



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activities of the Group are manufacture and trading of fibreboards and veneers, property development and investment, raw steel and material trading, hotel operation and investment holding.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the incidences stated herein, certain financial information and accounting records were misplaced, or could not be located, or have not been properly updated.

Financial information and certain source documents of a subsidiary

The operation of Heng Da, was suspended on 17th August, 2003 due to the failure of supply of electricity and steam by the Power Plant resulting from its suspension of operations on that day and on 19th August, 2003, the bank accounts, assets, its books of accounts and part of its accounting records, including the accounting ledgers and vouchers, were seized by the Court in relation to the claim of the Claimant for a bank loan contract dated 23rd May, 2003 purportedly to be entered between Heng Da and the Claimant. The books and records seized were subsequently released and returned to Heng Da on 2nd April, 2004. The books of accounts and accounting records of Heng Da have only been maintained and updated to 31st July, 2003, 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 suspension of the operation had been misplaced or lost. The former legal representative of 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 in August 2003.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(continued)*

Financial information and certain source documents of a subsidiary *(continued)*

The Directors have used their best endeavor in preparing the financial statements from books and records of Heng Da that were available to them. Accordingly, they were unable to represent the following balances attribute to Heng Da included in the consolidated balance sheet of the Group as at 31st December, 2003 and the consolidated income statement for the year then ended are fairly stated:

- Equipment and machineries of HK\$51,954,000;
- Trade and other payables of HK\$24,710,000;
- Turnover of HK\$36,681,000;
- Cost of sales of HK\$35,001,000;
- Administrative expenses of HK\$2,641,000; and
- Finance costs of HK\$3,000.

In the absence of complete accounting records, the effects of certain transactions of the Group, namely, the turnover, cost of sales, administrative expenses, finance costs and the trade and other payables, as reflected in the financial statements cannot be satisfactorily substantiated or otherwise supported.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (the "HKFRS") issued by the HKSA, the term of HKFRS is inclusive of Statements of Standard Accounting Practice (the "SSAPs") and Interpretations approved by the HKSA:

SSAP 12 (Revised) Income taxes

The adoption of this standard had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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 amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its estimated useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

(i) Hotel properties

Hotel properties are stated in the balance sheet at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase arising on the revaluation of hotel properties is credited to the hotel property revaluation reserve except to the extent that it reverses a revaluation decrease of the same hotel property previously recognised as an expense, in which case this increase is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of a hotel property is charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that hotel property. On the subsequent sale or retirement of a revalued hotel property, the balance on the hotel property revaluation reserve attributable to that property is credited to the accumulated profits.

No depreciation is provided on hotel properties except where the unexpired term of the relevant lease is 20 years or less. It is the Group's practice to maintain the buildings in a continual state of sound repairs and to make improvements thereto from time to time and accordingly, the Directors consider that depreciation is not necessary due to their high residual value.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

(ii) *Other property, plant and equipment*

Other property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Land and buildings in Hong Kong under medium-term leases	Over the lease term
Land and buildings outside Hong Kong under medium-term leases	2.5% to 4.5% or over the lease term, if shorter
Furniture, equipment and leasehold improvements	10% to 20%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(iii) Construction in progress is stated at cost. No depreciation or amortisation is provided for construction in progress until the construction is completed and the assets are ready for their intended use. Costs of completed construction works are transferred to the appropriate categories of other property, plant and equipment.

Properties held for development

Properties held for development are stated at cost less any identified impairment loss.

Depreciation of these properties, provided on the same basis as other property, plant and equipment, commences when the assets are put into use.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has an expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Turnover

Turnover represents the gross amounts received and receivable for revenue arising on hotel operations, goods sold by the Group to outside customers, less return and allowances and gross rental income during the year.

Revenue recognition

(i) *Hotel operations*

Revenue arising from hotel operations is recognised when the relevant services are rendered.

(ii) *Sales of goods*

Sales of goods other than properties are recognised when goods are delivered and title has passed.

(iii) *Rental income*

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(iv) *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Retirement benefits scheme

Payments to defined contribution retirement scheme are charged as an expenses as they fall due.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into five operating divisions - fibreboards and veneers, hotel operations, trading, property investment and property development and trading. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Fibreboards and veneers	- manufacture and trading of fibreboards and veneers
Hotel operations	- hotel ownership and management
Property investment	- holding investment properties
Property development and trading	- holding properties held for development and properties held for sale
Trading	- trading of raw steel and material products



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Segment information about these businesses is presented below.

2003

	Fibreboards and veneers HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
REVENUE	<u>178,630</u>	<u>14,215</u>	<u>1,123</u>	<u>2,814</u>	<u>—</u>	<u>196,782</u>
RESULTS						
Segment result	<u>(87,418)</u>	<u>1,460</u>	<u>(311)</u>	<u>(11,706)</u>	<u>(521)</u>	(98,496)
Interest income						98
Net unrealized holding gain on other investments						26
Unallocated corporate expenses						<u>(59,371)</u>
Loss from operations						(157,743)
Finance costs						<u>(3,136)</u>
Loss for the year						<u>(160,879)</u>

	Fibreboards and veneers HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	159,496	170,781	501	34,374	185,769	550,921
Goodwill	103,103	—	—	—	—	103,103
Investments in securities						61
Pledged bank deposits						2,300
Bank balances and cash						31,858
Unallocated corporate assets						<u>2,161</u>
Consolidated total assets						<u>690,404</u>
LIABILITIES						
Segment liabilities	98,735	4,954	786	1,142	569	106,186
Unallocated corporate liabilities						<u>232,997</u>
Consolidated total liabilities						<u>339,183</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

OTHER INFORMATION

	Fibreboards and veneers HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	3,599	2,455	—	—	—	—	6,054
Depreciation and amortisation	13,502	1,148	979	—	—	625	16,254
Revaluation surplus	—	8,814	—	—	—	—	8,814
Provision for doubtful amounts	133,950	—	—	—	—	38,000	171,950
Impairment losses recognised in income statement	—	—	—	5,900	—	4,788	10,688

2002

	Fibreboards and veneers HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
REVENUE	104,453	26,260	46,156	3,973	—	180,842
RESULTS						
Segment result	50,120	4,339	413	(15,019)	(432)	39,421
Interest income						221
Net unrealized holding losses on other investments						(93)
Unallocated corporate expenses						(17,694)
Profit from operations						21,855
Finance costs						(3,810)
Profit for the year						18,045



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

BALANCE SHEET

	Fibreboards and veneers HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Consolidated HK\$'000
ASSETS						
Segment assets	196,014	165,969	14,231	65,177	184,380	625,771
Goodwill	108,721	—	—	—	—	108,721
Investments in securities						64
Club debenture						205
Pledged bank deposits						10,870
Bank balances and cash						47,749
Unallocated corporate assets						2,790
Consolidated total assets						<u>796,170</u>
LIABILITIES						
Segment liabilities	34,851	6,381	12,352	1,327	476	55,387
Unallocated corporate liabilities						237,516
Consolidated total liabilities						<u>292,903</u>

OTHER INFORMATION

	Fibreboards and veneers HK\$'000	Hotel operations HK\$'000	Trading HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital additions	135,317	967	10	—	—	272	136,566
Depreciation and amortisation	7,155	1,320	60	—	—	624	9,159
Revaluation deficit	—	—	—	17,900	—	—	17,900



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

The Group's fibreboards and veneers and hotel operations are located in the People's Republic of China, other than Hong Kong (the "PRC").

Property investment, development and trading operations are located in both PRC and Hong Kong.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to (loss) profit for the year	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The PRC	192,845	130,713	(86,479)	54,459
Hong Kong	3,937	50,129	(12,017)	(15,038)
	<u>196,782</u>	<u>180,842</u>	<u>(98,496)</u>	<u>39,421</u>
Interest income			98	221
Net unrealised holding gains (losses) on other investments			26	(93)
Unallocated corporate expenses			<u>(59,371)</u>	<u>(17,694)</u>
(Loss) profit from operations			<u>(157,743)</u>	<u>21,855</u>
Finance costs			<u>(3,136)</u>	<u>(3,810)</u>
(Loss) profit for the year			<u><u>(160,879)</u></u>	<u><u>18,045</u></u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The PRC	638,889	589,999	6,054	136,283
Hong Kong	51,515	206,171	—	283
	<u>690,404</u>	<u>796,170</u>	<u>6,054</u>	<u>136,566</u>

6. OTHER OPERATING INCOME

Other operating income included the following items:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Valued added tax refunded	16,212	10,942
Interest income	98	221
Net unrealised holding gains on other investments	<u>23</u>	<u>—</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

7. PROVISION FOR DOUBTFUL AMOUNTS

The Group had made the following provision for the loss which might arise in connection with 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, Nanhai Jia Shun Timber Company Limited ("Jia Shun) and Heng Da (the "First Alleged Claims") and other relevant parties' ability to pay:

	THE GROUP
	2003
	HK\$'000
Provision for prepayments of Jia Shun and Heng Da to suppliers of raw materials (note i):	45,634
Provision for trade receivables of Jia Shun and Heng Da (note ii):	35,709
Provision for amount owing to Jia Shun by an independent third party (note iii):	28,929
Provision for construction materials of Heng Da lent to town government (note iv):	17,552
Provision for stock of Jia Shun (note v):	1,024
Provision for stock of Heng Da (note vi):	3,750
Provision for other receivables of Heng Da (note vii):	1,352
Provision for loss in litigation of the First Alleged Claims (note viii):	38,000
	<u>171,950</u>

Notes :

- (i) The prepayments were mainly made to the suppliers, independent third parties to the Company, of wood and glue. Jia Shun had contracts with the two suppliers who promised to supply the materials at contract prices. At that time, the management foresaw that the prices for the wood and glue were on an upward trend and the contract prices were much lower than those from the market, accordingly the management of Jia Shun and Heng Da agreed to make prepayments to the suppliers in order to ensure that the supplies of wood and glue were uninterrupted and at the contracted prices. The contracts were already in place when the Company acquired Jia Shun from the previous owner. In August 2003, Jia Shun found that the relevant suppliers had ceased operations and was unable to contact the management of these suppliers. As such, there was uncertainty on the recoverability of the prepayments. Full amount of the prepayments to the two suppliers as at 31st December, 2003 had, therefore, been provided.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

7. PROVISION FOR DOUBTFUL AMOUNTS *(continued)*

Notes : *(continued)*

- (ii) Trade receivables arose from the normal sale transactions. The sales were evidenced by the sales invoices but there were no agreements with the buyers. Since the operations of Jia Shun and Heng Da were suspended and with the departure of their previous sales team, the new sales team has difficulties in recovering the outstanding balances recorded in the books of Jia Shun and Heng Da. However, the customers claimed that the outstanding balances had all been paid. The management is trying to get in touch with respective persons to verify the claims of these customers. There was uncertainty on the recoverability of these receivables. Full amount of the trade receivables as at 31st December, 2003 was therefore provided.
- (iii) There was no agreement for the amount owing to Jia Shun by Nanhai Investment Management Company Limited ("Nanhai Investment"), an independent third party, however, the amount was evidenced by a bank deposit slip. The transaction was instructed by the former director of Jia Shun, Mr. Sun Pak Fun, and the Directors cannot get in touch with Mr. Sun Pak Fun. The management will continue to contact Mr. Sun Pak Fun to obtain the reason of the transaction. Since the management of Jia Shun could not get in touch with the responsible person of Nanhai Investment and could not obtain a written confirmation, there was uncertainty on the recoverability of the amount. Full amount of the loan as at 31st December, 2003 had, therefore, been provided.
- (iv) The former owner of Shi Men Properties Limited, a subsidiary of the Company, planned to purchase land and build a factory for Heng Da, therefore he had stocked up certain construction materials. When the Company took control of Heng Da, the management of the Company preferred to lease a factory premises to house Heng Da's operation rather than build one of their own in order that Heng Da could commence operation in a shorter time. In view that losses could result if the construction materials were left to weathering, and that the Shatou town government, who at that time, happened to be in need of construction materials for infrastructure in the town, Heng Da's directors decided to lend the materials to the town government. Heng Da had an agreement dated 8th August, 2002 which was renewed for a further term of six months on 7th February, 2003 with the Shatou town government to lend the construction material to it. During the 2002 annual audit, the responsible person from the Shatou town government signed and returned to Heng Da an audit confirmation regarding the lending of the construction materials to it. During the 2003 annual audit, the responsible person from the town government could no longer be contacted nor was a confirmation obtained in relation to the lending of the construction materials to the Shatou town government. Under the circumstances, there was uncertainty on the recoverability of the materials and full amount of the materials as at 31st December, 2003 had been provided.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

7. PROVISION FOR DOUBTFUL AMOUNTS *(continued)*

Notes : *(continued)*

- (v) In August 2003, Jia Shun ran out of space for keeping their stock, therefore, they borrowed the warehouse of Nanhai Heng Yi Timber Company Limited (“Heng Yi”) to store their finished goods. The amount provided being the stock placed in the warehouse of Heng Yi at the time of the suspension of operation. When the Court froze the assets of Heng Yi, they also froze the finished goods of Jia Shun as they took those to be the stock of Heng Yi. Jia Shun was unable to retrieve these stocks and, therefore, the full amount had been provided.
- (vi) The amount being the stock of Heng Da as at 30th June, 2003, where physical stock count had been performed. The management had not been able to locate these stock during the stock count as at 31st December, 2003 which were probably taken over by the Court when they froze the assets of Heng Da, therefore, full amount had been provided.
- (vii) The amount being other receivables such as payment for purchasing machineries and spare parts. With the departure of the former management team and accounting personnel, the existing management could not readily locate the suppliers and to confirm the balances during the annual audit for the year ended 31st December, 2003. However, the current management is trying to get in touch with respective persons to verify the balances with these suppliers. There was uncertainty on the recoverability of these receivables, full amount of these prepayments had, therefore, been provided.
- (viii) The amount was alleged to have been lent to Heng Da by the Claimant. Although the Directors have never approved the entering into of the bank loan contract and the guarantee as mentioned in the First Alleged Claims and Jia Shun and Heng Da are defending against the Claimant in the Court vigorously, there is still a possibility that Jia Shun and Heng Da will have to bear the amount. Full value of the amount claimed as at 31st December, 2003 had therefore been provided.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

8. (LOSS) PROFIT FROM OPERATIONS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	800	1,077
Amortisation of goodwill (included in other operating expenses)	5,618	3,862
Depreciation of property, plant and equipment	9,177	5,297
Staff costs (including directors' remuneration)	23,163	16,701
Unrealised holding (gains) losses on other investments	(23)	93
Loss on disposal of property, plant and equipment	609	14
Net foreign exchange losses (gains)	112	(164)
	<u> </u>	<u> </u>

9. FINANCE COSTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest on convertible notes	1,988	1,493
Interest on bank borrowings wholly repayable within five years	1,148	2,396
	<u> </u>	<u> </u>
Total borrowing costs	3,136	3,889
Less: Amount capitalized	—	(79)
	<u> </u>	<u> </u>
	<u>3,136</u>	<u>3,810</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

The aggregate emoluments of the Directors of the Company are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive Directors	—	—
Independent Non-Executive Directors	200	200
	<u>200</u>	<u>200</u>
Other emoluments (Executive Directors):		
Salaries and other benefits	3,823	4,113
Retirement benefits scheme contributions	125	136
	<u>3,948</u>	<u>4,249</u>
	<u>4,148</u>	<u>4,449</u>

The emoluments of the Directors were within the following bands:

	Number of Directors	
	2003	2002
Nil - HK\$1,000,000	4	3
HK\$1,000,001 - HK\$1,500,000	2	3
	<u>2</u>	<u>3</u>

No Directors waived any emoluments for both years.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

b. Employees' emoluments

During the year, the five highest paid individuals included four Directors (2002: four Directors), details of whose emoluments are set out above. In order to preserve the confidentiality of the specific individual's salary, the aggregate for top two individuals had been disclosed. The emoluments of the two individuals (2002: one individual) were as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	607	445
Retirement benefits scheme contributions	27	12
	<u>634</u>	<u>457</u>

11. RETIREMENT BENEFITS SCHEME

The Group contributes to a defined contribution retirement benefits scheme which is available to Hong Kong permanent employees. This retirement benefits scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement benefits scheme for each year are based on a percentage of the eligible employees' salaries and are charged to the income statement as incurred. The total contribution to the scheme amounted to HK\$167,000 (2002: HK\$169,000) for the year and has been charged to the income statement. Forfeited employer contributions in respect of former employees before vesting period from the staff retirement scheme may be used by the Group to reduce its ongoing employer contributions. The forfeited contributions utilised during the year amounted to HK\$41,000 (2002: HK\$97,000).

At the balance sheet date, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

11. RETIREMENT BENEFITS SCHEME *(continued)*

Since the introduction of the Mandatory Provident Fund (“MPF”) Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bankers’ Consortium effective 1st December, 2001 to provide an MPF Scheme to all employees.

The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the income statement amounted to HK\$43,000 (2002: HK\$51,000).

12. 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 both years according to the PRC tax regulations. One of the Group’s PRC subsidiary is in tax holiday and is exempted from PRC enterprise income tax for the first two years starting from its first profit-making year followed by a 50% reduction for the next three years.

The tax credit for the year can be reconciled to the (loss) profit for the year per the consolidated income statement as follows:

	2003 HK\$’000	2002 HK\$’000
(Loss) profit for the year	<u>(160,879)</u>	<u>18,045</u>
Tax at the domestic income tax rate of 17.5% (2002: 16%)	(28,154)	2,887
Tax effect of non deductible expenses	35,516	5,861
Tax effect of non taxable revenue	(15)	(76)
Effect of tax exemptions granted to PRC subsidiaries	(8,517)	(9,332)
Tax effect of tax loss for the year	<u>1,170</u>	<u>660</u>
Tax effect for the year	<u>—</u>	<u>—</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

12. TAXATION *(continued)*

At the balance sheet date, the Group has unused estimated tax losses of HK\$14,412,000 (2002: HK\$13,215,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

The revaluation surplus for the year (2002: deficit) arising on the revaluation of properties of the Group does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation surplus (2002: deficit) relating to properties.

13. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the year of HK\$160,879,000 (2002: a gain of HK\$18,045,000) and on the weighted average number of 914,995,817 ordinary shares (2002: 783,482,109 ordinary shares) in issue during the year.

The computation of diluted earnings per share for the year does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in an increase in net profit per share from continuing ordinary operations for the year.

The computations of diluted earnings per share for both 2002 and 2003 do not assume the exercise of the Company's share options because the exercise price of the Company's share option is higher than the average market price per share for both years.

The calculation of the diluted earnings per share for the year ended 31st December, 2002 is based on the adjusted profit for that year of HK\$19,336,000 after adjusting for the effect of dilutive potential ordinary shares of the convertible notes of HK\$1,291,000, and on the weighted average number of 1,261,570,390 ordinary shares.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

14. INVESTMENT PROPERTIES

	In the PRC held under medium-term leases HK\$'000	In Hong Kong held under medium-term leases HK\$'000	Total HK\$'000
THE GROUP			
VALUATION			
As at 1st January, 2003	900	63,700	64,600
Impairment loss	—	(5,900)	(5,900)
Reclassified to property held for sale	—	(24,100)	(24,100)
Disposal	—	(23,500)	(23,500)
	<u>900</u>	<u>10,200</u>	<u>11,100</u>
As at 31st December, 2003	<u>900</u>	<u>10,200</u>	<u>11,100</u>

Investment properties were revalued at their open market value at 31st December, 2003 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation deficit of HK\$Nil (2002: HK\$17,900,000), which has been charged to the consolidation income statement.

All of the Group's investment properties are rented out under operating leases.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties in the PRC held under medium- term leases HK\$'000	Land and buildings HK\$'000	Furniture, equipment and leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st January, 2003	155,000	47,748	17,900	90,486	2,680	11,493	325,307
Additions	—	—	94	5,079	—	2,367	7,540
Transfer	1,186	—	816	11,858	—	(13,860)	—
Disposals and write off	—	(2,597)	(996)	(27)	(454)	—	(4,074)
Surplus on valuation	8,814	—	—	—	—	—	8,814
Exchange realignment	—	39	—	167	15	—	221
At 31st December, 2003	165,000	45,190	17,814	107,563	2,241	—	337,808
Comprising:							
At cost	—	45,190	17,814	107,563	2,241	—	172,808
At valuation - 2003	165,000	—	—	—	—	—	165,000
	165,000	45,190	17,814	107,563	2,241	—	337,808
DEPRECIATION							
At 1st January, 2003	—	2,824	12,216	12,722	2,324	—	30,086
Provided for the year	—	1,420	1,475	7,639	102	—	10,636
Impairment loss recognised in the income statement	—	—	3,732	1,056	—	—	4,788
Eliminated on disposals and write off	—	(138)	(926)	(27)	(419)	—	(1,510)
Exchange realignment	—	27	—	167	8	—	202
At 31st December, 2003	—	4,133	16,497	21,557	2,015	—	44,202
NET BOOK VALUES							
At 31st December, 2003	165,000	41,057	1,317	86,006	226	—	293,606
At 31st December, 2002	155,000	44,924	5,684	77,764	356	11,493	295,221



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31st December, 2003 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. There was no revaluation surplus or deficit arising from the revaluation as at 31st December, 2003.

If hotel properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$163,035,000 (2002: HK\$161,849,000).

The net book value of land and buildings shown above comprises:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
In Hong Kong held under medium-term leases	—	2,459
In the PRC held under medium-term leases	41,057	42,465
	<u>41,057</u>	<u>44,924</u>

Included in construction in progress is interest capitalised of HK\$Nil (2002: 79,000).

16. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP
	In the PRC held
	under long leases
	2003 & 2002
	HK\$'000
Cost	199,267
Less: Impairment loss	(119,267)
	<u>80,000</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

17. GOODWILL

	THE GROUP HK\$'000
COST	
At 1st January, 2003 and 31st December, 2003	112,583
AMORTISATION	
At 1st January, 2003	3,862
Charge for the year	5,618
At 31st December, 2003	9,480
NET BOOK VALUE	
At 31st December, 2003	103,103
At 31st December, 2002	108,721

The goodwill is arising on acquisition of subsidiaries during 2002. The amortisation period adopted for the goodwill is 20 years.

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,096,607	1,096,607
Less: Impairment loss	(1,073,000)	(1,073,000)
	<u>23,607</u>	<u>23,607</u>

Particulars of the Company's principal subsidiaries as at 31st December, 2003 are set out in note 35.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

19. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP						
Listed shares in Hong Kong	—	—	60	63	60	63
Overseas debt securities	1	1	—	—	1	1
	<u>1</u>	<u>1</u>	<u>60</u>	<u>63</u>	<u>61</u>	<u>64</u>
Market value of listed shares	<u>—</u>	<u>—</u>	<u>60</u>	<u>63</u>	<u>60</u>	<u>63</u>
Carrying amount analysed for reporting purposes as:						
Current	1	—	60	63	61	63
Non-current	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1</u>
	<u>1</u>	<u>1</u>	<u>60</u>	<u>63</u>	<u>61</u>	<u>64</u>

20. OTHER RECEIVABLE

THE GROUP

In 2002, amount represents construction materials purchased for construction of a factory building but subsequently lent to town government of the PRC.

21. PROPERTIES HELD FOR SALE

THE GROUP

Properties held for sale are stated at net realisable value.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

22. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Fibreboards and veneers		
Raw materials	18,110	18,368
Work in progress	3,354	611
Finished goods	3,573	2,145
	<u>25,037</u>	<u>21,124</u>
Food, beverages and hotel supplies	1,444	1,522
	<u>26,481</u>	<u>22,646</u>

23. 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 balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 - 60 days	4,146	27,123
61 - 90 days	527	933
91 - 120 days	291	513
> 120 days	1,276	2,345
	<u>6,240</u>	<u>30,914</u>
Trade receivables	6,240	30,914
Other receivables	6,955	13,028
	<u>13,195</u>	<u>43,942</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

24. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 - 60 days	5,548	11,952
61 - 90 days	4,151	982
91 - 120 days	4,948	450
> 120 days	806	210
	<hr/>	<hr/>
Trade payables	15,453	13,594
Other payables	61,634	39,116
	<hr/>	<hr/>
	77,087	52,710
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Secured bank loans	22,750	37,890	22,750	29,250
Secured bank overdraft	—	957	—	—
	<u>22,750</u>	<u>38,847</u>	<u>22,750</u>	<u>29,250</u>
The maturity of the bank borrowings is as follows:				
Within one year or on demand	6,500	16,097	6,500	6,500
More than one year but not exceeding two years	6,500	6,500	6,500	6,500
More than two years but not exceeding five years	9,750	16,250	9,750	16,250
	<u>22,750</u>	<u>38,847</u>	<u>22,750</u>	<u>29,250</u>
Less: Amount due within one year shown under current liabilities	<u>(6,500)</u>	<u>(16,097)</u>	<u>(6,500)</u>	<u>(6,500)</u>
Amount due after one year	<u>16,250</u>	<u>22,750</u>	<u>16,250</u>	<u>22,750</u>

The secured bank loans bear interest at market rates. The secured bank loans amounting to HK\$16,250,000 (2002: HK\$22,750,000) are repayable in instalments over a period of 3.5 years (2002: 4.5 years) and the remaining secured bank loans of HK\$6,500,000 (2002: HK\$15,140,000) are repayable within one year.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

26. SHARE CAPITAL

	Number of shares		Nominal value	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the year	3,000,000,000	1,000,000,000	300,000	100,000
Increase during the year	—	2,000,000,000	—	200,000
At end of the 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 year	914,995,817	666,200,219	91,500	66,620
Rights issue of shares	—	133,240,043	—	13,324
Conversion of convertible notes	—	115,555,555	—	11,556
At end of the 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 order to strengthen the equity base of the Group and to secure additional cash resources for the business development of the Group, the Company carried out rights issue of 133,240,043 ordinary shares of HK\$0.10 each for a consideration of HK\$0.21 per share. These rights shares were issued in April 2002 to the existing shareholders on the basis of one rights share for every five shares then held. These 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.

On 11th December, 2002, 115,555,555 ordinary shares of HK\$0.10 each were converted by the holders of convertible notes at conversion price of HK\$0.27 per share. Details of the conversion of convertible note were disclosed in note 28.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

27. SHARE OPTION SCHEMES

The share option scheme which was adopted by the Company on 28th June, 1994 (“Old Scheme”) was originally due to expire on 28th June, 2004. As a result of certain changes to the Rules Governing The Listing of Securities on the Stock Exchange (“Listing Rules”) in 2001, the Board proposed and the shareholders in general meeting approved on 20th May, 2003 early termination of the Old Scheme and adoption of a new share option scheme (the “Scheme”). After termination of the Old Scheme, no more option can be granted pursuant to the Old Scheme. During the year, no options was granted, exercised or cancelled under the Old Scheme. At 31st December, 2003, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 23,500,000, representing 2.57% of the shares of the Company in issue at that day.

The primary purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Director(s), and business associates of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the Scheme without prior approval from the Company’s shareholders.

An option is deemed to have been granted and accepted by the grantee on the date of offer upon his or her signing the duplicate letter comprising acceptance of the option and paying HK\$1 by way of consideration for the grant thereof within 28 days from the date of offer. Options may be exercised at any time for two years commencing on the expiry of one month after the date the options are granted and shall be expired on the last day of the two years period granted. The subscription price of the option shares shall be a price to be determined by the Directors of the Company, being at least the higher of (i) the closing price of the ordinary shares of the Company as stated in the Stock Exchange’s daily quotations sheet on the date of offer of the option, (ii) a price being the average of the closing prices of the ordinary shares of the Company as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of the offer of the option and (iii) the nominal value of the ordinary shares of the Company.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

27. SHARE OPTION SCHEMES (continued)

The maximum entitlement for any one participant is that the total number of ordinary shares of the Company issued and to be issued upon exercise of the options granted to such participant under the Scheme and any other option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1 per cent. of the total number of ordinary shares of the Company in issue.

The Scheme is for a term of 10 years from the date of adoption and will be expired on 20th May, 2013. No option has been granted since the adoption of the Scheme.

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

2003

	Date of option granted	Exercise period	Exercise price HK\$	Outstanding at 1st January, 2003	Lapsed during the year	Outstanding at 31st December, 2003
Directors						
Mr. Leung Siu Fai	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	5,000,000	—	5,000,000
Mr. Kam Hung Chung	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	5,000,000	—	5,000,000
Former Directors						
Mr. Sun Pak Fun	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	5,000,000	—	5,000,000
Mr. He Yongwen	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	5,000,000	5,000,000	—
Total for directors				<u>20,000,000</u>	<u>5,000,000</u>	<u>15,000,000</u>
Employees	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	9,500,000	1,000,000	8,500,000
Total				<u>29,500,000</u>	<u>6,000,000</u>	<u>23,500,000</u>



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

27. SHARE OPTION SCHEMES (continued)

2002

	Date of option granted	Exercise period	Exercise Price HK\$	Outstanding at 1st January, 2002	Granted during the year	Outstanding at 31st December, 2002
Directors						
Mr. Leung Siu Fai	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	—	5,000,000	5,000,000
Mr. Kam Hung Chung	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	—	5,000,000	5,000,000
Former Directors						
Mr. Sun Pak Fun	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	—	5,000,000	5,000,000
Mr. He Yongwen	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	—	5,000,000	5,000,000
Total for directors				—	20,000,000	20,000,000
Employees	12th August, 2002	15th September, 2002 - 27th June, 2004	0.347	—	9,500,000	9,500,000
Total				—	29,500,000	29,500,000

No share options were exercised during the year.

No charge is recognised in the income statement in respect of the value of options granted in the year (2002: Nil).



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

28. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
At 1st January	198,800	—
Issue of convertible notes	—	230,000
Conversion of convertible notes	—	(31,200)
At 31st December	<u>198,800</u>	<u>198,800</u>

On 9th May, 2002, the Group issued HK\$230,000,000 convertible notes (the "Notes") which are due on 9th May, 2007 (the "Maturity Date"), bear interest at 1% per annum and in units of HK\$1,000,000 each. The Notes are convertible at the discretion of the holders of the Notes, at any time upon the expiry of 6 months from the date of issue of the Notes up to and including its Maturity Date in whole or in part into shares of HK\$0.10 each in the Company at an initial conversion price of HK\$0.27 per share, subject to adjustment.

During the year, HK\$Nil (2002: HK\$31,200,000) Notes were converted into shares of the Company at conversion price of HK\$0.27 per share.

The Company shall repay such principal moneys outstanding under the Notes to the holders of the Notes on the Maturity Date together with all interest accrued thereon up to and including the maturity date.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

29. CONTINGENT LIABILITIES

a. Bank guarantees

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given for banking facilities made available to a subsidiary	—	—	—	6,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At the balance sheet date, the extent of banking facilities utilised by the subsidiary amounted to approximately HK\$Nil (2002: HK\$910,000).

- b. On 16th January, 2004, Jia Shun and Heng Da both received summons issued by the Court regarding a bank loan contract dated 23rd May, 2003 was entered into between Heng Yi, an independent third party, as borrower and the Claimant as lender in relation to a loan facility in a sum of RMB40 million (equivalent to approximately HK\$38 million) and that the Claimant has advanced such loan to Heng Yi. The summons also included a guarantee dated 23rd May, 2003 entered into by, among others, Jia Shun, Heng Da and Hua Guang in favour of the Claimant in relation to such loan (the "Claims"). As the operations of Hua Guang were suspended and Hua Guang was one of 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.

We have not been able to obtain direct confirmations in respect of the amount of bank guarantees. Accordingly, we have been unable to satisfy ourselves as to whether the contingent liabilities had been properly disclosed in the financial statements.

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

- (i) without the knowledge of 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 Heng Da and Jia Shun, and the name chop of Mr. Sun Pak Fun, the then legal person representative and chairman of board of directors of Jia Shun and Heng Da, were affixed to the aforesaid guarantees;



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

29. CONTINGENT LIABILITIES *(continued)*

- (ii) neither Jia Shun nor Heng Da had any record recording any details of the aforesaid guarantees; and
- (iii) the claims were suspected to involve criminal offence.

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

- c. The Group had a maximum contingent consideration of HK\$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage. However, as the vendor being uncontactable, the Directors have been unable to ascertain whether this amount has been properly dealt with, which will become payable, among others, when the consolidated net profit of Can Manage and its subsidiary, namely Jia Shun, achieved an amount of HK\$80,000,000. However, the operation of Jia Shun was suspended during the period from 17th August, 2003 to 10th October, 2003 due to there was a failure in the supply of electricity and steam from the power plant operated under the power supply agreement and a court order dated 19th August, 2003 to freeze Jia Shun's assets in relation to an alleged claim from the Shenzhen Development Bank Foshan Branch. In addition, the production facilities were substantially different from those prior to the suspension. In view of all the above incidences, couple with the fact that the vendor was not contactable up to the date of this report, the directors could not reasonably ascertain the amount of contingent consideration, if any, which has to be paid to the vendor.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

30. OPERATING LEASE ARRANGEMENTS

	The Group as lessee	
	2003	2002
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	1,434	—
Premises	1,190	1,348
	<u>2,624</u>	<u>1,348</u>

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises and plant and machinery, which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	22,935	1,854
In the second to fifth year inclusive	38,699	1,948
	<u>61,634</u>	<u>3,802</u>

Operating lease payments represent rentals payable by the Group for its office premises and plant and machinery. Leases are negotiated for an average terms of 3 years to 4 years, respectively.



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For the Year Ended 31st December, 2003

30. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor

The Group's property rental income earned during the year was approximately HK\$2,814,000 (2002: HK\$3,974,000). All of the properties held have committed tenants for the next 2 years.

At the balance date, the Group had contracted with tenants for the following future minimum lease payments:

	2003 HK\$'000	2002 HK\$'000
Within one year	888	1,239
In the second to fifth year inclusive	322	472
	<u>1,210</u>	<u>1,711</u>

31. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>19</u>	<u>2,194</u>
Capital expenditure in respect of the acquisition of property, plant and equipment authorized but not contracted for	<u>283</u>	<u>—</u>

The Company had no capital commitments outstanding as at 31st December, 2003 and 2002.



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For the Year Ended 31st December, 2003

32. PLEDGE OF ASSETS

At 31st December, 2003, the Group's investment properties, properties held for sale and bank deposits and all accrued interest thereon amounting to approximately HK\$Nil (2002: HK\$53,500,000), HK\$24,100,000 (2002: HK\$Nil) and HK\$2,300,000 (2002: HK\$10,870,000), respectively, were pledged to secure general banking facilities.

33. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet date, 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.

Subsequent to the balance sheet date, the Group completed the sale and purchase agreement entered into with an independent third party for the disposal of the whole block of Wah Ying Building located at Queen's Road West at a consideration of HK\$24,100,000.

34. RELATED PARTY TRANSACTIONS AND BALANCE

During the financial year of the Company ended 31st December, 2003, the Group entered into the following transactions, in which Ms. Lu Biru, a then substantial shareholder of the Company, has a beneficial interest. Ms. Lu Biru ceased to be a substantial shareholder of the Company effective from 30th June, 2003. Therefore, the transactions for notes (1) to (3) ceased to be related party transactions effective from 30th June, 2003:

- (1) From 1st January, 2003 to 30th June, 2003 (date when Ms. Lu Biru ceased to be a substantial shareholder of the Company) (the "Period"), the Group paid rental expenses amounted to HK\$553,000 (2002: HK\$1,106,000) to World Shine Enterprises Limited, in which Ms. Lu Biru has a beneficial interest.



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

34. RELATED PARTY TRANSACTIONS AND BALANCE *(continued)*

- (2) Two subsidiaries of the Group, Jia Shun and Heng Da 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"), Heng Yi 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 these 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 for the Period was HK\$13,000,000 (2002: HK\$11,798,000). Ms. Lu Biru, a substantial shareholder of the Company during the Period, 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 was responsible for the supply of land, the building of the Power Plant and its related ancillary facilities at its own expenses. Depreciation of HK\$311,000 (2002: HK\$401,000) for the Period was recorded in the books of Jia Shun.

Jia Shun and Heng Da were 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 amounted to HK\$368,000 (2002: HK\$468,000).

Heng Da was responsible for the procurement and installation of 1 boiler of 50 tonnes at its own expenses and such fixed assets belong to Heng Da with the related depreciation being borne by Heng Da. Depreciation of HK\$170,000 (2002: HK\$ Nil) for the Period was recorded in Heng Da.

Heng Da was 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. The repair and maintenance expenses borne by Heng Da for the Period was HK\$272,000 (2002: HK\$ Nil).



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For the Year Ended 31st December, 2003

34. RELATED PARTY TRANSACTIONS AND BALANCE (*continued*)

- (3) On 24th September, 2002, the Group entered into a tenancy agreement with Mr. Feng Ming Chang (“Mr. Feng”), the 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 for the Period amounted to HK\$594,000 (2002: HK\$207,000).
- (4) Included in trade and other payables is HK\$Nil (2002: 112,000) due to Hua Guang. The amount is unsecured, non-interest bearing and repayable on demand.

35. PRINCIPAL SUBSIDIARIES

Particulars of the Company’s principal subsidiaries at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued and fully paid ordinary share capital/registered capital	Percentage held	Principal activity
<i>Direct subsidiary</i>				
China Investments Limited	Hong Kong	HK\$1,000	100	Investment holding
<i>Indirect subsidiaries</i>				
Airlane Development Limited	Hong Kong	HK\$2	100	Property trading
Barmax Development Limited	Hong Kong	HK\$2	100	Property trading
Botex Development Limited	Hong Kong	HK\$2	100	Property trading
Centon Development Limited	Hong Kong	HK\$2	100	Property trading
Charland Investment Limited	Hong Kong	HK\$2	100	Property trading
China Alliance Industries Limited	Hong Kong	HK\$2	100	Property trading
Cyro Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	Investment holding
Expert Target Development Limited	Hong Kong	HK\$2	100	Property trading
Fairwind International Limited	Hong Kong	HK\$2	100	Property development
Greenswood Property Limited	Hong Kong	HK\$2	100	Property investment



NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st December, 2003

35. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
<i>Indirect subsidiaries (continued)</i>				
Guilin Li-Feng Real Estate Company Ltd. (Note 1)	PRC	RMB8,459,827	100	Property development
Guilin Plaza Hotel (formerly known as Guilin Sight-Seeing Hotel Company Limited) (Note 2)	PRC	RMB14,500,000	100	Hotel operations
Nanhai Heng Da Timber Company Limited 南海亨達木業有限公司 (Note 2)	PRC	RMB40,789,076	100	Manufacturing and trading of veneers
Jofra Company Limited	Hong Kong	HK\$1,000	100	Investment holding
Nanhai Jia Shun Timber Company Limited 南海佳順木業有限公司 (Note 2)	PRC	RMB39,800,000	100	Manufacturing and trading of mediumdensity fibreboards
Kawan (HK) Trading Company Limited	Hong Kong	HK\$4,000,000	100	Trading of steels and other materials
Langmax Investment Limited	Hong Kong	HK\$2	100	Property trading
Lina Development Limited	Hong Kong	HK\$2	100	Property trading
Metropolitan Development Limited	Hong Kong	HK\$2	100	Property trading
Rich Asset Development Limited	Hong Kong	HK\$2	100	Property trading
Rich Horn Development Limited	Hong Kong	HK\$2	100	Property trading
Senicon Investment Limited	Hong Kong	HK\$2	100	Property trading
Sino Sense Development Limited	Hong Kong	HK\$2	100	Property trading
Skyway Limited	Hong Kong	HK\$2	100	Property development



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35. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
<i>Indirect subsidiaries (continued)</i>				
Tremendous World Property Limited	Hong Kong	HK\$2	100	Property investment
Trener Investment Limited	Hong Kong	HK\$2	100	Property trading
Universal Talent Development Limited	Hong Kong	HK\$2	100	Property trading
Wen Ying Investments Limited	Hong Kong	HK\$100	100	Property development
Wise Lite Limited	Hong Kong	HK\$2	100	Property development

Notes:

1. This is a sino-foreign co-operative joint venture.
2. This is a wholly foreign owned enterprise.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.