



## RESULTS

For the six months ended 30th June, 2003, the Group recorded a turnover of HK\$115,708,000 (30th June, 2002: HK\$63,890,000), representing an increase of 81% over the corresponding period of the previous year. Since a significant amount of provision was made in respect of the fibreboard and veneer business, a loss of HK\$133,205,000 was recorded for the first half of the year (30th June, 2002: a profit of HK\$836,000).

## BUSINESS REVIEW

### Fibreboard and veneer

For the first half of the year, the total turnover of medium density fibreboard of Nanhai Jia Shun Timber Company Limited (“Nanhai Jia Shun”) amounted to HK\$70,838,000 with operating profit of HK\$34,807,000, after making provisions of HK\$88,774,000 pursuant to the subsequent material event disclosed in the later part of this report, it resulted in a net operating loss of HK\$54,022,000.

For the first half of the year, the total turnover of Nanhai Heng Da Timber Company Limited (“Nanhai Heng Da”) which was principally engaged in the production of single boards, medium boards, mould boards and plywood amounted to HK\$36,678,000 with operating profit of HK\$1,567,000, after making provisions of HK\$71,052,000 pursuant to the subsequent material event disclosed in the later part of this report, it resulted in a net operating loss of HK\$69,489,000.

### Hotel operations

Tourism industry over the world was nearly brought to a standstill because of the outbreak of severe acute respiratory syndrome in the first half of the year. The Guilin Plaza Hotel was inevitably and seriously affected with the occupancy dropping sharply. As a result, turnover for the first half of the year dropped significantly to



HK\$5,351,000, a decrease of 54% over the corresponding period of the previous year, and the operating loss was HK\$730,000, a decrease of 122% over the corresponding period of the previous year. Subsequent to the balance sheet date, occupancy of the hotel gradually picked up with the epidemic completely under control.

### **Trading**

For the six months ended 30th June, 2003, turnover in respect of the steel trading operations amounted to HK\$1,122,000, a significant decrease of 97% over the corresponding period of the previous year, and a net loss of HK\$541,000 was recorded in the period as compared to net profit of HK\$185,000 for the corresponding period of the previous year. The operation of steel trading was discontinued in middle of June 2003.

### **Property investment**

The real estate market in Hong Kong is still under the impact of weak economic conditions. The Group's rental income in the first half of the year amounted to HK\$1,719,000, and after deducting expenses, a profit of HK\$1,111,000 was recorded which was same as last year. The total value of the Group's properties held for sale and under development in the People's Republic of China ("PRC") amounted to HK\$184,600,000.

### **Capital and Financing**

As at the balance sheet date, the Group's total equity and long term borrowings amounted to HK\$588,463,000 while the total borrowings was HK\$225,036,000, and the gearing was 38%. The net asset value per share for the Group was HK40 cents.



## **FOREIGN EXCHANGE EXPOSURE**

The Group mainly earned revenue and incurred cost in Hong Kong Dollar and Renminbi. The directors consider the impact of foreign exchange exposures of the Group is minimal.

## **SUBSEQUENT MATERIAL EVENTS**

On 17th August, 2003, the operations of the factories of Nanhai Jia Shun and Nanhai Heng Da were suspended due to the fact that the supply of power and steam for these factories had been stopped. On 19th August, 2003, the bank accounts and the assets of Nanhai Jia Shun and Nanhai Heng Da were frozen pending commencement of legal proceedings by the claimant concerning litigation for an alleged breach of a bank loan agreement and a guarantee agreement. Since the information and allegations disclosed in the statement of claim were not known to the Company in advance, the Company found it very abrupt and surprised. The Board is very concerned and had instructed lawyers from the PRC to look into the matter. The first priority is to resume the operation of the factories and to minimise any loss exposure. At the same time, the Company will strongly defend against the claim lodged by the claimant in order to protect the assets and the benefit of the Company. If any irregularities is proved the Company shall take necessary legal actions against relevant person to pursue its responsibility and compensation.

In view of the aforesaid matters, the Board has resolved to make a significant provision in the accounts for the first half of the year for HK\$159,826,000, which resulted in a loss being recorded.

On 10th September, 2003, Greenwood Property Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to sell all its properties at Austin Tower, Tsim Sha Tsui at a consideration of HK\$17,045,000 for cash. It is expected that the sale and purchase agreement will be completed on 13th October, 2003.



## PROSPECTS

The Company is currently accelerating its efforts in various aspects for resuming operation at Nanhai Jia Shun timber factories, and the factories are also looking into various plans for the resumption of production. The Company is confident that the factories will continue to contribute to the profit of the Group and will see improvement in its result once production of the factories has resumed.

## DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept pursuant to Section 352 of the SFO were as follows:

(a) Interests in shares of the Company

Name of Director	Number of shares	Nature of interest	Notes	% of total issued share capital as at 30th June, 2003
Leung Siu Fai	151,610,779	Corporate	1	16.57%
Kam Hung Chung	58,971,428	Corporate	2	6.44%
He Yongwen	48,917,142	Corporate	3	5.35%
Lee Yip Wah, Peter	200,000	Personal	4	0.02%



*Notes:*

1. These shares were held by Mighty Management Limited which was wholly-owned by Leung Siu Fai.
2. These shares were held by Sintex Investment Limited in which Kam Hung Chung had 50% interest.
3. These shares were held by New City Holdings Limited which was wholly-owned by He Yongwen. He Yongwen resigned as a director of the Company on 1st August, 2003.
4. These shares were held by Lee Yip Wah, Peter as beneficial owner.

(b) Interest in share options of the Company

Share options were granted to certain directors of the Company pursuant to the share option scheme of the Company. Details of the directors' interest in share options granted by the Company are set out in the following section "Share Options" of this report.

Save as disclosed above, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under section 352 of the SFO.



## SHARE OPTIONS

Details of the movements of the share options granted pursuant to the share option scheme of the Company adopted on 28th June, 1994 during the six months ended 30th June, 2003 were as follows:

<b>Name of Director</b>	<b>Number of share options outstanding at 1st January, 2003 and 30th June, 2003</b>	<b>% of total issued share capital as at 30th June, 2003</b>
Leung Siu Fai	5,000,000	0.55%
Sun Pak Fun	5,000,000	0.55%
Kam Hung Chung	5,000,000	0.55%
He Yongwen (Note)	5,000,000	0.55%
Total for directors	20,000,000	
Employees	9,500,000	1.04%
Total	<u>29,500,000</u>	

*Note:* He Yongwen resigned as a director of the Company on 1st August, 2003.

The share options, being physically settled unlisted derivatives, were held by the respective grantees personally as beneficial owners. The consideration paid by each grantee for the share options granted was HK\$1.00. The share option can be exercised at an exercise price of HK\$0.347 per share during a period from 15th September, 2002 to 27th June, 2004. No share options were granted, exercised, cancelled or lapsed under the share option scheme during the period.



## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the following persons and corporations had, interests in 5% or more in the shares and underlying shares of the Company, as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of issued shares	Number of underlying shares in share options	Number of underlying shares in derivative interests*	Notes	Capacity	Percentage (in aggregate) of total issued shares as at 30th June, 2003
Leung Siu Fai	151,610,779	5,000,000	—	1	Beneficial owner and controlled corporation	17.12%
Mighty Management Limited	151,610,779	—	—	1	Beneficial owner	16.57%
Lu Biru	131,657,142	—	—		Beneficial owner	14.39%
Nam Keng Van Investment Co. Ltd.	89,271,895	—	32,592,592	2	—	13.32%
Fung Kam Wing	—	—	111,111,111		Beneficial owner	12.14%
Lau Ming En	700,000	—	111,111,111		Beneficial owner	12.22%
Topgrow Limited	—	—	92,592,592		Nominee for another person	10.12%
Wideco Investment Limited	—	—	92,592,592		Nominee for another person	10.12%
Delight View Enterprises Limited	—	—	74,074,074		Nominee for another person	8.10%
Kam Hung Chung	58,971,428	5,000,000	—	3	Beneficial owner and controlled corporation	6.99%
Sintex Investment Limited	58,971,428	—	—	3	Beneficial owner	6.44%
Zhong Baoguo	58,971,428	—	—	3	Controlled corporation	6.44%
Oriental Trade Ltd.	55,555,555	—	—		Beneficial owner	6.07%
Success Digital International Limited	—	—	55,555,555		Beneficial owner	6.07%
Gearway Limited	—	—	55,555,555		Nominee for another person	6.07%
He Yongwen	48,917,142	5,000,000	—	4	Beneficial owner and controlled corporation	5.89%
New City Holdings Limited	48,917,142	—	—	4	Beneficial owner	5.35%

\* being unlisted physically settled derivatives interests



*Notes:*

1. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Leung Siu Fai. In addition, Leung Siu Fai held 5,000,000 share options granted under the share option scheme of the Company.
2. These interests (including derivative interests in respect of 32,592,592 shares) were disclosed by Nam Keng Van Investment Co. Ltd.
3. These 58,971,428 shares were held by Sintex Investment Limited in which Kam Hung Chung had 50% interest and Zhong Baoguo had 50% interest. In addition, Kam Hung Chung held 5,000,000 share options granted under the share option scheme of the Company.
4. These 48,917,142 shares were held by New City Holdings Limited which was wholly-owned by He Yongwen. In addition, He Yongwen held 5,000,000 share option granted under the share option scheme of the Company.

## **INTERIM DIVIDEND**

The Board does not declare interim dividend for the six months ended 30th June, 2003 (2002: nil).

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a general review of the unaudited interim financial statements for the six months ended 30th June, 2003. The interim financial report for the period ended 30th June, 2003 is unaudited, but has been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants, by HLM & Co.



## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance 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, at any time during the six months ended 30th June, 2003.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

During the six months ended 30th June, 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board

**Leung Siu Fai**

*Chairman*

Hong Kong, 25th September, 2003



## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2003

	Notes	Six months ended	
		30.6.2003 HK\$'000 (unaudited)	30.6.2002 HK\$'000 (unaudited)
Turnover	3	115,708	63,890
Cost of sales and services		<u>(77,640)</u>	<u>(48,016)</u>
Gross profit		38,068	15,874
Other income		6,105	228
Selling and distribution costs		(99)	(436)
Administrative expenses		<u>(15,723)</u>	<u>(13,470)</u>
Profit from operations	4	28,351	2,196
Provision for doubtful amounts	5	(159,826)	—
Finance costs		<u>(1,730)</u>	<u>(1,360)</u>
(Loss) profit for the period		<u><u>(133,205)</u></u>	<u><u>836</u></u>
(Loss) earnings per share	8		
Basic		<u><u>(HK14.6 cents)</u></u>	<u><u>HK0.115 cent</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>



## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2003

	Notes	30.6.2003 HK\$'000 (unaudited)	31.12.2002 HK\$'000 (audited)
<b>Non-current Assets</b>			
Investment properties	9	64,600	64,600
Property, plant and equipment		294,835	295,221
Properties held for development		80,000	80,000
Goodwill	10	105,936	108,721
Investments in securities		—	1
Other receivable		—	17,552
Club debenture		205	205
		<u>545,576</u>	<u>566,300</u>
<b>Current Assets</b>			
Properties held for sale		104,600	104,600
Inventories		11,362	22,646
Trade and other receivables	11	8,939	43,942
Investments in securities		102	63
Pledged bank deposits		—	10,870
Bank balances and cash		19,184	47,749
		<u>144,187</u>	<u>229,870</u>
<b>Current Liabilities</b>			
Trade and other payables	12	54,018	52,710
Tax payable		2,546	2,546
Provision for loss in litigation		38,000	—
Bank borrowings		—	—
- due within one year	13	6,736	16,097
		<u>101,300</u>	<u>71,353</u>
<b>Net Current Assets</b>		<u>42,887</u>	<u>158,517</u>
		<u>588,463</u>	<u>724,817</u>
<b>Capital and Reserves</b>			
Share capital	14	91,500	91,500
Reserves		278,663	411,767
		<u>370,163</u>	<u>503,267</u>
<b>Non-current Liabilities</b>			
Convertible notes		198,800	198,800
Bank borrowings		—	—
- due after one year	13	19,500	22,750
		<u>218,300</u>	<u>221,550</u>
		<u>588,463</u>	<u>724,817</u>



## CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Hotel property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2002	66,620	393,808	39,254	(56,943)	(14,668)	428,071
Exchange translation not recognized in the income statement	—	—	—	(293)	—	(293)
Issue of new shares	24,880	—	—	—	—	24,880
Share premium arising from issue of shares, net of expenses	—	32,564	—	—	—	32,564
Profit for the year	—	—	—	—	18,045	18,045
At 31st December, 2002 and 1st January, 2003	91,500	426,372	39,254	(57,236)	3,377	503,267
Exchange translation not recognized in the income statement	—	—	—	101	—	101
Loss for the period	—	—	—	—	(133,205)	(133,205)
At 30th June, 2003	<u>91,500</u>	<u>426,372</u>	<u>39,254</u>	<u>(57,135)</u>	<u>(129,828)</u>	<u>370,163</u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2003

	Six months ended	
	30.6.2003	30.6.2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(23,435)	(5,074)
Net cash from (used in)		
investing activities	8,221	(136,275)
Net cash (used in) from		
financing activities	(12,630)	133,479
Decrease in cash and		
cash equivalents	(27,844)	(7,870)
Cash and cash equivalents		
at beginning of period	46,792	30,545
Cash and cash equivalents at		
end of period, represented by		
bank balances and cash	18,948	22,675
Analysis of the balances of		
cash and cash equivalents:		
Bank balances and cash	19,184	22,675
Bank overdraft	(236)	—
	18,948	22,675



# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2003*

## 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2002, except for the adoption of the following revised SSAP, which is effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the period.

### **Income Taxes**

In the current period, the Group has adopted SSAP 12 (Revised) on Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits, with limited exceptions. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilized. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been made.



### 3. SEGMENT INFORMATION

#### Business Segments

Six months ended 30th June, 2003 (unaudited)	Fibreboard and veneer HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
TURNOVER	<u>107,516</u>	<u>5,351</u>	<u>1,122</u>	<u>1,719</u>	<u>115,708</u>
RESULTS					
Segment results	<u>(123,451)</u>	<u>(730)</u>	<u>(541)</u>	<u>1,111</u>	<u>(123,611)</u>
Interest income					10
Net unrealized holding gains on other investments					39
Unallocated corporate expenses					<u>(7,913)</u>
					<u>(131,475)</u>
Finance costs					<u>(1,730)</u>
Loss for the period					<u><u>(133,205)</u></u>
Six months ended 30th June, 2002 (unaudited)	Fibreboard and veneer HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
TURNOVER	<u>17,149</u>	<u>11,597</u>	<u>33,124</u>	<u>2,020</u>	<u>63,890</u>
RESULTS					
Segment results	<u>7,601</u>	<u>3,322</u>	<u>185</u>	<u>1,112</u>	12,220
Interest income					89
Unallocated corporate expenses					<u>(10,113)</u>
					2,196
Finance costs					<u>(1,360)</u>
Profit for the period					<u><u>836</u></u>



### 3. SEGMENT INFORMATION - continued

#### Geographical Segments

Six months ended 30th June, 2003 (unaudited)	PRC other than Hong Kong HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
TURNOVER	<u>112,867</u>	<u>2,841</u>	<u>115,708</u>
RESULT			
Segment results	<u>(124,213)</u>	<u>602</u>	<u>(123,611)</u>
Interest income			10
Net unrealized holding gains on other investments			39
Unallocated corporate expenses			<u>(7,913)</u>
			<u>(131,475)</u>
Finance costs			<u>(1,730)</u>
Loss for the period			<u>(133,205)</u>
Six months ended 30th June, 2002 (unaudited)	PRC other than Hong Kong HK\$'000	Hong Kong HK\$'000	Consolidated HK\$'000
TURNOVER	<u>28,746</u>	<u>35,144</u>	<u>63,890</u>
RESULT			
Segment results	<u>10,868</u>	<u>1,352</u>	12,220
Interest income			89
Unallocated corporate expenses			<u>(10,113)</u>
			2,196
Finance costs			<u>(1,360)</u>
Profit for the period			<u>836</u>



#### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended	
	30.6.2003	30.6.2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	3,117	2,717
Amortisation of goodwill	<u>2,785</u>	<u>816</u>

#### 5. PROVISION FOR DOUBTFUL AMOUNTS

Provisions made in respect of a subsequent material event concerning litigation for an alleged breach of a bank loan agreement and a guarantee agreement:

	Six months ended	
	30.6.2003	30.6.2002
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Payments in advance to suppliers	47,234	—
Trade receivables	28,738	—
Other receivables	45,854	—
Provision for loss in litigation	<u>38,000</u>	<u>—</u>
	<u>159,826</u>	<u>—</u>

#### 6. TAXATION

No provision for Hong Kong Profits Tax or overseas taxation has been made in the financial statements as the Company and its subsidiaries have no assessable profits for either period.

At the balance sheet date, the Group had unused tax losses of HK\$12,718,000 (2002: HK\$13,274,953) available for offsetting against future profits. No deferred tax assets have been recognised as it is uncertain whether there will be assessable profits in the future.

#### 7. DIVIDENDS

The Board does not declare any interim dividend for the six months ended 30th June, 2003 (2002: ni1).



## 8. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the period of HK\$133,205,000 (30th June, 2002: a profit of HK\$836,000) and on 914,995,817 ordinary shares (30th June, 2002: the weighted average number of 728,035,377 ordinary shares) in issue during the period.

No diluted loss per share was presented for the period ended 30th June, 2003 as the conversion price of convertible notes is higher than average market price of the shares of the Company's shares for the period.

No diluted earnings per share has been presented for the period ended 30th June, 2002 because the exercise of conversion of the Company's outstanding convertible notes would result in an increase in profit per share from continuing ordinary operations for the period.

## 9. INVESTMENT PROPERTIES

At 30th June, 2003, the directors considered the carrying amounts of the Group's investment properties carried at the revalued amounts and estimated that the carrying amounts as at 30th June, 2003 do not differ significantly from the open market value of those properties as at 30th June, 2003. Consequently, no revaluation surplus or deficit has been recognised in the current period.

## 10. GOODWILL

	<i>HK\$'000</i> <i>(Unaudited)</i>
<b>COST</b>	
At 1st January, 2003 and 30th June, 2003	112,583
<b>AMORTISATION</b>	
At 1st January, 2003	3,862
Charge for the period	2,785
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At 30th June, 2003	6,647
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<b>NET BOOK VALUE</b>	
At 30th June, 2003	105,936
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At 31st December, 2002	108,721
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The goodwill is arising on acquisitions on subsidiaries in 2002. The amortisation period adopted for the goodwill is 20 years.



## 11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of the Group's trade receivables at the reporting date:

	30.6.2003 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2002 <i>HK\$'000</i> <i>(audited)</i>
0 - 60 days	160	27,123
61 - 90 days	1,371	933
91 - 120 days	770	513
> 120 days	659	2,345
	<hr/>	<hr/>
Trade receivables	2,960	30,914
Other receivables	5,979	13,028
	<hr/>	<hr/>
	<b>8,939</b>	<b>43,942</b>
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## 12. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the reporting date:

	30.6.2003 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2002 <i>HK\$'000</i> <i>(audited)</i>
0 - 60 days	6,951	11,952
61 - 90 days	1,854	982
91 - 120 days	4,044	450
> 120 days	5,436	210
	<hr/>	<hr/>
Trade payables	18,285	13,594
Other payables	35,733	39,116
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	<b>54,018</b>	<b>52,710</b>
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### 13. BANK BORROWINGS

During the period, the Group repaid HK\$12,611,000 (31st December, 2002: HK\$16,786,000) of its bank loans.

The bank loans bear interest at market rates. The bank loans amounting to HK\$19,500,000 (31st December, 2002: HK\$22,750,000) are repayable in instalments over a period of 4 years (31st December, 2002: 4.5 years) and the remaining bank loans of HK\$6,736,000 (31st December, 2002: HK\$16,097,000) are repayable within one year.

### 14. SHARE CAPITAL

	Number of shares		30.6.2003 HK\$'000 (unaudited)	31.12.2002 HK\$'000 (audited)
	30.6.2003 (unaudited)	31.12.2002 (audited)		
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the period/year	3,000,000,000	1,000,000,000	300,000	100,000
Increase during the period/year	—	2,000,000,000	—	200,000
At end of the period/year	<u>3,000,000,000</u>	<u>3,000,000,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
At beginning of the period/year	914,995,817	666,200,219	91,500	66,620
Right issue of new shares	—	133,240,043	—	13,324
Conversion of convertible notes	—	115,555,555	—	11,556
At end of the period/year	<u>914,995,817</u>	<u>914,995,817</u>	<u>91,500</u>	<u>91,500</u>

Pursuant to the special resolution passed on 8th April, 2002 in the special general meeting, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of additional 2,000,000,000 new ordinary shares of HK\$0.10 each.

In 2002, the Company carried out a right issues of 133,240,043 ordinary shares of HK\$0.10 each for a consideration of HK\$0.21 per share. The rights shares were issued in April 2002 to the existing shareholders, on the basis of one rights share for every five shares then held. The rights shares ranked pari passu with the then existing shares in all respects. Details of the rights issue were set out in the prospectus of the Company dated 19th March, 2002.



#### **15. PLEDGE OF ASSETS**

At 30th June, 2003, the Group's investment properties amounting to HK\$53,500,000 (31st December, 2002: HK\$53,500,000) were pledged to secure banking facilities of the Group.

#### **16. CAPITAL COMMITMENTS**

The Group had no material outstanding capital commitments as at 30th June, 2003 (31st December, 2002: HK\$2,194,000).

#### **17. CONTINGENT LIABILITIES**

The Group has given guarantee of HK\$2,262,000 to a bank in respect of general facilities granted to a subcontractor for raw steel in the PRC, an independent third party. The group had ceased in trading of steel on 16th June, 2003, but the guarantee will not expire until 16th December, 2003.

#### **18. RELATED PARTY TRANSACTIONS**

During the period, the Group paid rental expenses amounting to approximately HK\$478,000 (30th June, 2002: HK\$478,000) to World Shine Enterprises Limited, in which a substantial shareholder of the Company, Ms. Lu Biru has a beneficial interest. The rental charged were based on the terms of the tenancy agreement agreed between the Group and World Shine Enterprises Limited.



## 19. SUBSEQUENT MATERIAL EVENTS

On 17th August, 2003, the operations of the factories of Nanhai Jia Shun and Nanhai Heng Da were suspended due to the fact that the supply of power and steam for these factories had been stopped. On 19th August, 2003, the bank accounts and the assets of Nanhai Jia Shun and Nanhai Heng Da were frozen pending commencement of legal proceedings by the claimant concerning litigation for an alleged breach of a bank loan agreement and a guarantee agreement. Since the information and allegations disclosed in the statement of claim were not known to the Company in advance, the Company found it very abrupt and surprised. The Board is very concerned and had instructed lawyers from the PRC to look into the matter. The first priority is to resume the operation of the factories and to minimise any loss exposure. At the same time, the Company will strongly defend against the claim lodged by the claimant in order to protect the assets and the benefit of the Company. If any irregularities is proved the Company shall take necessary legal actions against relevant person to pursue its responsibility and compensation.

In view of the aforesaid matters, the Board has resolved to make a significant provision in the accounts for the first half of the year for HK\$159,826,000, which resulted in a loss being recorded.

On 10th September, 2003, Greenwood Property Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party to sell all its properties at Austin Tower, Tsim Sha Tsui at a consideration of HK\$17,045,000 for cash. It is expected that the sale and purchase agreement will be completed on 13th October, 2003.