Financial review

Group's financial results:

Operating results and ratios	Notes	Year ended 31 December 2003 HK$ million	2002 HK$ million	Increase/ (decrease) %
Turnover	1	**24.5**	24.0	2.1
Net loss attributable to shareholders	2	**52.0**	15.2	242.1
Loss per share		**HK(1.58 cents)**	HK(0.56 cent)	
Gross loss margin *1	3	**66.8%**	18.9%	
Stock turnover *2		**6.8 times**	5.1 times	

Financial position and ratios	Notes	31 December 2003 HK$ million	2002 HK$ million	Increase/ (decrease) %
Cash & bank balances		**1,100.2**	1,123.5	(2.1)
Total assets		**1,230.0**	1,252.4	(1.8)
Shareholders' equity		**1,170.5**	1,222.5	(4.3)
Current ratio *3	4	**23.8 times**	62.8 times	
Total liabilities to total capital *4	5	**4.8%**	2.4%	

*1 gross loss / turnover x 100%
*2 cost of sales / (opening stock + closing stock) / 2
*3 current assets / current liabilities
*4 liabilities / (shareholders' equity + liabilities) x 100%

Notes:

1. There was no improvement to the revenue because:
   (a) the normal production was only resumed in the 2nd quarter,
   (b) there was sudden outbreak of SARS in the same period, and
   (c) the aggressive market competition in plywood products still persists.
2. The increase of loss was mainly due to:
   (a) the substantial increase in the depreciation provided for new production lines,
   (b) the professional fees incurred in respect of a potential investment project but aborted by the Group in the year, which was intended to be capitalized in the investment cost, and
   (c) the provision for impairment on the machineries and equipments.
3. The greater loss margin was caused by:
   (a) the substantial increase in the depreciation provided for new production lines,
   (b) the significant increase in the price of imported raw materials, and
   (c) the inability to attain the economies of scale.
4. The decrease was mainly due to:
   (a) the additional accrued professional fees incurred in respect of new potential investment projects, and
   (b) the new secured bank loan.
5. The gearing was sustained at healthy level.

Financial review (continued)

During the year, the Group put the focus on the production of veneer and plywood. The Directors expect that the timber industry will pick up gradually this year.

On 31 March 2004, the Group completed the acquisition of a number of interests in the natural resources and commodities projects in Australia (the "Acquisition"). The Directors are of the view that it would be in the interests of the Group to diversify its business interests into other natural resources to supplement the existing plywood manufacturing and sale business. The Acquisition is consistent with the Group's long-term business objectives and policies and is being implemented for the purpose of enhancing the Group's long-term prospects.

It is expected that the Acquisition will enhance the future earnings potential of the Group, which the Directors believe will strengthen the financial position of the Group as a whole.

Liquidity and financial resources

As at 31 December 2003, the Group had, excluding the pledged bank deposits, cash balance of HK$1,100.2 million. On the other hand, the Group had bank loans of HK$20.7 million, of which HK$13.7 million was secured by the Group's pledged bank deposits of HK$20.4 million and the corporate guarantee provided by the parent company of the subsidiary which borrowed such bank loan. The gearing ratio of the Group was 4.8%.

The exposure to foreign exchange rate fluctuations of the Group was not significant as it derived its revenue mainly in Renminbi. However, the Acquisition may create new exposures in foreign exchange to the Group. Currently, those newly acquired Australian companies are adopting a specific hedging policy to cope with the exposures in foreign exchange, interest rate and commodity price fluctuation, which allows them to set off the foreign exchange liabilities against the sales that were denominated in foreign currency. So far, the hedging policy has been proved effective.

In February 2004, the Group completed a placing and subscription of 270,000,000 shares of the Company, resulting that the Group's ability to make investments and acquisitions was enhanced by a total cash consideration, before expenses, of about HK$391.5 million. In March 2004, the consideration of US$139.5 million (about HK$1,088.1 million) paid for the Acquisition was satisfied through the allotment and issue of new shares of the Company and that the cash resources of the Group was kept intact. Those Australian companies have been predominantly self sustaining in terms of cashflow requirements. As a whole, the Directors are of the view that there is sufficient cash to satisfy the working capital needs and other financing requirements.

Employees and remuneration policies

As at 31 December 2003, the Group had around 500 full time employees, including the management and administrative staff and the production workers. Most of them station in the People's Republic of China (the "PRC") while the remaining in Hong Kong.

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