



## CHAIRMAN'S STATEMENT

### DIVIDEND

The Directors do not recommend payment of a dividend for the year (2000: Nil).

### BUSINESS REVIEW

In 2001, slowdown of the global economy continued, and with the 9.11 terrorist attacks, it developed further into a slump. In such an austere environment, the Group exercised more stringent control over its costs and increased its revenue as it operated, thereby minimizing the Group's operating losses. The Group's turnover in 2001 was HK\$75,905,000, an increase of 113% over that of the previous year; its loss for the year was HK\$5,967,000, a reduction of 58% over that of the previous year.

#### *Property*

Occupancy rate of the Group's rental property in Hong Kong was similar to the rate of the previous year. In particular, the occupancy rate of the Austin Tower, Tsimshatsui was more than 95%. However, due to the unfavorable operating environment, rentals dropped continuously. Rental income of the Group generated from the rental property in Hong Kong was HK\$3,984,000, a reduction of 2% over that of the previous year.

The Group's properties held for sale in Shantou amounted to HK\$90,100,000, whereas property held for development in Huizhou amounted to HK\$80,000,000, and property held for sale amounted to HK\$14,500,000. However, as there is still no sign of recovery in the property market there, the management decided to wait for opportunities.

#### *Hotel*

The Guilin Plaza Hotel has completed a major renovation. As a result, it was raised to a four star hotel status in December, 2001. In the past year, in spite of the renovation works, an average occupancy of 78% was achieved with a turnover of HK\$22,791,000, representing an increase of 6% over the previous year, and the profit for the year was HK\$4,670,000, a substantial increase of 90% over the previous year. The increase was attributable to the increase in overall gross profit margin of hotel operation from 40% of the previous year, to 42% of the year, whereby the gross profit from hotel operation was HK\$9,747,000, an increase of HK\$1,191,000 over the previous year. The total costs of hotel operation fell from HK\$6,107,000 of the previous year to HK\$5,116,000 of the year, a reduction of HK\$991,000. Therefore, profit from hotel operation increased from HK\$2,455,000 of the previous year to HK\$4,670,000 of the year.



## CHAIRMAN'S STATEMENT (CONTINUED)

The current Board and the management of the hotel shall continue to place more emphasis on staff training so as to heighten the service standard. In respect of the sales from customers, it has been repositioned so that quality customers will be attracted, who will generate more spending revenue. The Board is confident that growth in the operating revenue of the hotel in the year to come will be promising.

### *Trading*

In respect of the trading of steel materials, turnover for the year was HK\$49,027,000, an increase of 386% over that of the previous year. However, given the downward trend in the steel prices, the Group has recorded a loss for the year of HK\$250,000.

### **CAPITAL AND FINANCE**

As at 31st December, 2001, the Group has a total bank loan of HK\$47,241,000 and total long term capital of HK\$457,321,000, hence a gearing ratio of 10%.

On 17th September, 2001, the Company successfully placed 83,275,027 new shares of the Company of HK\$0.10, at HK\$0.35 per share by way of rights issue, raising approximately HK\$29,146,000 (before expenses).

### **SUBSEQUENT MATERIAL EVENTS**

#### *Rights Issue*

In order to further strengthen the capital base and the working capital of the Group, on 10th April, 2002, the Group successfully placed 133,240,043 new shares of the Company of HK\$0.10 each, at HK\$0.21 per share by way of rights issue, raising approximately 27,980,000 (before expenses), which will be applied as the working capital of the Group.

#### *Acquisition*

On 19th February, 2002, the Company entered into an Acquisition Agreement with Mr. Wong Hou Ieong, pursuant to which the Company acquired the entire issued share capital and shareholder's loan of Can Manage Trading Limited ("Can Manage") at a total consideration of HK\$270,000,000. The principal asset of Can Manage is represented by its entire share interests in Nanhai Jia Shun Timber Company Limited ("Nanhai Jia Shun"), whereas the principal operations of Nanhai Jia Shun is the production and sale of medium density fiberboard ("MDF"). As at the date of this report, the above acquisition has not yet been completed. However, the Board believes that the Acquisition Agreement shall be completed on or before 31st May of this year. Upon the completion of the acquisition, this project will be able to provide a profit of approximately HK\$80,000,000 to the Group annually.



## CHAIRMAN'S STATEMENT (CONTINUED)

### *Ongoing Connected Transactions*

In view of the Power Supply Agreement entered into between Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang"), Nanhai Heng Da Timber Company Limited, Nanhai Hua Ying Timber Company Limited ("Hua Ying"), Smart Giant Investment Limited and Nanhai Heng Yi Timber Company Limited in respect of the co-management and co-use of the Power Plant, the Board expects that upon the completion of the acquisition, Nanhai Jia Shun will continue to perform its obligations and rights in accordance with the Power Supply Agreement. As Hua Guang and Hua Ying are beneficially owned by the Company's substantial shareholder Madam Lu Biru and her spouse, accordingly, upon the completion of the Acquisition Agreement, the transactions involved under the Power Supply Agreement shall constitute ongoing connected transactions of the Company for the purpose of the Listing Rules. The Company had applied to and had been conditionally approved by the Stock Exchange for a waiver from the disclosure and shareholders' approval requirements in connection with the Ongoing Connected Transactions as required under the Listing Rules for a period of three financial years ending 31st December, 2004.

### *Placing of Convertible Notes*

On 19th February, 2002, the Company entered into a Placing and Underwriting Agreement with the Placing Agents in respect of the placing of HK\$230,000,000 five year term Convertible Notes. The Convertible Notes will bear interest from the date of issue of the Convertible Notes at the rate of 1 per cent per annum, and the holders of the Convertible Notes shall be entitled to exercise their rights of conversion at an initial conversion price of HK\$0.27 per share during the conversion period (subject to adjustments pursuant to the terms of the Convertible Notes). The Placing and the Underwriting Agreement are expected to be completed on or before 31st May, 2002, and the net proceeds from the placing of the Convertible Notes shall be applied as funds for the acquisition of Can Manage. The balance after the completion of the acquisition shall be applied as the working capital of the Group.

## **PROSPECTS**

Since the take-over of the Group by the management, efforts have been made to streamline the existing operations for the purpose of consolidation and improving the quality of its assets. On the other hand, the management has also a significant reduction of expenditure in order to control the operating costs, thereby minimizing the operating losses of the Group significantly on a year-to-year basis. While the Group's operations are gradually improving, the management started to identify quality investment opportunities. As mentioned above, the Group is now in the process of acquiring project for the production and sale of MDF, and it is expected that the acquisition will be completed on or before 31st May, 2002. The Board believes that upon the completion of the acquisition, the project will be able to provide promising profit contributions to the Group, and will make a turnaround of the operating results of the Group from loss to profit.



## CHAIRMAN'S STATEMENT (CONTINUED)

The Group will continue to explore other potential investment opportunities to strengthen the profitability of the Group. The Board is confident that under the concerted efforts of all the staff, the operations of the Group will gain momentum and grow, and will be heading towards a new era of increasing profitability.

By Order of the Board

**Leung Siu Fai**

*Chairman*

Hong Kong, 19th April, 2002