FINANCIAL REVIEW

Group's financial results:

Operating results		**Year ended 31 December**		Increase/
		2002	2001	(decrease)
	Notes	**HK$ million**	HK$ million	%
• Turnover	1	**24.0**	52.8	(54.5)
• Net loss attributable to shareholders	2	**15.2**	10.2	49.0
• Loss per share		**HK(0.56 cent)**	HK(0.50 cent)	
Financial position		**As at 31 December**		Increase/
		2002	2001	(decrease)
	Notes	**HK$ million**	HK$ million	%
• Cash & bank balances	3	**1,123.5**	141.9	691.8
• Total assets		**1,252.4**	1,281.2	(2.2)
• Shareholders' equity	3	**1,222.5**	239.6	410.2
Financial ratios				
		2002	2001	
	Notes			
• Gross loss margin *1	4	**18.9%**	6.8%	
• Stock turnover *2	5	**5.1 times**	6.9 times	
• Debtors payment period *3		**20 days**	16 days	
• Creditors payment period *4	6	**14 days**	44 days	
• Current ratio *5	3	**62.8 times**	1.1 times	
• Total liabilities to total capital *6	7	**2.4%**	14.8%	

*1 gross loss / turnover
*2 cost of sales / [(opening stock + closing stock) / 2]
*3 accounts receivable / turnover x 365 days
*4 accounts payable / cost of sales x 365 days
*5 current assets / current liabilities
*6 liabilities / (shareholders' equity + liabilities) (2001: excluding the loan pledged by bank deposit)

Notes:

1. the decrease was caused by:
   (a) the temporary suspension of production for the reconstruction of production lines,
   (b) the aggressive market competition in plywood products, and
   (c) the unexpected continuous decline in demand since 2000

2. the increase of loss was caused by the aggressive market competition and the loss on disposal and written-off of fixed assets arising from the reconstruction of production lines
3. the increase was a result of new equity of HK$1,000 million, which was a secured loan in 2001
4. the economies of scale were not attained
5. the deterioration was due to the temporary suspension of production
6. the credit term allowed by the creditors was shortened due to small volume of individual transaction
7. gearing was sustained at healthy level

During the year, the Group ceased the production of fancy plywood as the selling price of the products dropped dramatically in the past several years. It was inevitably to cease it in order to reduce the negative impact to the Group. Focus was put on plywood, representing almost the total production. At the end of the year, the new production line of veneer has undergone trial run. The Directors hope that the market will pick up gradually this year. For the time being, the Group still focuses on its manufacturing activities in the People's Republic of China (the "PRC").

LIQUIDITY AND FINANCIAL RESOURCES

The Company obtained further equity from Keentech Group Limited ("Keentech"), an indirect wholly-owned subsidiary of China International Trust and Investment Corporation during the year. In June 2002, the Company entered into agreements to acquire 35% of the voting rights of Fletcher Challenge Forests Limited ("Fletcher"), a listed company in New Zealand. To partly satisfy the acquisition cost, the convertible loan notes of HK$1,000 million issued in January 2002 by the Company to Keentech were converted into equity in June. However, the acquisition was not approved by the shareholders of Fletcher in August and therefore, the proceeds remain in the Company and will be used for other investments.

As at 31 December 2002, the Group was free from bank borrowings and the cash balance was HK$1,123.5 million. The Directors are of the view that there is sufficient cash to satisfy the working capital needs and other financing requirements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group had around 200 full time employees, including the management and administrative staff and the production workers. Most of them station in the PRC while the remaining in Hong Kong.

The employees' remuneration, promotion and salary increment are assessed based on individual's performance, professional and working experience and are referred to the prevailing industry practice. Rent-free quarters are provided to the PRC employees. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme.