



CHAIRMAN'S STATEMENT

DIVIDEND

The Directors do not recommend payment of a dividend for the year (2002: Nil).

BUSINESS REVIEW

The Group recorded a turnover of HK\$196,782,000 in 2003, representing an increase of 8% over that of the previous year. Since the Group has made substantial provision for the fibreboards and veneers subsidiaries, an operating loss of HK\$157,743,000 was recorded during the year.

Hotel operations

Upon the outbreak of atypical pneumonia and bird flu one after another, tourism in the People's Republic of China ("PRC") suffered a major blow. Number of overseas visitors dropped drastically. Average occupancy of Guilin Plaza Hotel for the year decreased to 53% with a turnover of HK\$14,215,000, representing a decrease of 46% over that of the previous year. Operating profit amounted to HK\$1,460,000 representing a decrease of 66% over that of the previous year. In order to expand visitors' base so as to mitigate the impact on similar contingent events in future, Guilin Plaza Hotel will add more business facilities in order to attract more business visitors and thus increase its revenues.

Property investment

Rental income from the Group's property in Hong Kong for 2003 amounted to HK\$2,814,000, representing a decrease of 29% over that of the corresponding period of the previous year. In view of the improvement in the property market in Hong Kong and to increase in the Company's cash reserves, the Group disposed of its property in Austin Tower, Tsimshatsui at HK\$17,045,000 on 13th October, 2003. On 7th November, 2003, the Group entered into a sale and purchase agreement with an independent third party in respect of the disposal of the whole block of Wah Ying Building located at Queen's Road West at HK\$24,100,000. This transaction was completed on 12th January, 2004 and bank loans of HK\$22,750,000 were repaid subsequently.

Subsequent to the balance sheet date, on 9th February, 2004, the Group disposed of the entire interests of a wholly-owned subsidiary, namely Wen Ying Investments Limited, which held an interest in Shanghai Zhonghui Real Estate Development Co., Ltd. (「上海中惠房地產發展有限公司」), to an independent third party at a consideration of RMB6,000,000. The consideration was accounted for in 2004.



CHAIRMAN'S STATEMENT (CONTINUED)

Fibreboards and veneers

The operations of the factories of Nanhai Jia Shun Timber Company Limited ("Jia Shun") and Nanhai Heng Da Timber Company Limited ("Heng Da") were suspended on 17th August, 2003. The Company had then sent its staff to the factories of Jia Shun and Heng Da to investigate into the situation. The operations of Jia Shun have resumed since 11th October, 2003.

(A) REASONS FOR THE SUSPENSION OF OPERATIONS OF FACTORIES OF JIA SHUN AND HENG DA

After the aforesaid investigation, the reasons for the suspension of operations of the factories of Jia Shun and Heng Da were due to (a) failure of supply of electricity and steam to Jia Shun and Heng Da owing to the suspension of operations of the power plant which was jointly built and operated pursuant to the power plant agreement dated 18th September, 2001 (the "Power Plant") and (b) the order dated 19th August, 2003 issued by the Intermediate People's Court of Foshan City, Guangdong Province, the PRC (the "Court") in relation to the claims as set out in the statement of claim dated 20th August, 2003 made by Shenzhen Development Bank Foshan Branch (the "Claimant") against, among others, Jia Shun and Heng Da (the "First Alleged Claims"), details of which are set out below.

(a) *Failure of supply of electricity and steam to Jia Shun and Heng Da owing to the suspension of operations of the Power Plant*

The suspension of operations of the factories of Jia Shun and Heng Da on 17th August, 2003 was due to the failure of supply of electricity and steam by the Power Plant resulting from its suspension of operations on that day. The Company had then promptly sent its staff to the Power Plant to look into the matter, but they had not been able to contact the management of the Power Plant since they had all left the Power Plant.

(b) *The order dated 19th August, 2003 issued by the Court in relation to the First Alleged Claims*

Another reason for the suspension of operations of the factories of Jia Shun and Heng Da was due to an order dated 19th August, 2003 issued by the Court that the bank accounts and the assets of Jia Shun and Heng Da be frozen and seized pending commencement of legal proceedings by the Claimant in relation to the First Alleged Claims. The assets of Jia Shun and Heng Da frozen include, among other things, land, building, plants and machinery.



CHAIRMAN'S STATEMENT (CONTINUED)

(c) *Former management of Jia Shun and Heng Da*

Since mid August 2003, the former legal representative of Jia Shun and Heng Da is uncontactable and the other key management and personnel responsible for the accounting and finance function of Heng Da had also left the company.

(d) *State of books and records of Jia Shun and Heng Da*

The management of the Company set up a new management team to manage Jia Shun and Heng Da and they found the books and records of Jia Shun to be in good order. However, no ledgers, vouchers and other source documents of Heng Da in respect of the period from 1st August, 2003 to 17th August, 2003 (date of suspension of operation of Heng Da) was available. Furthermore, certain source documents, mainly goods delivery and receipt notes, and production records for the year, which were not seized by the Court, but kept in Heng Da's office after the suspension of the operation, had been misplaced or lost.

(B) RESUMPTION OF OPERATIONS OF FACTORIES OF JIA SHUN

Jia Shun had applied for the resumption of operations of its factory and such an application had been approved by the relevant PRC government authorities. The factory of Jia Shun commenced a trial run on 11th October, 2003 and resumed its commercial production and ordinary business activities with effect from the same day.

As the resumption of production of the factory of Jia Shun had been approved, the bank account of Jia Shun which had been frozen by the order of the Court dated 19th August, 2003 was released so that Jia Shun might have working capital for operations. The other frozen assets of Jia Shun are permitted to be used for production purposes. Jia Shun is also using all the production facilities of Heng Da for operations.

(C) RESUMPTION OF OPERATIONS OF THE POWER PLANT

As the relevant PRC government authorities had approved the resumption of operations of the factory of Jia Shun, it also approved the resumption of operations of the Power Plant on 29th September, 2003, in order to resume supply of electricity and steam for the operations of the factory of Jia Shun. The Power Plant is currently managed by Jia Shun and all the staff are recruited by Jia Shun. Jia Shun is currently leasing the assets of the Power Plant from Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang") and Nanhai Hua Ying Timber Company Limited ("Hua Ying") (the "Power Plant Assets"), details of which are set out below.



CHAIRMAN'S STATEMENT (CONTINUED)

(D) LEASES OF CERTAIN FACTORY PREMISES, OFFICES, STAFF DORMITORIES, MACHINERY AND THE POWER PLANT ASSETS

Lease entered into by Jia Shun: A lease dated 29th December, 2003 was entered into between Jia Shun as lessee and Hua Guang, Hua Ying, Nanhai Xin Yue Chemical Industrial Company Limited ("Xin Yue") and Nanhai Heng Yi Timber Company Limited ("Heng Yi") as lessors, whereby, among others:

- (a) Jia Shun agreed to lease, certain factory premises, plants, offices, security offices, staff dormitories, machinery and equipment from the aforesaid lessors;
- (b) Jia Shun agreed to lease the Power Plant Assets from Hua Guang and Hua Ying;
- (c) the total aggregate annual rental is RMB17,046,000 (equivalent to approximately HK\$16,234,000); and
- (d) the term is from 1st December, 2003 to 31st December, 2006.

The aggregate annual rental consists of (i) the annual rental of the property, plant and equipment being the aggregate of 10% of the higher of the net book value or market value and annual interest with the interest rate of 4.779% and (ii) the annual rental of the land and building being RMB12 (equivalent to approximately HK\$11) and RMB48 (equivalent to approximately HK\$45) per square meter respectively. The leasing of the aforesaid factory premises, plants, offices, security offices, staff dormitories, machinery and equipment by Jia Shun is for the purpose of production of medium density fibreboards. The leasing of the Power Plant Assets by Jia Shun is for the purpose of ensuring constant supply of electricity and steam by the Power Plant for production. The Power Plant is therefore currently being operated pursuant to the aforesaid lease.

Lease entered into by Heng Da: A lease dated 29th December, 2003 was entered into between Heng Da as lessee and Hua Guang as lessor whereby, among others, Heng Da agreed to lease certain factory premises, plants, offices and security offices from Hua Guang at an aggregate annual rental of RMB5,755,000 (equivalent to approximately HK\$5,481,000) for a term from 1st January, 2004 to 31st December, 2006.

The aggregate annual rental consists of (i) the annual rental of the property, plant and equipment being the aggregate of 10% of the higher of the net book value or market value and annual interest with the interest rate of 4.779% and (ii) the annual rental of the land and building being RMB12 (equivalent to approximately HK\$11) and RMB48 (equivalent to approximately HK\$45) per square meter respectively. The leasing of the aforesaid factory premises, plants, offices and security offices by Heng Da is for the purpose of production by Jia Shun.



CHAIRMAN'S STATEMENT (CONTINUED)

(E) DEALING WITH CERTAIN RAW MATERIALS AND/OR PRODUCTS

As the operations of Hua Guang, Heng Yi, Xin Yue and Hua Ying have been suspended, an agreement dated 29th December, 2003 was entered into between Jia Shun and Hua Guang (for itself and for Heng Yi, Xin Yue and Hua Ying) whereby, among others, Jia Shun is empowered to deal with certain raw materials and/or products of Hua Guang, Heng Yi, Xin Yue and Hua Ying with the value of RMB8,622,000 (equivalent to approximately HK\$8,211,000). The values of the raw materials and/or products are based on market values. Such raw materials and products include veneer raw materials and products, tools, equipment and machinery. Jia Shun is in the process of selling such raw materials and products, failing which it will apply them for the purpose of its production.

(F) CLAIMS

(a) *The First Alleged Claims*

The First Alleged Claims include, among other things:

- (i) a bank loan contract dated 23rd May, 2003 was entered into between Heng Da as borrower and the Claimant as lender in relation to a loan facility in a sum of RMB40,000,000 (equivalent to approximately HK\$38,000,000) and that the Claimant has made such loan to Heng Da;
- (ii) guarantees dated 23rd May, 2003 were entered into by, among others, Jia Shun and Hua Guang in favour of the Claimant in relation to such loan; and
- (iii) as the operations of Hua Guang were suspended and Hua Guang and Jia Shun were two of the guarantors in relation to the aforesaid bank loan, Heng Da and Jia Shun, among others, should make full repayment of the loan and interest thereon before maturity under the bank loan contract and the relevant guarantee respectively.

Guangdong Shengbang Law Firm, a law firm in the PRC acting for Jia Shun and Heng Da in relation to the First Alleged Claims (the "First PRC Lawyers") attended a hearing at the Court on behalf of Jia Shun and Heng Da on 9th October, 2003 in relation to the First Alleged Claims. The respective attorneys of Jia Shun, Heng Da, and the Claimant had made their submissions to the Court. The First PRC Lawyers submitted to the Court that the First Alleged Claims should be dismissed on the ground that, among others, no valid evidence has been submitted by the Claimant to prove that the Claimant has made the aforesaid loan to Heng Da. The judges of the Court had adjourned the hearing for further deliberation.



CHAIRMAN'S STATEMENT (CONTINUED)

Jia Shun and Heng Da reported to the Public Security Bureau in Nanhai, the PRC on 23rd March, 2004, among other things, that:—

- (i) without the knowledge of the board of directors of the Company and the respective board of directors of Jia Shun and Heng Da (except Mr Sun Pak Fun who could not be contacted), the company chops of Jia Shun and Heng Da, and the name chop of Mr. Sun Pak Fun, the then legal representative and chairman of the board of directors of Jia Shun and Heng Da, were affixed to the aforesaid bank loan contract and the aforesaid guarantee;
- (ii) neither Jia Shun nor Heng Da had received any sum of money representing the RMB40,000,000 loan or had any record recording any details of the aforesaid bank loan and the aforesaid guarantee; and
- (iii) the First Alleged Claims were suspected to involve criminal offence.

The Group will deny liability and contest the First Alleged Claims vigorously. The Directors consider that the Claimant does not have any valid claim against Jia Shun and Heng Da in relation to the First Alleged Claims, and they strongly believe that the Group can successfully defend against the First Alleged Claims. The First PRC Lawyers agreed with the view of the Directors, that the maximum loss which might be incurred by the Group even in the event that Jia Shun and Heng Da lose in the litigation in relation to the First Alleged Claims will be limited to a sum of RMB40,000,000 (equivalent to approximately HK\$38,000,000), interest thereon, legal costs and expenses.

(b) *The Second Alleged Claims*

Jia Shun and Heng Da received summons on 16th January, 2004 issued by the Court in respect of the claims as set out in the statement of claim made by the Claimant against, among others, Jia Shun and Heng Da (the "Second Alleged Claims").

The Second Alleged Claims include, among other things:

- (i) a bank loan contract dated 23rd May, 2003 was entered into between Heng Yi as borrower and the Claimant as lender in relation to a loan facility in a sum of RMB40,000,000 (equivalent to approximately HK\$38,000,000) and that the Claimant has alleged that it had made such loan to Heng Yi;
- (ii) guarantees dated 23rd May, 2003 were entered into by, among others, Jia Shun and Heng Da respectively in favour of the Claimant in relation to such loan; and



CHAIRMAN'S STATEMENT (CONTINUED)

- (iii) as the operations of Hua Guang were suspended and Hua Guang, Jia Shun and Heng Da were the guarantors in relation to the bank loan, Jia Shun and Heng Da, among others, should make full repayment of the loan and interest thereon before maturity under the bank loan contract pursuant to the aforesaid guarantees.

Jia Shun and Heng Da have instructed Guangdong Weonline Law Firm, a law firm in the PRC acting for Jia Shun and Heng Da in relation to the Second Alleged Claims ("the Second PRC Lawyers") to look into the matter and defend against the Second Alleged Claims in the Court. The Second PRC Lawyers attended and made submissions at the hearing at the Court on 5th February, 2004. The judges of the Court have adjourned the hearing for further deliberation.

Jia Shun and Heng Da reported to the Public Security Bureau in Nanhai, PRC on 23rd March, 2004 that, among other things:

- (i) without the knowledge of the board of directors of the Company and the respective board of directors of Jia Shun and Heng Da (except Mr. Sun Pak Fun who could not be contacted), the company chops of Jia Shun and Heng Da, and the name chop of Mr. Sun Pak Fun, the then legal representative and chairman of board of directors of Jia Shun and Heng Da, were affixed to the aforesaid guarantees;
- (ii) neither Jia Shun nor Heng Da had any record recording any details of the aforesaid guarantees; and
- (iii) the Second Alleged Claims were suspected to involve criminal offence.

The Group will deny liability and contest the Second Alleged Claims vigorously. The Directors consider that the Claimant does not have any valid claim against Heng Da and Jia Shun in relation to the Second Alleged Claims, and they strongly believe that the Group can successfully defend against the Second Alleged Claims.

(G) MR. SUN PAK FUN

The Company received a letter dated 26th November, 2003 from Mr. Sun Pak Fun on 1st December, 2003 notifying the Company of his resignation from the positions of executive director and joint chairman of the Company and legal representative and chairman of board of directors of Jia Shun and Heng Da due to personal reasons with effect from 26th November, 2003. The Company has tried to contact him since mid August 2003 in vain.



CHAIRMAN'S STATEMENT (CONTINUED)

(H) MADAM LU BIRU ("Madam Lu")

The Company received a letter dated 19th December, 2003 from Madam Lu on 24th December, 2003 stating that Industrial and Commercial Bank of China enforced the charge on 131,657,142 shares in the Company owned by Madam Lu on 30th June, 2003 as she was unable to repay the loan owed to it. Madam Lu therefore ceased to be a substantial shareholder of the Company and became an independent third party not connected with the Company, the directors, chief executive, substantial shareholders of the Company, or its subsidiaries or their respective associates with effect from 30th June, 2003.

Relationship with Hua Guang: As mentioned in the announcement of the Company dated 24th September, 2002 and so far as the Directors are aware of, (a) the Power Plant was jointly invested by Jia Shun and Heng Da, Hua Guang, Hua Ying and Heng Yi pursuant to a power supply agreement for the purpose of generation of electricity and steam, and (b) Hua Guang and Hua Ying are beneficially owned by Madam Lu and her spouse, Mr Feng Ming Chang. However, the Company received a letter dated 19th December, 2003 from Madam Lu to the effect that she ceased to be a substantial shareholder of the Company with effect from 30th June, 2003. Therefore, Hua Guang and Hua Ying ceased to be connected persons of the Company and became independent third parties not connected with the Company, the directors, chief executive, substantial shareholders of the Company or its subsidiaries, or their respective associates with effect from 30th June, 2003.

(I) FOLLOW-UP ON RECEIVABLES WHICH PROVISIONS HAVE BEEN MADE

The Group has adopted a positive and active approach towards the receivables which provisions have been made in the annual report and a special committee has been set up to try to recover the receivables concerned in order to minimize the loss which the Group may suffer.

CAPITAL AND FINANCE

As at 31st December, 2003, the Group's total assets amounted to HK\$690,404,000 and bank loans amounted to HK\$22,750,000 which was fully repaid in January 2004. The total value of convertible notes due in 2007 was HK\$198,800,000 and net asset value amounted to HK\$351,221,000. The gearing ratio was 32.09%.



CHAIRMAN'S STATEMENT (CONTINUED)

PROSPECT

Although the Group was severely affected by the atypical pneumonia and suspension of operation of the factories, the Directors faced the challenges in a positive manner and sought for solutions. Hotel and fibreboards and veneers businesses are back to normal in operation and production. In respect of the hotel business, since the areas near the hotel have several newly constructed facilities such as a convention and exhibition center, a sports centre and an international trade centre, management of the hotel have decided to increase business facilities of the hotel, devote more efforts to business visitors and attract business visitors with higher consumption power so as to increase revenues of the hotel. In respect of the fibreboards and veneers businesses, upon the resumption of operation of Jia Shun's timber factory, all business operation was back to normal. In addition, by leasing the plants, machineries and facilities of the nearby timber factory, glue factory and the Power Plant, the productivity of Jia Shun could be maximised. It also provides Jia Shun with other potential sources of turnover. Therefore, the Directors are confident that the fibreboards and veneers businesses will contribute more to the Group in terms of both turnover and earnings.