



CHAIRMAN'S STATEMENT

DIVIDEND

The Directors do not recommend payment of a dividend for the year (2001: Nil).

BUSINESS REVIEW

In spite of continuous economic uncertainty and instability, the Group had inspiring performance during 2002 through prudent business strategies and cost control measures. This comes as the initial result achieved in the Group's efforts to expand the board materials business in the PRC, thereby bringing about the more favourable results of the Group.

The turnover of the Group in 2002 was HK\$180,842,000, representing an increase of 138% when compared with last year. The Group had turned its books from red to black during the year, and an operating profit of HK\$18,045,000 was recorded.

Board Materials

The Group succeeded in acquiring Nanhai Jia Shun Timber Company Limited ("Nanhai Jia Shun") and Nanhai Heng Da Timber Company Limited ("Nanhai Heng Da") in 2002 in order to capture the market potential of decorative plates in the PRC. The principal operation of Nanhai Jia Shun is the production and sale of medium density fiberboard, which is mainly sold to South China. During 2002, the annual output was 130,000 m³ and the total sales was HK\$134,340,000 and the net operating profit was HK\$69,219,000. Among which, HK\$13,578,000 was the operating profit from 1st January, 2002 to the completion date of acquisition (9th May, 2002) which was included in the net asset value as at the acquisition date and offset the investment cost when calculating goodwill. Therefore, Nanhai Jia Shun had contributed HK\$55,641,000 to the Group's gains during 2002.

Nanhai Heng Da is principally engaged in the production of veneer, medium boards and pattern boards, which are mainly sold domestically and commenced operation at the end of 2002. The turnover of Nanhai Heng Da for the year 2002 was HK\$2,697,000. The production lines have not yet commenced operation fully since the production facilities of Nanhai Heng Da have not finished installing. Meanwhile, an operating loss of HK\$1,655,000 was recorded because of eliminating the start up cost within the two month period of trial production at a time in accordance with the PRC accounting system.



CHAIRMAN'S STATEMENT (CONTINUED)

Hotel

The average occupancy of the Guilin Plaza Hotel increased by 0.5% from the previous year to 78.5%. As Guilin Plaza Hotel has successfully risen to a four star hotel status, and with the improvement of the quality of customers and average room fees, the revenue from dining and delegates also increased. The turnover of hotel increased by 15% from the previous year to HK\$26,260,000. The Guilin Plaza Hotel made over 1 million bad debt provision for accounts receivable due to the changes of the PRC accounting system. Therefore, the operating profit also dropped by 6.0% to HK\$4,339,000.

Property

Under the effect of various factors, the overall property prices and rentals of the Hong Kong's property market has dropped over 60% when compared with the peak in 1997. The rentals of the property owned by the Group also decreased for more than 36%. Although the occupancy rate of the Group's rental property in Austin Tower, Tsimshatsui was still over 95%, revenue from rentals was inevitably hit. The total rentals for the year from the Group's property in Hong Kong was HK\$3,973,000 which was a decrease of HK\$114,000 comparing to last year, representing a decrease of 2.8%.

The aggregate value of the property held for sale and under development was HK\$184,600,000. There is over supply in the real estate markets of Huizhou and Shantou which are sluggish, the Group will continue to pay attention to the market development to look for business opportunities.

Steel Materials Trading

In respect of the trading of steel materials, turnover for the year was HK\$46,156,000, representing a drop of 5.9% over that of the previous year while the net loss for the year was HK\$158,000, representing a drop of loss of 36.8% over that of the previous year. Subsequent to balance sheet date, the Group has determined to cease the operation of steel materials trading in order to put the resources on business with higher potential.

CAPITAL AND FINANCE

The Group completed its rights issue and placing of HK\$230,000,000 convertible notes. As a result, the shareholders' equity and long term borrowings of the Group were HK\$724,817,000 and the total borrowings were HK\$237,647,000 including bank borrowings amounting to HK\$38,847,000, hence a gearing ratio of 32.8% was resulted.



CHAIRMAN'S STATEMENT (CONTINUED)

ONGOING CONNECTED TRANSACTIONS

In view of the Power Supply Agreement entered into between Nanhai Jia Shun, Nanhai Heng Da and Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang"), 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, and Hua Guang and Hua Ying being beneficially owned by the Company's substantial shareholder Madam Lu Biru and her spouse, 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 granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") waiver from the requirements of disclosure and shareholders' approval in connection with the Ongoing Connected Transactions as required under the Listing Rules for a period of three financial years ending 31st December, 2004.

PROSPECTUS

During the year, the Group has succeeded in exploring the board business which provides recurrent revenue and hence further consolidates the foundation of the Group. Since the current market demand of board is still enormous, the Group will continue to observe the market trend. The Group will enhance the quality of its products and output when necessary to meet the market demand. Meanwhile, the Group is optimistic with the prospect of the economic development in the PRC, and therefore will continue to identify potential investment projects in order to further enhance the Group's operation.

Finally, the Board would like to take this opportunity to express its sincere thanks to its customers and shareholders for their long-term support, and to all the staff for their efforts and contributions.

By Order of the Board

Leung Siu Fai

Chairman

Hong Kong, 4th April, 2003