



DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 33 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 16.

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the year end date. The revaluation resulted in a deficit of HK\$17,900,000, which has been charged directly to the consolidated income statement. Details of such revaluation are set out in note 12 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT AND PROPERTIES HELD FOR DEVELOPMENT

Movements during the year in the Group's property, plant and equipment and the details of the Group's properties held for development are set out in notes 13 and 14 to the financial statements, respectively.

Particulars regarding the Group's major properties are set out on pages 60 to 62.

SHARE CAPITAL

During the year, the Company issued shares according to rights issue made to existing shareholders on the basis of one rights share for every five shares then held.

On 11th December, 2002, 115,555,555 ordinary shares of HK\$0.10 each were issued to holders of convertible notes. Details of the conversion of convertible notes were disclosed in note 26 to the financial statements.

Details of this and other movements during the year in the share capital of the Company are set out in note 24 to the financial statements.



DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Leung Siu Fai

Mr. Sun Pak Fun

Mr. Kam Hung Chung

Mr. He Yongwen

(appointed on 1st July, 2002)

Independent Non-Executive Directors

Mr. Eddie Mui Ho Chow

Mr. Peter Lee Yip Wah

In accordance with the provisions of the Company's Bye-laws, Mr. Eddie Mui Ho Chow retires by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with the provisions of the Company's Bye-laws, Mr. He Yongwen retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each Independent Non-Executive Director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.



DIRECTORS' REPORT (CONTINUED)

BRIEF BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Leung Siu Fai, aged 52, is the Chairman and Managing Director of the Company. Mr. Leung was appointed as a Director of the Company in July 1995. He graduated from Guangzhou Jinan University and has extensive experience in finance and business management.

Sun Pak Fun, aged 61, is the Joint Chairman of the Company. Mr. Sun was appointed as a director of the Company in October 2002. He has over 20 years of working experience in project development and management as well as finance and business management.

Kam Hung Chung, aged 55, joined the Company as an Assistant Managing Director in April 1998. He has extensive experience in the marketing and administration of real estate, and property development both in Hong Kong and the People's Republic of China, other than Hong Kong.

He Yongwen, aged 34, was appointed as Financial Director in July 2002. He graduated from Guangzhou Jinan University and has over 10 years of working experience in finance and business management.

Independent Non-Executive Directors

Eddie Mui Ho Chow, aged 46, is an Independent Non-Executive Director of the Company. Mr. Mui graduated from the University of Hong Kong. He was appointed as a Director of the Company on 1st February, 1995. He is a practising lawyer. He has 19 years of working experience, and specialises in commercial and industrial law.

Peter Lee Yip Wah, aged 61, has been an Independent Non-Executive Director of the Company since 10th April, 1995. Mr. Lee is a practising solicitor and a partner of Woo, Kwan, Lee & Lo. He is also a Non-Executive Director of Tern Properties Company Limited, Elec & Eltek International (Holdings) Limited, Yu Ming Investments Limited and Shenzhen Investment Limited.

Note: The Group's businesses are under the direct responsibility of the above executive directors who are regarded as members of the senior management of the Group.



DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2002, the interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

| Name of Director | Number of shares held | |
|------------------|-----------------------|-----------------------------|
| | | Corporate interests |
| Leung Siu Fai | | 51,610,779(<i>note 1</i>) |
| He Yongwen | | 48,917,142(<i>note 2</i>) |

Notes:

1. These shares are held in the name of Mighty Management Limited which is controlled by Mr. Leung Siu Fai.
2. These shares are held in the name of New City Holding Limited in which Mr. He Yongwen has beneficial interests.

Save as disclosed above, none of the Directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, according to the register of interests kept by the Company under Section 16(1) of the SDI Ordinance, the shareholders who were interested in 10% or more of the issued share capital of the Company are as follows:

| Name | Number of shares held | Percentage |
|---------------------------|-----------------------------|------------------------|
| | | of total issued shares |
| Mighty Management Limited | 151,610,779 (<i>note</i>) | 16.57% |
| Ms. Lu Biru | 131,657,142 | 14.39% |

Save as disclosed above, no other parties were recorded in the register as having an interest in 10% or more of the issued share capital of the Company.

Note: These shares are also disclosed in the section of "Directors' Interests in Shares".



DIRECTORS' REPORT (CONTINUED)

SHARE OPTIONS

Particulars of the Company's share options scheme are set out in note 25 to the financial statements.

Details of the movements in the Company's share options during the year are as follows:

| | Number of share options granted during the year and outstanding at 31.12.2002 |
|---------------------|--|
| Directors | |
| Mr. Leung Siu Fai | 5,000,000 |
| Mr. Sun Pak Fun | 5,000,000 |
| Mr. Kam Hung Chung | 5,000,000 |
| Mr. He Yongwen | <u>5,000,000</u> |
| Total for directors | 20,000,000 |
| Employees | <u>9,500,000</u> |
| Total | <u><u>29,500,000</u></u> |

The closing price of the Company's shares immediately before 12th August, 2002, the date of grant of the options, was HK\$0.34.

The directors of the Company considered that it is not appropriate to value share options granted under the option scheme during the year as a number of factors critical for the valuation of the share options granted cannot be determined accurately. In the absence of readily available market value of the options under the option scheme, any valuation of the share options would be meaningless and could be misleading to the shareholders.

The total number of share option available for issue under this scheme is 61,999,582 which represents 6.8% of the issued share capital at the date of report.

No option was exercised, cancelled or lapsed during the year.



DIRECTORS' REPORT (CONTINUED)

CONNECTED TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

- (1) The Group paid rental expenses amounting to approximately HK\$1,106,000 to World Shine Enterprises Limited, in which Ms. Lu Biru, a substantial shareholder of the Company, has a beneficial interest.
- (2) Two subsidiaries of the Group, Nanhai Jia Shun Timber Company Limited ("Jia Shun") and Nanhai Heng Da Timber Company Limited ("Heng Da") which were acquired during the year, have entered into a power supply agreement (the "Agreement") with Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang"), Nanhai Hua Ying Timber Company Limited ("Hua Ying"), Nanhai Heng Yi Timber Company Limited and Smart Giant Investment Limited in relation to the co-management and co-use of a power plant jointly built by the above parties for the generation of electricity for their own consumption. Pursuant to the Agreement, the quantity of coal used by the power plant in generating electricity for a month is to be shared by the above parties according to the actual amount of electricity consumed by each of the parties for that month. The amount of material costs shared by Jia Shun and Heng Da for their electricity consumed from their respective dates acquired by the Company and up to 31st December, 2002 (the "Period") was HK\$11,798,000. Ms. Lu Biru, a substantial shareholder of the Company, has beneficial interests in Hua Guang and Hua Ying.

Pursuant to the Agreement, Jia Shun and Heng Da are responsible for the following costs relating to the power plant:

Jia Shun is responsible for the supply of land, the building of the power plant and its related ancillary facilities at its own expenses. Such assets with carrying value of HK\$20,001,000 as at 31st December, 2002 and the related depreciation of HK\$401,000 for the Period were recorded in Jia Shun.

Jia Shun and Heng Da are responsible to arrange a total of 60 staff for assisting in the daily operations of the power plant. The wages of the staff and other staff benefits borne by Jia Shun and Heng Da for the Period were HK\$468,000.

Heng Da is also responsible to share 20% of the repair and maintenance work of the power plant and all facilities, including the renovation of the power plant, and the replacement costs of the spare parts in relation to the routine management of the power plant. No such kind of cost was borne by Heng Da for the Period.



DIRECTORS' REPORT (CONTINUED)

CONNECTED TRANSACTIONS *(continued)*

- (3) On 24th September, 2002, the Group entered into a tenancy agreement with Mr. Feng Ming Chang ("Mr. Feng"), a spouse of Ms. Lu Biru, whereby Mr. Feng agreed to lease the factory and warehouse to the Group for a term of three years. The aggregate rental expenses paid during the year amounting to HK\$207,000.

The terms of the above transaction have been considered by the Board of Directors of the Company (including the Independent Non-Executive Directors) and determined to be on normal commercial terms.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the largest supplier accounted for 32% of the Group's purchases and the five largest suppliers accounted for 83% of the Group's total purchases. The largest customer accounted for 38% of the Group's turnover and the five largest customers accounted for 75% of the Group's total turnover.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) has an interest in the Group's five largest suppliers and customers.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

EMPLOYEES

The total number of employees of the Group is approximately 1,150. The remuneration of each employee of the Group is determined on the basis of his or her performance and experience. The Group provides education allowances to all the employees.



DIRECTORS' REPORT (CONTINUED)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

The existing auditors of the Company, Deloitte Touche Tohmatsu, will retire and will not seek for re-election at the annual general meeting. An ordinary resolution will be submitted to the annual general meeting to appoint HLM & Co. as auditors of the Company.

On behalf of the Board

LEUNG SIU FAI
CHAIRMAN

Hong Kong, 4th April, 2003