**	(351)
Distribution costs		**(6,075)**	(6,393)
Administrative expenses		**(4,757)**	(5,218)
Operating profit/(loss)		**6,109**	(1,224)
Finance costs		**(2,483)**	(2,474)
Profit/(Loss) before income tax	*12*	**3,626**	(3,698)
Income tax	*13*	**15**	–
Profit/(Loss) for the period		**3,641**	(3,698)
Attributable to:			
Shareholders of the Company		**3,641**	(3,698)
Minority interests		**–**	–
		3,641	(3,698)
Earnings/(Loss) per share – Basic and diluted	*14*	**US 0.32 cents**	US (0.66) cents
Dividend		**–**	–

The notes on pages 4 to 11 form an integral part of this condensed interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to equity holders of the Company							
		Reserves						
	Share capital US$'000 (Unaudited)	Share premium US$'000 (Unaudited)	Cumulative translation differences US$'000 (Unaudited)	Contributed surplus US$'000 (Unaudited)	Retained earnings (Accumulated losses) US$'000 (Unaudited)	Total US$'000 (Unaudited)	Minority interests US$'000 (Unaudited)	Total equity US$'000 (Unaudited)
Balance at 1st January, 2007	3,598	–	(3,202)	7,250	17,394	25,040	1,000	26,040
Issue of new shares *(Note 9)*	357	3,888	–	–	–	4,245	–	4,245
Profit for the period	–	–	–	–	3,641	3,641	–	3,641
Currency translation differences	–	–	206	–	–	206	–	206
Balance at 30th June, 2007	3,955	3,888	(2,996)	7,250	21,035	33,132	1,000	34,132
Balance at 1st January, 2006	18,037	90,652	(3,693)	7,814	(90,491)	22,319	1,000	23,319
Loss for the period	–	–	–	–	(3,698)	(3,698)	–	(3,698)
Currency translation differences	–	–	73	–	–	73	–	73
Balance at 30th June, 2006	18,037	90,652	(3,620)	7,814	(94,189)	18,694	1,000	19,694

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS – UNAUDITED

	For the six months ended 30th June,	
	2007 ***US$'000*** **(Unaudited)**	2006 *US$'000* (Unaudited)
Cash generated from operating activities	**2,802**	1,552
Interest paid	**(2,483)**	(2,474)
Net cash inflow/(outflow) from operating activities	**319**	(922)
Net cash outflow from investing activities	**(1,986)**	(128)
Net cash outflow before financing	**(1,667)**	(1,050)
Net cash inflow from financing	**2,042**	445
Increase/(Decrease) in cash and cash equivalents	**375**	(605)
Effect of foreign exchange rate changes	**165**	(175)
Cash and cash equivalents, beginning of period	**3,235**	2,642
Cash and cash equivalents, end of period	**3,775**	1,862
Analysis of cash and cash equivalents:		
Cash and bank balances	**3,775**	1,862

The notes on pages 4 to 11 form an integral part of this condensed interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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.

This condensed consolidated interim financial information was approved for issue on 14th August, 2007.

2. BASIS OF PREPARATION

The Company has a financial year end date of 31st December. This condensed consolidated interim financial information for the six months ended 30th June, 2007 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The interim condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31st December, 2006.

3. GOING CONCERN BASIS OF ACCOUNTING

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

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

4. ACCOUNTING POLICIES

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

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

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

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

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

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

5. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

6. SEGMENTAL INFORMATION – UNAUDITED

Primary segment by geographical locations of operations:

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

	For the six months ended 30th June, 2007					
	The PRC *US$'000* (Unaudited)	**Hong Kong** *US$'000* (Unaudited)	**Singapore** *US$'000* (Unaudited)	**Malaysia** *US$'000* (Unaudited)	**Elimination** *US$'000* (Unaudited)	**Consolidated** *US$'000* (Unaudited)
Sales						
– External	19,022	1,396	–	52,760	–	73,178
– Inter-segment	–	–	–	54	(54)	–
Total sales	19,022	1,396	–	52,814	(54)	73,178
Result						
Segment result	(2,579)	28	99	9,235		6,783
Unallocated corporate expenses						(674)
Operating profit						6,109
Finance costs						(2,483)
Income tax						15
Profit for the period						3,641
Other information						
Capital expenditures	725	–	4	1,485		2,214
Unallocated capital expenditures						–
						2,214
Depreciation	714	1	142	3,431		4,288
Amortization charge	–	–	–	15		15
Unallocated depreciation/ amortization						–
						4,303

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

	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
Assets						
Segment assets	35,025	503	13,275	74,666		123,469
Unallocated corporate assets						4,833
						128,302
Liabilities						
Segment liabilities	7,627	38	90	14,530		22,285
Unallocated corporate liabilities						71,885
						94,170

6. SEGMENTAL INFORMATION – UNAUDITED *(Continued)*

Primary segment by geographical locations of operations:

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

	For the six months ended 30th June, 2006					
	The PRC *US$'000* (Unaudited)	**Hong Kong** *US$'000* (Unaudited)	**Singapore** *US$'000* (Unaudited)	**Malaysia** *US$'000* (Unaudited)	**Elimination** *US$'000* (Unaudited)	**Consolidated** *US$'000* (Unaudited)
Sales						
– External	27,458	2,177	–	41,446	–	71,081
– Inter-segment	–	–	–	172	(172)	–
Total sales	27,458	2,177	–	41,618	(172)	71,081
Result						
Segment result	(1,089)	37	72	390		(590)
Unallocated corporate expenses						(634)
Operating loss						(1,224)
Finance costs						(2,474)
Income tax						–
Loss for the period						(3,698)
Other information						
Capital expenditures	125	–	13	128		266
Unallocated capital expenditures						–
						266
Depreciation	850	4	142	3,768		4,764
Amortization charge	–	–	–	15		15
Unallocated depreciation/ amortization						–
						4,779

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(Continued)*

6. SEGMENTAL INFORMATION – UNAUDITED *(Continued)*

Secondary segment by products:

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

Sales by geographical location of customers (by location where merchandise was delivered):

	For the six months ended 30th June,	
	2007 *US$'000* **(Unaudited)**	2006 *US$'000* (Unaudited)
Japan	**19,272**	23,320
South East Asia	**12,945**	9,368
The People's Republic of China	**12,168**	8,947
Europe	**9,282**	11,278
North America	**8,519**	12,352
Korea	**7,483**	1,838
Others	**3,509**	3,978
Total Sales	**73,178**	71,081

7. CAPITAL EXPENDITURE – UNAUDITED

	Property, plant and equipment *US$'000* (Unaudited)	**Leasehold land** *US$'000* (Unaudited)
Opening net book amount as at 1st January, 2007	74,371	2,989
Additions	2,214	–
Exchange differences	336	–
Disposals	(1)	–
Depreciation/Amortization charge	(4,288)	(15)
Closing net book amount as at 30th June, 2007	72,632	2,974
Opening net book amount as at 1st January, 2006	81,005	3,020
Additions	266	–
Exchange differences	565	–
Disposals	(155)	–
Depreciation/Amortization charge	(4,764)	(15)
Closing net book amount as at 30th June, 2006	76,917	3,005
Additions	1,177	370
Write-back of impairment loss	3,990	–
Exchange differences	832	–
Disposals of subsidiaries	(3,928)	(370)
Disposals	(2)	–
Depreciation/Amortization charge	(4,615)	(16)
Closing net book amount as at 31st December, 2006	74,371	2,989

8. TRADE RECEIVABLES – UNAUDITED

The aging analysis of trade receivables is as follows:

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

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

Certain subsidiaries of the Group transferred receivable balances amounting to approximately US$1,518,000 (US$1,009,000 as at 31st December, 2006) to banks in exchange for cash. The transactions have been accounted for as collateralized borrowings (Note 10).

9. SHARE CAPITAL – UNAUDITED

Details of the Company's share capital are as follows:

	30th June, 2007		31st December, 2006	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***US$'000***	*'000*	*US$'000*
Authorized – shares of HK$0.025 each	**8,000,000**	**25,806**	8,000,000	25,806
Issued and fully paid or credited as fully paid – shares of HK$0.025 each	**1,227,779**	**3,955**	1,116,179	3,598

(a) Movement of issued and fully paid ordinary shares

	Number of shares	**Amount**
	'000	*US$'000*
Balance as at 1st January, 2007	1,116,179	3,598
Issue of new shares	111,600	357
Balance as at 30th June, 2007	1,227,779	3,955

(b) Placement of new shares

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

10. BORROWINGS – UNAUDITED

	30th June, 2007 US$'000 (Unaudited)	31st December, 2006 US$'000 (Audited)
Long term borrowings		
Bank borrowings repayable within a period		
– not exceeding one year	**5,035**	4,731
– more than one year but not exceeding two years	**5,295**	5,288
– more than two years but not exceeding five years	**15,965**	15,945
– beyond five years	**29,200**	31,863
	55,495	57,827
Less: Amount due within one year included in current liabilities	**(5,035)**	(4,731)
	50,460	53,096
Short term borrowings		
Banker's acceptance and other banking facilities	**11,526**	11,352
Bank borrowings		
– short term bank borrowings	**2,363**	2,548
– current portion of long term bank borrowings	**5,035**	4,731
Collateralized borrowings *(Note 8)*	**1,518**	1,009
	20,442	19,640

The long term bank borrowings bore interest at commercial banking rates ranging from 5.00% to 8.50% (2006 – 4.75% to 8.50%) per annum and were secured by pledges of certain of the Group's assets, corporate guarantees given by the Company, and personal guarantees given by a Director of the Company.

The short term bank borrowings bore interest at commercial banking rates ranging from 3.63% to 6.39% (2006 – 3.28% 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 30th June, 2007, the carrying amounts of bank borrowings approximate their fair value.

As at 30th June, 2007, the Group has unutilized banking facilities of approximately US$10,142,000 (31st December, 2006 – US$8,045,000).

11. TRADE PAYABLES – UNAUDITED

The aging analysis of trade payables is as follows:

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

12. PROFIT/(LOSS) BEFORE INCOME TAX – UNAUDITED

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

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

13. INCOME TAX – UNAUDITED

(i) Bermuda

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

(ii) Hong Kong

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

(iii) Malaysia

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

(iv) The PRC

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

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

(v) Others

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

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

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

14. EARNINGS/(LOSS) PER SHARE – UNAUDITED

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

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

15. RELATED PARTY TRANSACTIONS – UNAUDITED

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control. Significant transactions and balances with related parties during the period are summarized below:

A Director of the Company has provided personal guarantees to banks for certain bank borrowings and trade facilities granted to the Group. The outstanding amounts of these bank borrowings and trade facilities amounted to US$64,694,000 as at 30th June 2007 (US$66,662,000 as at 31st December, 2006).

16. COMMITMENTS – UNAUDITED

a. Operating lease commitments

As at 30th June, 2007, the Group had total future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30th June, 2007 *US$'000* **(Unaudited)**	31st December, 2006 *US$'000* (Audited)
Payable during the following periods:		
– within one year	**462**	383
– within two to five years	**77**	199
	539	582

b. Other commitments

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

	30th June, 2007 *US$'000* **(Unaudited)**	31st December, 2006 *US$'000* (Audited)
Payable during the following periods:		
– within one year	**505**	500
– within two to five years	**2,126**	2,110
– beyond five years	**1,607**	1,878
	4,238	4,488

17. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the current year presentation.

INTERIM DIVIDEND

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

BUSINESS REVIEW

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

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

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

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

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

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

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

OUTLOOK

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

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

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

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

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

FINANCIAL REVIEW

Liquidity and financial resources

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

Capital structure

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

Significant investments, acquisitions and disposals

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

Employees

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

Details of charges on assets

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

Future plans for material investment or capital assets

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

Gearing ratio

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

Foreign exchange exposures

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

Contingent liabilities

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2007, 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:

Interests and short positions in the ordinary shares with par value of HK$0.025 each

Name of Director	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	36.21%
Mr. Sardjono Widodo	Nil	Nil	394,944,000	394,944,000	32.17%
Mr. Yu Chien Te	5,887,320	Nil	Nil	5,887,320	0.48%

Note 1: As at 30th June, 2007, 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.

Note 2: As at 30th June, 2007, 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 "Arrangement to purchase shares and debentures" below, the Company had no notice of any interest required to be recorded under Section 352 of the SFO as at 30th June, 2007.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. The share options granted and held by the Company's Directors as at 30th June, 2007 were as follows:

				Number of shares to be issued under options granted under share option scheme				
Name	Date of Grant	Exercise Period	Subscription price per share	Beginning of period	Granted during the period	Exercised during the period	Cancelled during the period	End of period
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	7,425,600	–	–	–	7,425,600
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	3,003,000	–	–	–	3,003,000
				10,428,600	–	–	–	10,428,600

Save as disclosed above, at no time during the period 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 Group, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2007, 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	% of the Company's issued share capital
Dr. Budiono Widodo	Beneficial owner, held by controlled corporation and a named beneficiary of a trust	444,599,200	36.21%
Aroma Pinnacle Inc [Note 1]	Held by controlled corporation	394,944,000	32.17%
Bank of East Asia (Trustees) Limited as the trustee of the Peace Trust [Note 1]	Held by controlled corporation	394,944,000	32.17%
Peace Avenue Group Limited [Note 2]	Held by controlled corporation	394,944,000	32.17%
Mr. Sardjono Widodo	Named beneficiary of a trust	394,944,000	32.17%
Precious Win Group Limited	Beneficial owner	197,472,000	16.08%
SMI International Limited	Beneficial owner	197,472,000	16.08%

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 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

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

Code provision A.2.1

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

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

AUDIT COMMITTEE

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

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

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

REMUNERATION COMMITTEE

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

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

CODE OF CONDUCT ON DIRECTORS' SECURITIES TRANSACTIONS

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

By Order of the Board
Budiono Widodo
Chairman

Hong Kong, 14th August, 2007