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

Stock Code: 0767

Interim Report 2008

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

	Note	**30th June, 2008 US$'000 (Unaudited)**	31st December, 2007 US$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	6	**67,808**	73,852
Leasehold land	6	**2,943**	2,958
Interests in an associated company	7	**685**	–
Deferred income tax assets		**5,021**	5,021
Deposit for acquisition of an investment	8	**1,000**	1,500
Total non-current assets		**77,457**	83,331
Current assets			
Inventories		**17,027**	21,106
Trade and other receivables	9	**8,222**	18,995
Cash and cash equivalents		**2,628**	5,744
Total current assets		**27,877**	45,845
Total assets		**105,334**	129,176
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary shares	10	**4,278**	4,278
Share premium		**7,652**	7,652
Other reserves		**5,063**	4,928
(Accumulated losses)/Retained earnings		**(5,653)**	18,662
		11,340	35,520
Minority interest in equity		**1,000**	1,000
Total equity		**12,340**	36,520
LIABILITIES			
Non-current liabilities			
Borrowings	11	**45,997**	48,197
Obligations under finance leases		**251**	222
Total non-current liabilities		**46,248**	48,419
Current liabilities			
Trade and other payables	12	**24,423**	23,543
Current income tax liabilities		**98**	98
Borrowings	11	**22,225**	20,596
Total current liabilities		**46,746**	44,237
Total liabilities		**92,994**	92,656
Total equity and liabilities		**105,334**	129,176
Net current (liabilities)/assets		**(18,869)**	1,608
Total assets less current liabilities		**58,588**	84,939

The notes on pages 4 to 14 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

	Note	For the six months ended 30th June, 2008 US$'000 (Unaudited)	2007 US$'000 (Unaudited)
Revenue	*5*	**58,982**	73,178
Cost of sales		**(53,064)**	(56,189)
Gross profit		**5,918**	16,989
Other gain/(loss) – net		**350**	(48)
Distribution costs		**(6,328)**	(6,075)
Administrative expenses		**(5,358)**	(4,757)
Provision for doubtful receivables	*13*	**(6,239)**	–
Provision for write-down of inventories to net realizable value	*13*	**(4,888)**	–
Impairment loss on property, plant and equipment	*13*	**(5,814)**	–
Operating (loss)/profit		**(22,359)**	6,109
Share of loss of an associated company		**(80)**	–
Finance costs		**(1,876)**	(2,483)
(Loss)/Profit before income tax	*14*	**(24,315)**	3,626
Income tax credit	*15*	**–**	15
(Loss)/Profit for the period		**(24,315)**	3,641
Attributable to:			
Equity holders of the Company		**(24,315)**	3,641
Minority interests		**–**	–
		(24,315)	3,641
(Loss)/Earnings per share – Basic and diluted	*16*	**US (1.83) cents**	US 0.32 cents
Dividends		**–**	–

The notes on pages 4 to 14 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to equity holders of the Company						
	Ordinary Shares	Share Premium	Other Reserves	Retained Earnings/ (Accumulated Losses)	Total	Minority Interest	Total Equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at 1st January, 2008	**4,278**	**7,652**	**4,928**	**18,662**	**35,520**	**1,000**	**36,520**
Loss for the period	**–**	**–**	**–**	**(24,315)**	**(24,315)**	**–**	**(24,315)**
Currency translation differences	**–**	**–**	**135**	**–**	**135**	**–**	**135**
Balance at 30th June, 2008	**4,278**	**7,652**	**5,063**	**(5,653)**	**11,340**	**1,000**	**12,340**
Balance at 1st January, 2007	3,598	–	4,048	17,394	25,040	1,000	26,040
Issuance of new shares *(*)*	357	3,888	–	–	4,245	–	4,245
Profit for the period	–	–	–	3,641	3,641	–	3,641
Currency translation differences	–	–	206	–	206	–	206
Balance at 30th June, 2007	3,955	3,888	4,254	21,035	33,132	1,000	34,132

(*) 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.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS – UNAUDITED

	For the six months ended 30th June,	
	2008	2007
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Cash generated from operating activities	**3,356**	2,802
Interest paid	**(1,876)**	(2,483)
Net cash inflow from operating activities	**1,480**	319
Net cash outflow from investing activities	**(2,794)**	(1,986)
Net cash outflow before financing	**(1,314)**	(1,667)
Net cash (outflow)/inflow from financing activities	**(2,398)**	2,042
(Decrease)/Increase in cash and cash equivalents	**(3,712)**	375
Effect of foreign exchange rate changes	**(463)**	165
Cash and cash equivalents, at beginning of period	**5,744**	3,235
Cash and cash equivalents, at end of period	**1,569**	3,775
Analysis of cash and cash equivalents:		
Cash and bank balances	**2,628**	3,775
Bank overdraft	**(1,059)**	–
	1,569	3,775

The notes on pages 4 to 14 form an integral part of this condensed consolidated 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 18th September, 2008.

2. BASIS OF PRESENTATION

The Company has a financial year end date of 31st December. This condensed consolidated interim financial information for the six months ended 30th June, 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December, 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3. GOING CONCERN BASIS OF ACCOUNTING

For the six months ended 30th June, 2008, the Group reported a loss attributable to equity holders of US$24,315,000 (a profit of US$3,641,000 for the six months ended 30th June, 2007). As at 30th June, 2008, the Group had net current liabilities of US$18,869,000 (net current assets of US$1,608,000 as at 31st December, 2007) and outstanding bank loans of approximately US$68,222,000 (US$68,793,000 as at 31st December, 2007) of which approximately US$22,225,000 (US$20,596,000 as at 31st December, 2007) 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 and method of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual accounts for the year ended 31st December, 2007, except that the following interpretations are mandatory for financial year ending 31st December, 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above interpretations did not have any significant financial impact to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for this interim period and have not been early adopted:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment) and HKAS 1 (Revised)	Puttable Finance Instrument and Obligation Arising on Liquidation
HKFRS 2 (Amendment)	Share-based Payment Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The effect that the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) will have on the results and financial position of the Group will depend on the incidence and timing of business combinations occurring on or after 1st January, 2010. The directors anticipate that the adoption of other new standards, amendments to standards and interpretations in future periods will have no significant financial impact to the Group.

5. SEGMENTAL INFORMATION – UNAUDITED

Primary segment by geographical locations of operations:

The segment results and other information for the six months ended 30th June, 2008 are as follows:

	For the six months ended 30th June, 2008					
	The PRC	**Hong Kong**	**Singapore**	**Malaysia**	**Elimination**	**Consolidated**
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***	***US$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Revenue						
External	**10,254**	**1,030**	**–**	**47,698**	**–**	**58,982**
Inter-segment	**–**	**–**	**–**	**598**	**(598)**	**–**
Total revenue	**10,254**	**1,030**	**–**	**48,296**	**(598)**	**58,982**
Result						
Segment result	**(20,221)**	**74**	**(459)**	**495**		**(20,111)**
Unallocated corporate expenses						**(2,248)**
Operating loss						**(22,359)**
Share of loss of an associated company						**(80)**
Finance costs						**(1,876)**
Income tax						**–**
Loss for the period						**(24,315)**
Other information						
Capital expenditures	**6**	**–**	**2**	**2,581**		**2,589**
Unallocated capital expenditures						**–**
						2,589
Depreciation	**984**	**–**	**242**	**3,209**		**4,435**
Amortization charge	**–**	**–**	**–**	**15**		**15**
Unallocated depreciation/amortization						**15**
						4,465

The segment assets and liabilities as at 30th June, 2008 are as follows:

	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
Assets						
Segment assets	**9,634**	**656**	**16,832**	**70,718**		**97,840**
Unallocated corporate assets						**7,494**
						105,334
Liabilities						
Segment liabilities	**4,796**	**12**	**1,224**	**18,159**		**24,191**
Unallocated corporate liabilities						**68,803**
						92,994

5. SEGMENTAL INFORMATION – UNAUDITED *(Continued)*

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	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue						
External	19,022	1,396	–	52,760	–	73,178
Inter-segment	–	–	–	54	(54)	–
Total revenue	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 credit						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 31st December, 2007 are as follows:

	The PRC	Hong Kong	Singapore	Malaysia	Elimination	Consolidated
Assets						
Segment assets	31,458	600	16,627	72,652		121,337
Unallocated corporate assets						7,839
						129,176
Liabilities						
Segment liabilities	5,662	53	72	16,931		22,718
Unallocated corporate liabilities						69,938
						92,656

5. SEGMENTAL INFORMATION – UNAUDITED *(Continued)*

Secondary segment by products:

	For the six months ended 30th June,						As at	
	2008			2007			**30th June, 2008**	31st December, 2007
	Revenue	**Operating Profit/(Loss)**	**Capital Expenditures**	Revenue	Operating Profit/(Loss)	Capital Expenditures	**Assets**	Assets
	US$'000	***US$'000***	***US$'000***	*US$'000*	*US$'000*	*US$'000*	***US$'000***	*US$'000*
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	(Unaudited)	(Unaudited)	(Unaudited)	**(Unaudited)**	(Audited)
Weather and boil proof plywood	**23,385**	**252**	**1,365**	28,377	4,967	787	**36,927**	36,526
Flooring	**15,679**	**(974)**	**582**	12,812	2,192	233	**15,743**	11,636
Moisture resistant plywood	**10,240**	**173**	**416**	12,994	2,088	322	**11,257**	15,064
Jamb and mouldings	**4,895**	**(9,653)**	**4**	8,245	(465)	283	**5,888**	15,243
Structural	**2,565**	**(5,059)**	**1**	9,091	(512)	327	**2,291**	14,469
Others	**2,218**	**(4,373)**	**219**	1,659	(79)	257	**7,357**	11,172
Unallocated	**–**	**(2,725)**	**2**	–	(2,082)	5	**25,871**	25,066
Total	**58,982**	**(22,359)**	**2,589**	73,178	6,109	2,214	**105,334**	129,176

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

	For the six months ended 30th June,	
	2008	2007
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
The People's Republic of China	**14,229**	12,168
South East Asia	**12,117**	12,945
Europe	**11,621**	9,282
Japan	**7,896**	19,272
North America	**4,988**	8,519
Korea	**4,890**	7,483
Others	**3,241**	3,509
Total revenue	**58,982**	73,178

6. CAPITAL EXPENDITURE – UNAUDITED

	Property, plant and equipment *US$'000* (Unaudited)	Leasehold land *US$'000* (Unaudited)
Opening net book amount as at 1st January, 2008	**73,852**	**2,958**
Additions	**2,589**	**–**
Exchange differences	**1,633**	**–**
Disposal	**(2)**	**–**
Provision for impairment	**(5,814)**	**–**
Depreciation/Amortization charge	**(4,450)**	**(15)**
Closing net book amount as at 30th June, 2008	**67,808**	**2,943**
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
Additions	1,853	–
Write-back of impairment loss	3,362	–
Exchange differences	1,537	–
Disposals	(835)	–
Depreciation/Amortization charge	(4,697)	(16)
Closing net book amount as at 31st December, 2007	73,852	2,958

7. INTERESTS IN AN ASSOCIATED COMPANY – UNAUDITED

	30th June, 2008 *US$'000*
Share of net assets	**395**
Amounts due from an associated company	**290**
	685

The associated company is a limited company incorporated in Malaysia, which business is logs extraction.

Revenue, results, assets and liabilities of the associated company are as follows:–

	30th June, 2008 *US$'000*
Revenue	**–**
Loss after tax	**201**
Non-current assets	**905**
Current assets	**209**
Non-current liabilities	**–**
Current liabilities	**307**

8. DEPOSIT FOR ACQUISITION OF AN INVESTMENT – UNAUDITED

In August 2007, the Group entered into a conditional agreement with an independent third party in connection with the acquisition of 49% interest in certain 40,000 acres logging concession in Malaysia.

Total consideration for the above-mentioned acquisition was US$2,000,000. Upon execution of the agreement, the Group paid a refundable deposit of US$1,500,000 and the balance of US$500,000 should be paid upon completion.

In April 2008, the Group entered into a supplemental agreement with the independent third party and completed the acquisition of 100% of the share capital of Sevier Pacific Limited ("SPL"), a company holding 49% interest in a limited company incorporated in Malaysia, which has certain interest in 10,000 acres logging concession in Malaysia. According to the supplemental agreement, the completion of the acquisition of 49% interest in the remaining 30,000 acres logging concession in Malaysia shall be completed within 12 months from the date of the supplemental agreement.

On a pro-rata basis, US$500,000 of the refundable deposit paid was utilized and was accounted for as cost of investment in subsidiaries. Since the balance of the refundable deposit in the amount of US$1,000,000 was paid for the proposed acquisition of an investment, which was intended to be held for long-term, the deposit was classified as non-current assets.

9. TRADE AND OTHER RECEIVABLES – UNAUDITED

	30th June, 2008	31st December, 2007
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade receivables	**10,937**	13,957
Less: Provision for doubtful receivables	**(7,064)**	(660)
Trade receivables – net	**3,873**	13,297
Bill receivables	**942**	2,727
Other receivables	**3,407**	2,971
Total trade and other receivables	**8,222**	18,995

The carrying amounts of trade and other receivables approximate their fair values due to their short maturity.

The aging analysis of the trade receivables are as follows:

	30th June, 2008	31st December, 2007
	US$'000	*US$'000*
	(Unaudited)	(Audited)
0 – 30 days	**3,980**	8,867
31 – 60 days	**2,257**	2,033
61 – 90 days	**1,789**	1,257
91 – 180 days	**1,706**	762
181 – 360 days	**530**	17
Over 360 days	**675**	1,021
	10,937	13,957

The Group normally grants credit terms of not more than 180 days to existing customers without collaterals. Management makes periodic collective assessment as well as individual assessment on the recoverability of trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors.

Certain subsidiaries of the Group negotiated bill receivables on a with recourse basis with banks for cash during the six months ended 30th June, 2008 and the outstanding amount as at 30th June, 2008 was US$924,000 (US$2,635,000 as at 31st December, 2007). The transactions have been accounted for as collateralized borrowings (Note 11).

As at 30th June, 2008, trade receivables and other receivables amounting to approximately US$464,000 and US$2,087,000 (US$4,649,000 and US$1,500,000 as at 31st December, 2007) respectively were subject to floating charges as collateral for certain banking facilities of the Group.

As of 30th June, 2008, trade receivables of US$7,064,000 (US$660,000 as at 31st December, 2007) were impaired and provided for. The individually impaired receivables mainly relate to customers, which are in unexpected difficult financial situations.

10. ORDINARY SHARES – UNAUDITED

Details of the Company's ordinary shares are as follows:

	30th June, 2008		31st December, 2007	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***US$'000***	*'000*	*US$'000*
Authorized – ordinary 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 – ordinary shares of HK$0.025 each	**1,327,779**	**4,278**	1,327,779	4,278

11. BORROWINGS – UNAUDITED

	30th June, 2008	31st December, 2007
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Long term borrowings		
Bank borrowings repayable within a period		
– not exceeding one year	**5,336**	5,303
– more than one year but not exceeding two years	**5,328**	5,318
– more than two years but not exceeding five years	**16,647**	16,039
Wholly repayable within 5 years	**27,311**	26,660
Over five years	**24,022**	26,840
	51,333	53,500
Less: Amount due within one year included in current liabilities	**(5,336)**	(5,303)
	45,997	48,197
Short term borrowings		
Bank overdraft	**1,059**	–
Banker's acceptance and other banking facilities	**13,142**	10,587
Bank borrowings		
– short term bank borrowings	**1,764**	2,071
– current portion of long term bank borrowings	**5,336**	5,303
Collateralized borrowings *(Note 9)*	**924**	2,635
	22,225	20,596
Total borrowings	**68,222**	68,793

The long term bank borrowings bore interest at commercial banking rates ranging from 3.50% to 7.00% (2007 – 5.00% 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 3.60% to 8.25% (2007 – 3.63% to 6.98%) 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, 2008, the carrying amounts of bank borrowings approximate their fair value.

As at 30th June, 2008, the Group has unutilized banking facilities of approximately US$8,795,000 (31st December, 2007 – US$8,952,000).

12. TRADE AND OTHER PAYABLES – UNAUDITED

	30th June, 2008	31st December, 2007
	US$'000	*US$'000*
	(Unaudited)	(Audited)
Trade payables	**19,304**	18,509
Other payables	**5,119**	5,034
	24,423	23,543

The carrying amounts of trade and other payables approximate their fair values due to their short maturity.

The aging analysis of the trade payables were as follows:

	30th June, 2008	31st December, 2007
	US$'000	*US$'000*
	(Unaudited)	(Audited)
0 – 30 days	**5,782**	8,204
31 – 60 days	**4,432**	4,542
61 – 90 days	**2,561**	3,858
91 – 180 days	**3,508**	1,642
181 – 360 days	**3,003**	244
Over 360 days	**18**	19
	19,304	18,509

13. PROVISIONS FOR THE CHINA DIVISION OF THE GROUP – UNAUDITED

A major customer of the China division of the Group notified that it would be unable to repay in full the amount due to the Group. As at 30th June, 2008, the amount due from this customer was approximately US$6,239,000. Recovery actions have been taken against this customer. Due to the uncertainty involved and on a prudent basis, full provision has been made in respect of the balance due from this customer.

Due to the adverse business and market conditions faced by the China division of the Group together with the impact of the potential non-recovery mentioned above, the China division was expected to experience great difficulties in its manufacturing operation and the sale of its inventory. Provisions of approximately US$4,860,000 and US$5,814,000 were accordingly made to write down the inventories to net realizable value and fixed assets to recoverable amount respectively.

14. EXPENSES BY NATURE – UNAUDITED

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

	For the six months ended 30th June,	
	2008	2007
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**4,450**	4,288
Amortization charge of leasehold land	**15**	15
Provision for doubtful receivables	**6,239**	–
Provision for write-down of inventories to net realizable value	**4,888**	–
Impairment loss on property, plant and equipment	**5,814**	–
Staff secondment and consulting fees	**810**	810
Interest expense on		
– Bank overdrafts and loans	**1,616**	2,131
– Finance lease	**15**	9
– Others	**245**	343
Staff costs		
– Wages and salaries	**1,599**	1,443
– Pension costs	**149**	144

15. 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, 2008. The applicable income tax rate of this subsidiary is 26% (2007 – 27%).

(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. The applicable EIT rate of the JV is 18% (2007 – 15%), which is the preferential state income tax rate.

As approved by the tax authorities, 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 2008 tax year.

No taxation has been provided for as the JV had no estimated assessable profit for the current period and the 2008 tax year is also the first year of the two exemption years (2007 – Nil).

(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,	
	2008	2007
	US$'000	*US$'000*
	(Unaudited)	(Unaudited)
Deferred taxation relating to the reversal of temporary differences	**–**	15

16. (LOSS)/EARNINGS PER SHARE – UNAUDITED

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30th June,	
	2008	2007
(Loss)/Profit attributable to equity holders of the Company (United States Dollar)	**(24,315,000)**	3,641,000
Weighted average number of ordinary shares in issue	**1,327,779,448**	1,153,379,448
Basic (loss)/earnings per share (United States Cent per share)	**(1.83)**	0.32

There was no dilutive effect on (loss)/earnings per share for the six months ended 30th June, 2008 and 2007 since all outstanding share options were anti-dilutive.

17. 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 or common significant influence. Significant transactions and balances with related parties during the period are summarized below:

(a) Certain bank borrowings and trade facilities of approximately US$63,702,000 as at 30th June, 2008 (US$63,136,000 as at 31st December, 2007) are secured by personal guarantees given by a Director of the Company.

(b) No transactions have been entered with the directors of the Company (being the key management personnel) during the period other than the emoluments paid to them (being the key management personnel compensation).

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

Under the joint venture agreement, the Group committed to pay the PRC joint venture partner pre-determined annual fees up to May 2015. During the six months ended 30th June, 2008, the fee paid to the PRC joint venture partner under this arrangement amounted to US$255,000 (2007 – US$250,000).

(d) During the six months ended 30th June, 2008, the Group made advances of approximately US$290,000 to an associated company for its working capital purposes (Note 7).

18. COMMITMENTS – UNAUDITED

a. Operating lease commitments

As at 30th June, 2008, the Group had total future aggregate minimum lease payments in respect of land and building and machinery under various non-cancellable operating leases arrangement as follows:

	30th June, 2008 *US$'000* **(Unaudited)**	31st December, 2007 *US$'000* (Audited)
Payable during the following period:		
– within one year	**358**	216
– within two to five years	**13**	31
	371	247

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, 2008 *US$'000* **(Unaudited)**	31st December, 2007 *US$'000* (Audited)
Payable during the following period:		
– within one year	**530**	520
– within two to five years	**2,163**	2,145
– beyond five years	**1,040**	1,323
	3,733	3,988

19. BUSINESS COMBINATIONS

On 18th April, 2008, the Group completed the acquisition of 100% of the share capital of SPL, a company holding 49% interest in a limited company incorporated in Malaysia (note 7), which principal business is logs extraction.

SPL did not contribute revenue but a net loss of approximately US$81,000 to the Group for the period from acquisition to 30th June, 2008. If the acquisition had occurred on 1st January, 2008, the consolidated loss of the Group for the six months ended 30th June, 2008 would have been approximately US$24,382,000 while the consolidated revenue will remain the same.

Details of net assets acquired and provisional goodwill as at 18th April, 2008 are as follows:–

	US$'000
Purchase consideration	
– Satisfied by non cash consideration:	
non-current (refundable) deposit previously paid	500
Provisional fair value of net identifiable assets acquired *(see below)*	482
Provisional goodwill	18

The goodwill is attributable to SPL's profitability potential expected to be derived from its interest in an associated company.

The assets and liabilities arising from the acquisition as at 18th April, 2008 are as follows:–

	SPL's carrying amount *US$'000*	**Provisional fair value** *US$'000*
Cash and cash equivalents	6	6
Investment in an associated company	188	476
Net identifiable assets acquired	194	482
Cashflow in connection with the acquisition, net of cash acquired:		
– Cash consideration		–
– Cash and cash equivalents in SPL		6
Cash inflow on acquisition		6

During the period, the acquisition was completed and the Group commenced to consolidate its results of SPL and account for its investment in a Malaysian company as an associate from 18th April, 2008. The initial accounting for the acquisition of SPL is determined on a provisional basis as the allocation of fair value to the identifiable assets and liabilities of the acquisition are still progressing. Adjustments to those provisional values of identifiable assets and liabilities, including any profit or loss effect, if any, will be recognized on completion of the initial accounting.

20. SUBSEQUENT EVENTS

In June 2008, the Group entered into an agreement with an independent third party for the sale of the China division ("ACHL Group"), at a total consideration of approximately US$16.4 million. A deposit of US$0.5 million was received when the agreement was signed.

Due to an unexpected significant adverse change in the financial position of ACHL Group, the Company and the independent third party agreed to terminate the agreement in July 2008 and the deposit of US$0.5 million was subsequently refunded.

The Company is actively looking for other interested parties for the sale of ACHL Group as well as other alternatives including to discontinue the manufacturing and trading operation of ACHL Group in China.

DIVIDEND

The Directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30th June, 2008 (2007 – Nil).

BUSINESS REVIEW

The first half of the year 2008 was a difficult period for the Group. Our markets were affected by problems continuing from the second half of last year. Our China division kept deteriorating and the Malaysian operation experienced an unusually long rainy season up till June and affected log supply.

The Group made turnover of approximately US$58,982,000 for the first half year, about 19% lower when compared with the same period last year. Overall average price of its products had declined by about 5%.

The USA market continued to be slow with the sub-prime mortgage crisis unresolved, causing pressure on the construction and renovation markets. Sales from our China division was only about 16,000 M3 compared to about 32,000 M3 for the same period last year. The rising costs of raw materials, glue, labour and freight were the principal concerns of the Group battling to bring our China division back to health.

The prices of raw materials from Russia are expected to climb with export duty for Russian logs to increase starting 2009. That plus the lowering of export rebate are expected to make it difficult for wood manufacturing in China to be profitable in the near future.

Heeding the difficult operating environment for the China division, the Group announced in June the conditional sale of the division. However, due to unforeseen circumstances, the deal was called off. While continuing to run the division at its best, the management of the Group is also actively looking into alternatives in relation to the division and with the best interest of shareholders in mind.

As for our Malaysian factory, it had to cope with a prolonged rainy season that ended only around the end of June. The lower supply of logs and slow transport affected logs delivery. With production affected, sales volume of our plywood mill were down by about 5%. Log prices increased by about 22% and fuel and electricity had gone up by close to 30%.

Japan market was still stagnant as it continued to focus on lowering stock from purchases made last year instead of buying new supply. However, we believe this market will pick up by the end of the third quarter. Although prices are increasing for some plywood, manufacturing cost of the Company has also increased.

We have increased production and sales of our flooring products. Compared with the first half of 2007, sales of the flooring products had increased by about 22%. Most of these products were sold in the PRC market. The Group will continue to expand this business and into new markets like Korea, Thailand and the Philippines. Traditional markets like Japan and Europe will remain as an important part in the Group's overall growth strategy.

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. The Group will also continue to explore new markets like India and those in Eastern Europe and other regions.

OUTLOOK

The Group expects demand for plywood to remain stable, if not increase, by end of third quarter 2008. With reconstruction after the Sichuan earthquakes in China under way and stocks in Japan lowering, we expect the prices of plywood to increase. The increase in export duty of Russian softwood logs will hit plywood factories in Japan and push up the prices of softwood plywood hence making our traditional product, hardwood plywood, more competitive.

The logging operations of our associated company are expected to start sometime in the fourth quarter. It will contribute to our profitability. Going forward, the Group will continue to consolidate its resources and explore ways to boost cost effectiveness and growth of its business. Related measures include sourcing for timber concessions, outsourcing of processes and/or production of upstream semi-finished products, re-engineering processes to cut down duplication and production time, and formulating new customer and market-focused strategies.

Geographically, the Group will continue to focus on traditional markets including Japan, Europe and the PRC, which are the largest wood consumers in the world. At the same time, it will keep exploring and developing new markets.

As for our China division, it is unfortunate that we were not able to sell it as planned. The Group sees difficulty in maintaining the division which is incurring severe losses. Steps have been taken by the management to boost production efficiency and lower cost, however, we have also to battle challenging market conditions. We expect the adverse operating environment for the China division to continue and drastic measures may have to be made to prevent further losses.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June, 2008, the Group recorded a net current liability of approximately US$18.9 million, compared to a net current asset of around US$1.6 million as at 31st December, 2007. The substantial reduction in current assets could be attributable to the deteriorating performance of the China division and the provision made in respect of a major customer of the China division.

Capital structure

During the period ended 30th June, 2008, there was no material change to the Group's capital structure.

Significant investments, acquisitions and disposals

In April 2008, the Group completed approximately one-fourth of its acquisition of 49% interest in 40,000 acres logging concessions in Malayisa. It is expected that the acquisition of the remaining three-fourth will be completed in the first quarter 2009.

In June 2008, the Group entered into an agreement with an independent third party for the sale of ACHL Group, the China division, but the agreement was terminated in July 2008.

Employees

As at 30th June, 2008, the Group had 3,858 staff, 3,386 of whom worked at the manufacturing plant in Bintulu, Sarawak, Malaysia and 431 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$65.9 million, floating charges on certain inventories of approximately US$16.2 million, trade receivables of approximately US$1.4 million, bank balances of approximately US$0.3 million, other assets of approximately US$2.1 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

Except for the completion of the acquisition of 49% interest in certain 30,000 acres concessions, the Group has no plan for material investment in the near future.

Gearing ratio

The gearing ratios of the Group as at 30th June, 2008 and 31st December, 2007 were as follows:–

	30th June, 2008 ***US$'000*** **(Unaudited)**	31st December, 2007 *US$'000* (Audited)
Total borrowings	**68,222**	68,793
Less : Cash and cash equivalents	**(2,628)**	(5,744)
Net debt	**65,594**	63,049
Total equity	**12,340**	36,520
Total capital	**77,934**	99,569
Gearing ratio (net debt to total capital)	**84%**	63%

The increase in the gearing ratio during the six months ended 30th June, 2008 resulted primarily from the significant loss suffered by the Group.

Foreign exchange exposures

The Group has operations in the PRC and Malaysia with significant number of transactions conducted in Chinese Renminbi and Malaysian Ringgit. While the functional and presentation currency of the Company is United States dollars, the Group is exposed to foreign exchange risk primarily from these currencies. The Group has not used forward contracts to hedge such exchange risk because it is considered as not cost-effective.

Contingent liabilities

As at 30th June, 2008, the Group had no contingent liabilities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30th June, 2008, 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	33.48%
Mr. Sardjono Widodo	Nil	Nil	394,944,000	394,944,000	29.74%
Mr. Yu Chien Te	5,887,320	Nil	Nil	5,887,320	0.44%

Note 1: As at 30th June, 2008, 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, 2008, 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES *(Continued)*

Save as disclosed herein and the section "Arrangement to purchase shares and debentures" below, as at 30th June, 2008, none of the Directors, the chief executive of the Company or their associate had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.

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. Details of the share options granted and outstanding as at 30th June, 2008 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**	**Beginning and End of the period**
Mr. Liao Yun Kuang	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	7,425,600
Continuous Contract Employees	26/8/1999	14/3/2000 to 13/3/2010	HK$0.71	3,003,000
				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, 2008, 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 interes	Number of shares held	Percentage 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	33.48%
Aroma Pinnacle Inc [Note 1]	Held by controlled corporation	394,944,000	29.74%
Bank of East Asia (Trustees) Limited as the trustee of the Peace Trust [Note 1]	Held by controlled corporation	394,944,000	29.74%
Peace Avenue Group Limited [Note 2]	Held by controlled corporation	394,944,000	29.74%
Mr. Sardjono Widodo	A named beneficiary of a trust	394,944,000	29.74%
Precious Win Group Limited	Beneficial owner	197,472,000	14.87%
SMI International Limited	Beneficial owner	197,472,000	14.87%

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, 2008, 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, 2008, with deviations from code provision A.2.1, A.3 and E.1.2.

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 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 rich experience of Dr. Budiono Widodo in plywood industry does contribute materially to the Group's operation.

Code provision A.3

Under code provision A.3, the Board should include a balance composition of executive and non-executive directors (including independent non-executive directors) and under rule 3.10, the Board must include at least three (3) independent non-executive directors.

Due to the resignation of Mr. Ngai Kwok Chuen as an independent non-executive director of the Company on 29th November, 2007, the Board only had two independent non-executive directors since then until Mr. Siah Chong Huat was appointed as an independent non-executive director of the Company to fill this vacancy on 18th January, 2008.

Code provision E.1.2

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 Chairman, Dr. Budiono Widodo did not attend the Company's 2008 annual general meeting. However, Dr. Budiono Widodo arranged Mr. Sardjono Widodo and Mr. Liao Yun Kuang, Managing Director and President of the Company respectively, to attend the Company's 2008 annual general meeting to answer questions raised by shareholders.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, Mr. Marzuki Usman (chairman), Mr. Kusnadi Widjaja and Mr. Siah Chong Huat (appointed on 18th January, 2008 to fill the causal vacancy arising from the resignation of Mr. Ngai Kwok Chuen on 29th November, 2007).

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, 2008 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 2007 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, 2008.

By Order of the Board
Budiono Widodo
Chairman

Hong Kong, 18th September, 2008