

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 17 and 18 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2002 are set out in the consolidated income statement on page 23.

The Directors do not recommend the payment of a dividend for the year.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group is set out on page 73 of this report.

SHARE CAPITAL AND WARRANTS

On 19 August 2002, the Company entered into a subscription agreement with Global Innovation Investment Limited ("GIIL"), the major shareholder of the Company, pursuant to which the Company had conditionally agreed to allot and issue to GIIL an aggregate of 784,500,000 new ordinary shares of the Company of US\$0.001 each at a price of HK\$0.032 per share. The new issued ordinary shares rank pari passu in all respects with the existing ordinary shares.

During the year, the registered holders of 751,056,576 units of warrants exercised their rights to subscribe for ordinary shares of the Company of US\$0.001 each. At the balance sheet date, the Company had outstanding 576,310,006 units of warrants. Exercise in full of such warrants would result in the issue of 576,310,006 additional ordinary shares of the Company of US\$0.001 each.

Details of the movements of the Company's share capital and warrants are set out in notes 31 and 33 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the applicable law of Bermuda.

DIRECTORS

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

Chairman

Dr. Yang Ding-Yuan

Vice-chairman

Ms. Meng Tung-Mei, Grace

Executive Director

Dr. Hu Ding-Hua

Independent Non-executive Directors

Professor Edward S. Yang

Mr. Chan Ting Fung, Tim

In accordance with 87(2) of the Company's Bye-laws, Ms. Meng Tung-Mei, Grace, shall retire from office at the forthcoming annual general meeting, being eligible, offer herself for re-election.

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2002, the following beneficial interests in the share capital and warrants of the Company, as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were held by the directors and their associates as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

Interests of the directors in the shares and warrants of the Company:

Name of director	Nature of interest	Number of shares held	Number of units of warrants held
Dr. Yang Ding-Yuan	Corporate (<i>note</i>)	5,094,288,616	–

Note: Dr. Yang Ding-Yuan is the controlling shareholder of S.T.J. Technology Limited ("STJ") which beneficially owns 5,094,288,616 shares of the Company as at 31 December 2002.

Save as disclosed above, no other interests were held or deemed or taken (under the SDI Ordinance) to be held by any directors or any of their associates in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) as at 31 December 2002.

SHARE OPTIONS

Pursuant to the Company's share option schemes adopted on 19 November 2001 and 11 December 1996, the Directors of the Company, at their discretion, may grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the Company's share option schemes are set out in note 32 to the financial statements.

◀ Report of the Directors ▶

SHARE OPTIONS (continued)

During the year, the movements in the number of options outstanding which have been granted to the Directors, executives and employees of the Company under the Company's share option schemes were as follows:

	Date of grant	Exercise period	Exercise price HK\$	At 1 January 2002	Number of share options Granted during the year	Cancelled during the year	At 31 December 2002
Directors							
Yang Ding-Yuan	30 April 2002	30 April 2002 – 29 April 2012	0.05	–	50,000,000	–	50,000,000
Meng Tung-Mei Grace	30 April 2002	30 April 2002 – 29 April 2012	0.05	–	50,000,000	–	50,000,000
Hu Ding-Hua	30 April 2002	30 April 2002 – 29 April 2012	0.05	–	50,000,000	–	50,000,000
Yang S. Edward	30 April 2002	30 April 2002 – 29 April 2012	0.05	–	50,000,000	–	50,000,000
Chan Ting-Fung, Tim	30 April 2002	30 April 2002 – 29 April 2012	0.05	–	50,000,000	–	50,000,000
Sub-total				–	250,000,000	–	250,000,000
Executives and employees							
	11 February 1997	11 February 1997 – 10 February 2007	1.85	20,716,000	–	(20,716,000)	–
	30 April 2002	1 January 2003 – 29 April 2012	0.05	–	31,200,000	–	31,200,000
	30 April 2002	1 January 2004 – 29 April 2012	0.05	–	23,400,000	–	23,400,000
	30 April 2002	1 January 2005 – 29 April 2012	0.05	–	23,400,000	–	23,400,000
Sub-total				20,716,000	78,000,000	(20,716,000)	78,000,000
Grand total				20,716,000	328,000,000	(20,716,000)	328,000,000

SHARE OPTIONS (continued)

The closing price of the Company's shares immediately before 30 April 2002, the date of grant of the share options, was HK\$0.05.

The fair value of share options granted during the year with the exercise price per share of HK\$0.05 is estimated at HK\$0.495 per share using the Black-Scholes option-pricing model. The fair value is estimated basing on the risk-free rate of 5.89% per annum (with reference to the prevailing rate of 10-year Exchange Fund Notes at the end of the month of granting the share options) and an expected volatility (deduced from one-year period historical volatility) of 155%, assuming no dividends and an expected option life of 10 years.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option-pricing model requires input of highly subjective assumptions, including the expected stock price volatility. As the characteristics of the option granted during the year are significantly different from those of publicly traded options and any changes in the subjective inputs may materially affect the fair value estimate, the Black-Scholes option-pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, debentures of, the Company or any other body corporate. None of the Directors and chief executives, or their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' SERVICE CONTRACTS

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) On 6 August 2002, the acquisition of a 51% equity interest in 瀋陽福昇中密度板有限公司 Shenyang Fusheng Wood Chipboard Co., Ltd. ("Fusheng") from STJ at a consideration of NT\$55.5 million (equivalent to US\$1,647,000) was completed (the "Acquisition"). Details of the Acquisition were set out in the Circular dated 1 November 2001 (the "Circular"). STJ is the ultimate holding company of the Company and is wholly owned by Dr. Yang Ding-Yuan, the Chairman of the Company, and his family members. In 2001, the Group made a payment of NT\$3,000,000 (equivalent to US\$86,000) to STJ as the deposit for the Acquisition (see note 23). On 6 August 2002, the date of completion of the Acquisition, the Company issued a convertible note in the principal amount of HK\$9,315,000 (equivalent to US\$1,204,000) to STJ to satisfy part of the consideration in accordance with the terms as set out and disclosed in the Circular. The remaining balance of consideration of NT\$12 million (equivalent to US\$357,000) payable to STJ is fully repayable in cash not later than 31 December 2003 (see note 29).
- (b) On 19 August 2002, GILL entered into a subscription agreement with the Company and pursuant to which the Company conditionally agreed to allot and issue to GILL and GILL agreed to subscribe for 784,500,000 new ordinary shares of the Company of US\$0.001 each at a price of HK\$0.032 per share. The subscription was completed on 2 September 2002 and these new issued ordinary shares rank pari passu in all respects with the existing ordinary shares. The net proceeds from the subscription amounted to approximately HK\$25,000,000.

Save as disclosed above, no other contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2002, the following shareholders were recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of shares held in the Company		
		Direct interests	Deemed interest	Total interests
GILL	(i)	4,564,370,084	–	4,564,370,084
STJ	(i)	529,918,532	4,564,370,084	5,094,288,616
Dr. Yang Ding-Yuan	(ii)	–	5,094,288,616	5,094,288,616

SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

- (i) GILL, a company incorporated in Cayman Islands with limited liability, is a 70% owned subsidiary of STJ, a company incorporated in British Virgin Islands, which is deemed by the SDI Ordinance to be interested in the Company's shares in which GILL is interested.
- (ii) STJ is wholly owned by Dr. Yang Ding-Yuan and his family members. Dr. Yang Ding-Yuan is therefore, by virtue of Section 8 of the SDI Ordinance, deemed to be interested in the Company's shares in which STJ is interested.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest in 10% or more in the issued share capital of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of purchases attributable to the Group's five largest suppliers combined and the sales made to the Group's five largest customers combined were less than 30% of the Group's total value of purchases and sales, respectively.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options, warrants and convertible note as set out in notes 32, 33 and 35 to the financial statements respectively, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 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 except that the guidelines set out in paragraph 7 of the Code have not been fully complied with in that the independent non-executive directors are not appointed for a specific term but subject to retirement by rotation at Annual General Meeting of the Company in accordance with the provisions of the Company's Bye-laws.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

DR. YANG DING-YUAN

CHAIRMAN

Hong Kong, 25 April 2003