

Report of the directors

(Expressed in HK\$'000)

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2003.

Principal activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plywood. There were no changes in the nature of the Group's principal activities during the year.

Segment information

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2003 is set out in note 4 to the financial statements.

Results and dividends

The Group's loss for the year ended 31 December 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 22 to 52.

The directors do not recommend the payment of any dividend in respect of the year.

Summary financial information

A summary of the results and of the assets, liabilities and minority interests of the Group, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

Results

	2003	Year ended 31 December		Period ended 31 December	
		2002	2001	2000	1999
Turnover	24,535	24,003	52,753	58,451	303,654
Profit/(loss) before tax	(52,005)	(15,217)	(10,244)	23,888	(400,012)
Tax	-	-	-	17,183	-
Profit/(loss) before minority interests	(52,005)	(15,217)	(10,244)	41,071	(400,012)
Minority interests	-	-	-	153	555
Net profit/(loss) attributable to shareholders	(52,005)	(15,217)	(10,244)	41,224	(399,457)

Summary financial information (continued)

Assets, liabilities and minority interests

	2003	31 December			
		2002	2001	2000	1999
Fixed assets	91,532	107,959	114,703	116,381	127,998
Prepayments	3,238	12,582	–	–	–
Long term investments	–	–	–	9,431	10,998
Current assets	<u>1,135,268</u>	<u>1,131,845</u>	<u>1,166,501</u>	<u>34,703</u>	<u>53,372</u>
Total assets	<u>1,230,038</u>	<u>1,252,386</u>	<u>1,281,204</u>	<u>160,515</u>	<u>192,368</u>
Current liabilities	47,686	18,029	1,029,894	32,662	220,123
Long term bank and other loans	<u>11,862</u>	<u>11,862</u>	<u>11,699</u>	<u>23,462</u>	<u>40,451</u>
Total liabilities	<u>59,548</u>	<u>29,891</u>	<u>1,041,593</u>	<u>56,124</u>	<u>260,574</u>
Minority interests	–	–	–	–	<u>4,257</u>
	<u>1,170,490</u>	<u>1,222,495</u>	<u>239,611</u>	<u>104,391</u>	<u>(72,463)</u>

Fixed assets

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

Share capital

There were no movements in either the Company's authorised or issued share capital during the year.

Pre-emptive rights

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the directors

Distributable reserves

As at 31 December 2003, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay off its debts as and when they fall due. The Company's share premium account, with a balance of HK\$1,200,879,000 as at 31 December 2003, may be distributed in the form of fully paid bonus shares.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$193,000 (2002: HK\$1,066,000).

Major customers and major suppliers

In the year under review, sales to the Group's five largest customers accounted for 71% of the total sales for the year and sales to the largest customer included therein amounted to 21%. Purchases from the Group's five largest suppliers accounted for 76% of the total purchases for the year and purchases from the largest supplier included therein amounted to 22%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest at any time during the year in the Group's five largest customers or suppliers.

Directors

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

Executive directors:

Mr. Kwok Viem, Peter

Mr. Ma Ting Hung

Ms. Li So Mui

Mr. Mi Zengxin (appointed on 1 April 2004)

Mr. Qiu Yiyong

Mr. Sun Xinguo

Mr. Tian Yuchuan (resigned on 1 April 2004)

Mr. Zeng Chen (appointed on 1 April 2004)

Mr. Zhang Jijing

Independent non-executive directors:

Mr. Fan Ren Da, Anthony

Mr. Tsang Link Carl, Brian

Directors (continued)

Subsequent to the balance sheet date, on 1 April 2004, Mr. Mi Zengxin and Mr. Zeng Chen were appointed as executive directors of the Company. On the same date, Mr. Tian Yuchuan resigned as executive director of the Company.

The independent non-executive directors are not appointed for a specific term and all of the directors, without limitation to executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Mi Zengxin and Mr. Zeng Chen will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 87(1) & (2) of the Company's bye-laws, Mr. Sun Xinguo and Mr. Tsang Link Carl, Brian will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

During the year, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

Report of the directors

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") had been notified to the Company and the Stock Exchange were as follows:

Long position in ordinary shares of the Company

Name of director	Nature of interest	Number of ordinary shares of HK\$0.05 each in the Company	Percentage of the total issued share capital of the Company
Mr. Kwok Viem, Peter (Note)	Corporate	1,112,000,000	33.73
Mr. Ma Ting Hung (Note)	Corporate	1,112,000,000	33.73
Mr. Zhang Jijing	Family	28,000	0.00

Note: The shares disclosed above are held by United Star International Inc., a company incorporated in the British Virgin Islands, which is beneficially owned as to 50% by Mr. Kwok Viem, Peter and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in 1,112,000,000 shares.

In addition to the above, one of the directors has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2003, none of the directors and chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

Apart from the share option scheme disclosed in note 22 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2003, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the directors, the persons or entities who had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such issued share capital were as follows:

Name of shareholder	Number of ordinary shares of HK\$0.05 each held	Percentage of the total issued share capital of the Company
Keentech Group Limited (Note 1)	1,360,180,588	41.26
CITIC Projects Management (HK) Limited (formerly CITIC International Holdings Limited) (Note 1)	1,360,180,588	41.26
CITIC Group (formerly China International Trust and Investment Corporation) (Note 1)	1,360,180,588	41.26
United Star International Inc. (Note 2)	1,112,000,000	33.73

Notes:

- (1) Keentech Group Limited, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects Management (HK) Limited, a company incorporated in the British Virgin Islands. CITIC Group ("CITIC Group"), a company incorporated in the People's Republic of China, is the direct holding company of CITIC Projects Management (HK) Limited. Accordingly, each of these companies is interested or deemed to be interested in the 1,360,180,588 shares.
- (2) These interests are also included as corporate interests of Mr. Kwok Viem, Peter and Mr. Ma Ting Hung, as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above.

Save as disclosed herein, so far as is known to the directors, as at 31 December 2003, no person had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

Report of the directors

Purchase, redemption or sale of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 26 to the financial statements.

Code of best practice

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

Audit committee

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board
Peter Kwok Viem
Chairman

Hong Kong, 15 April 2004