1. CORPORATE INFORMATION

The head office and principal place of business of the Company is located at Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

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.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The adoption of this revised SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting loss and the tax income for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 10 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries
A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Fixed assets and depreciation
Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over the following estimated useful lives:

Leasehold improvements	10 – 12 years or over the unexpired lease terms, whichever is shorter
Machinery, tools and equipment	10 – 15 years
Furniture and fixtures	4 – 5 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets
An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)
An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Negative goodwill
Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable or amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group adopted the transitional provision of SSAP 30 that permitted negative goodwill on acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases
Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions
A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax
Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)
Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Employee benefits

Retirement benefits scheme
The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Retirement benefits scheme (continued)
The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their respective payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme
The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge for their cost is recorded in the profit and loss account or balance sheet. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date or which lapse are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

Long service payments
Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

Paid leave carried forward
The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised on the following bases when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably:

(a) in respect of the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) in respect of interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services of different risks and returns. Summary details of the business segments are as follows:

(a) the manufacture and sale of plywood segment comprises the supply of plywood mainly for use in the manufacture of furniture and fixtures and for refurbishment; and

(b) the trading of timber products segment comprises the sale of veneers.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

No analyses for business and geographical segments for the year ended 31 December 2003 are presented as over 90% of the Group's revenue, assets and liabilities were derived from the manufacture and sale of plywood conducted in or located in the PRC during the year.

(Expressed in HK$'000)

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2002.

	Manufacture and sale of plywood	Trading of timber products	Consolidated
Segment revenue:			
Sales to external customers	22,281	1,722	24,003
Other revenue	49	–	49
	22,330	1,722	24,052
Segment results	(22,533)	160	(22,373)
Interest income and unallocated gains			20,564
Unallocated expenses			(13,408)
Loss from operating activities			(15,217)
Finance costs			–
Loss before tax			(15,217)
Tax			–
Net loss attributable to shareholders			(15,217)
Segment assets	111,175	–	111,175
Unallocated assets			1,141,211
Total assets			1,252,386
Segment liabilities	24,821	–	24,821
Unallocated liabilities			5,070
Total liabilities			29,891
Other segment information:			
Depreciation	3,245	–	3,245
Unallocated amounts			330
			3,575
Other non-cash expenses	6,682	–	6,682
Unallocated amounts			40
			6,722
Capital expenditure	2,778	–	2,778
Unallocated amounts			1,153
			3,931

(Expressed in HK$'000)

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2002.

	PRC	Thailand	Other Asian countries	Consolidated
Segment revenue:				
Sales to external customers	19,689	340	3,974	24,003
Other segment information:				
Segment assets	111,175	–	–	111,175
Unallocated amounts				1,141,211
				1,252,386
Capital expenditure	2,778	–	–	2,778
Unallocated amounts				1,153
				3,931

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts, and excludes intra-group transactions.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2003	2002
Turnover		
Sale of goods	**24,535**	24,003
Other revenue and gains		
Sale of scraps	**249**	49
Interest income	**13,273**	12,409
Exchange gains arising from bank deposits denominated in New Zealand dollars, net	**–**	6,945
Waiver of an amount due to a former director (note 20)	**–**	1,135
Others	**558**	75
	14,080	20,613
Total revenue and gains	**38,615**	44,616

(Expressed in HK$'000)

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2003	2002
Cost of inventories sold *	**40,911**	28,535
Depreciation	**12,971**	3,575
Minimum lease payments under operating leases on land and buildings	**3,010**	2,982
Auditors' remuneration	**430**	430
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	**9,198**	10,336
Pension scheme contributions	**106**	93
	9,304	10,429
Loss on disposal/write-off of fixed assets **	**713**	6,722
Provision for impairment of fixed assets **	**4,502**	–
Exchange gains arising from principal activities, net	**(93)**	(8)
Professional fees incurred in relation to aborted investment projects (note) **	**25,662**	–

* The cost of inventories sold for the year ended 31 December 2003 includes HK$12,225,000 (2002: HK$3,423,000), relating to direct staff costs, operating lease rentals and depreciation. These are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

** These amounts are included in "Other operating expenses" in the consolidated profit and loss account.

Note: The amount included professional fees incurred for financial and legal advice in connection with the Group's proposed acquisition of certain assets in New Zealand which was subsequently aborted.

(Expressed in HK$'000)

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**240**	240
	240	240
Other emoluments of executive directors:		
Salaries, housing allowances, other allowances and benefits in kind	**3,960**	4,934
Pension scheme contributions	**36**	38
	3,996	4,972
	4,236	5,212

The number of directors whose remuneration fell within the following bands is as set out below:

	Number of directors	
	2003	2002
Nil – HK$1,000,000	**6**	7
HK$1,000,001 – HK$1,500,000	**2**	2
HK$1,500,001 – HK$2,000,000	**1**	1
	9	10

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration during the year.

(Expressed in HK$'000)

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included four (2002: four) directors, details of whose remuneration are set out in note 7 above. The remaining individual (2002: one) is not a director, whose remuneration is analysed as follows:

	2003	2002
Salaries, housing allowance, other allowances and benefits in kind	538	538
Pension scheme contributions	6	7
	544	545

As at 31 December 2003, the Group had no significant provision for long service payments to its employees pursuant to the requirements of the Hong Kong Employment Ordinance (2002: Nil).

9. FINANCE COSTS

	2003	2002
Interest expense on bank loans	171	–
Interest income over the Group's deposit of HK$1,000 million pledged against the Notes *	–	(6,078)
Interest expense on the Notes *	–	6,078
	171	–

* In the prior year, interest income earned from the Group's deposits of HK$1,000 million was directly paid to Keentech by the bank for the settlement of accrued interest on the Notes, further details of which are also set out in note 22 to the financial statements. The Notes were fully converted into shares during 2002.

(Expressed in HK$'000)

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2002: Nil). The statutory tax rate of Hong Kong profits tax is 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

For the year ended 31 December 2003, the tax rate applicable to a subsidiary established and operating in the PRC is 33%, however no provision for tax has been made for the year as this subsidiary did not generate any assessable profits arising in the PRC during the year.

A reconciliation of the tax credit applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rates are as follows:

	Group	
	2003	2002
Loss before tax	**(52,005)**	(15,217)
Tax credit at the applicable rates to losses in the countries concerned	**(13,268)**	(6,290)
Income not subject to tax	**(2,736)**	(3,907)
Expenses not deductible for tax	**8,178**	856
Adjustment to opening unutilised tax losses resulting from increase in tax rate	**(450)**	–
Increase in unutilised tax losses carryforward	**8,276**	9,341
Tax credit at the Group's effective rate	**–**	–

The Group has tax losses arising in Hong Kong and PRC of HK$37,797,000 (2002: HK$29,971,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 December 2002. Accordingly, no prior year adjustment is included in the financial statements.

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$57,841,000 (2002: HK$14,357,000) (note 23(b)).

(Expressed in HK$'000)

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the consolidated net loss attributable to shareholders of the Company for the year of HK$52,005,000 (2002: HK$15,217,000) and the weighted average of 3,296,470,588 (2002: 2,738,162,772) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2003 has not been presented because no dilutive events existed during the year.

A diluted loss per share amount for the year ended 31 December 2002 has not been presented as the effect of the potential ordinary shares arising from the conversion of the Notes would have been anti-dilutive.

13. FIXED ASSETS

Group

	Leasehold improvements	Machinery, tools and equipment	Furniture and fixtures	Motor vehicles	Total
Cost:					
At beginning of year	3,111	115,217	891	1,321	120,540
Additions	256	618	10	1,230	2,114
Disposals/write-off	–	(2,652)	(1)	(52)	(2,705)
At 31 December 2003	3,367	113,183	900	2,499	119,949
Accumulated depreciation and impairment:					
At beginning of year	306	11,603	375	297	12,581
Provided during the year	480	11,633	377	481	12,971
Provision for impairment	–	4,502	–	–	4,502
Disposals/write-off	–	(1,584)	(1)	(52)	(1,637)
At 31 December 2003	786	26,154	751	726	28,417
Net book value:					
At 31 December 2003	2,581	87,029	149	1,773	91,532
At 31 December 2002	2,805	103,614	516	1,024	107,959

During the year, the directors considered that certain machinery, tools and equipment were impaired in view of the Group's historical operating results. Based on a valuation report issued by an independent firm of professionally qualified valuers using a fair market value basis, an impairment provision of HK$4,502,000 (2002: Nil) was made during the year.

(Expressed in HK$'000)

14. INTERESTS IN SUBSIDIARIES

	Company 2003	Company 2002
Unlisted shares, at cost	**173,133**	173,133
Due from subsidiaries	**357,567**	326,239
Due to subsidiaries	**(4,308)**	(15,205)
Provision for impairment	**(454,500)**	(384,542)
	71,892	99,625

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Investment holding
Starbest Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Indirectly held				
Feston Manufacturing Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Dormant
Maxpower Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Nusoil Manufacturing Limited	British Virgin Islands/ PRC	US$100	100	Investment holding and trading of plywood
Global Enterprises (HK) Limited	Hong Kong	HK$2	100	Provision of management services
Wing Lam (International) Timber Limited	Hong Kong	HK$60,000,000	100	Investment holding
Dongguan Xinlian Wood Products Company Limited (Formerly Dongguan Xinlian Timber Products Company Limited)	PRC (note)	HK$60,000,000	100	Manufacture and sale of plywood

(Expressed in HK$'000)

14. INTERESTS IN SUBSIDIARIES (continued)

Note: Dongguan Xinlian Wood Products Company Limited ("Dongguan Xinlian") is a wholly foreign-owned enterprise established by Wing Lam (International) Timber Limited ("Wing Lam") in the PRC for a period of 12 years commencing from the date of issuance of its business licence of 3 January 1997.

There were no changes in the Company's shareholdings in its subsidiaries during the year.

15. PREPAYMENTS

The prepayments represented professional fees incurred for financial and legal advice in connection with the Group's potential investment projects. These amounts were intended to be capitalised in the cost of the potential investments. During the year, the Group terminated one of the potential investment projects and accordingly, the related professional fees incurred were charged to the consolidated profit and loss account (2002: Nil). The remaining amount of HK$3,238,000 relates to the potential investment projects in CRA and CPS (as defined in note 26(a) to the financial statements), further details of which are set out in note 26(a) to the financial statements.

16. INVENTORIES

	Group	
	2003	2002
Raw materials	**3,288**	702
Work in progress	**3,451**	944
Finished goods	**2,159**	1,419
	8,898	3,065

The inventories carried at net realisable value included in the above balance amounted to HK$2,159,000 (2002: HK$1,419,000) as at the balance sheet date.

17. ACCOUNTS RECEIVABLE

An aged analysis of the accounts receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
Within one month	**2,600**	1,077
One to two months	**556**	3
Two to three months	**384**	–
Over three months	**306**	263
	3,846	1,343

The normal credit terms granted to debtors range from 30 to 60 days.

(Expressed in HK$'000)

18. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	2003	2002	**2003**	2002
Cash and bank balances	**1,647**	709	**23**	242
Time deposits *	**1,118,905**	1,122,789	**1,098,506**	1,122,789
	1,120,552	1,123,498	**1,098,529**	1,123,031
Less: Pledged for bank loans **	**20,399**	–	**–**	–
	1,100,153	1,123,498	**1,098,529**	1,123,031

* Approximately HK$529,664,000 (2002: HK$1,000,000,000) of the time deposits of the Company and the Group has been placed in CITIC Ka Wah Bank Limited. An amount of HK$1,000,000,000 (2002: HK$1,000,000,000) was designated for funding the Group's potential investment projects.

** The Group pledged its bank deposits of HK$20,399,000 (2002: Nil) to secure the bank loans granted to the Group (note 21).

19. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
Within one month	**2,436**	731
One to two months	**808**	310
Two to three months	**163**	14
Over three months	**–**	12
	3,407	1,067

20. ACCRUED LIABILITIES AND OTHER PAYABLES

During the year ended 31 December 2002, the Group entered into a deed of waiver with a former director of the Company (the "Ex-director"), pursuant to which the Ex-director agreed to waive all his rights to seek repayment of a portion of the debts amounting to HK$1,135,000 in aggregate from the Group. The deed of waiver was completed on 23 December 2002. The remaining amounts due of HK$1,009,000 were settled during that year.

(Expressed in HK$'000)

21. BANK AND OTHER LOANS

		Group		Company	
	Notes	**2003**	2002	**2003**	2002
Secured bank loans repayable within one year	(a)	**13,735**	–	**–**	–
Unsecured bank loans repayable within one year	(b)	**7,000**	–	**7,000**	–
Total current bank loans		**20,735**	–	**7,000**	–
Non-current other loans, unsecured	(c)	**11,862**	11,862	**–**	–

(a) The secured bank loans are repayable on or before 24 February 2004 and bear interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 0.5% per annum. The bank loans are secured by the Group's pledged bank deposits of HK$20,399,000 and corporate guarantees of Wing Lam, an indirect wholly-owned subsidiary of the Company.

(b) The unsecured bank loans are repayable within six months from the drawdown date (which fall due in January and February 2004) and bear interest at the HIBOR plus 1.5% per annum.

(c) The loans from the former shareholders (the "Ex-shareholders") of Wing Lam are unsecured, interest-free and have no fixed terms of repayment.

On 12 April 1999, the Ex-shareholders confirmed that they would indemnify the Group against all monetary losses arising from the litigation (the "Litigation"), which is further detailed in note 24 to the financial statements, and further agreed that the loans due from the Group to them could be used to offset such indemnity.

According to a letter dated 11 February 2004 issued by the Group's legal advisors in connection with the Litigation, there were a number of conflicts and discrepancies in the New Judgement (as described in note 24 to the financial statements). The legal advisors strongly believe that the New Judgement is not supported by evidence and is in breach of legal proceedings and that the New Judgement should be withdrawn. Taking into account the above considerations, the directors of the Company believe that the litigation will have no impact on the financial results of the Group and accordingly, no provision is considered necessary.

The legal advisors further advised that the appeal judgement is not expected to be concluded in the next 12 months from 17 January 2004 and accordingly, the Claim (as described in note 24 to the financial statements) is not expected to be settled within one year from the balance sheet date. Accordingly, the loans amounting to a total of HK$11,862,000 (2002: HK$11,862,000) are classified as non-current liabilities at the balance sheet date.

(Expressed in HK$'000)

22. SHARE CAPITAL

Shares

	Notes	Number of ordinary shares	
Authorised:			
Ordinary shares of HK$0.05 each as at 1 January 2002		4,000,000,000	200,000
Increase in share capital	(a)	2,000,000,000	100,000
Ordinary shares of HK$0.05 each as at 31 December 2002 and 2003		6,000,000,000	300,000
Issued and fully paid:			
Ordinary shares of HK$0.05 each as at 1 January 2002		2,120,000,000	106,000
Issue of shares	(b)	1,176,470,588	58,824
Ordinary shares of HK$0.05 each as at 31 December 2002 and 2003		3,296,470,588	164,824

Notes:

(a) Pursuant to an ordinary resolution passed on 22 January 2002, the authorised share capital of the Company was increased to HK$300 million divided into 6,000 million shares of HK$0.05 each by the creation of 2,000 million additional shares of HK$0.05 each.

(b) On 27 November 2001, pursuant to a conditional subscription agreement (the "Subscription Agreement") entered into between the Company and Keentech, Keentech agreed to subscribe for, and the Company agreed to issue, redeemable floating rate convertible loan notes (the "Notes") of HK$1,000 million. The Notes, which were repayable within one year from the date of issue, were secured by a charge over the Group's deposit of HK$1,000 million and the accrued interest thereon (the "Charge") and bore interest calculated at the then prevailing rate for one-month fixed Hong Kong dollar time deposits quoted by a bank in Hong Kong. The Notes also carried the right to convert into ordinary shares of HK$0.05 each of the Company at a conversion price of HK$0.85 per share. Pursuant to the deed of charge dated 25 January 2002 entered into between the Company and Keentech, Keentech was entitled to order the bank to pay directly to Keentech the interest income generated from the Group's deposit of HK$1,000 million for the settlement of the accrued interest on the Notes.

The Notes were fully converted into 1,176,470,588 shares of the Company in June 2002 and the Charge was discharged thereafter. The shares issued during that year rank pari passu in all respects with shares in issue at that time.

22. SHARE CAPITAL (continued)

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group.

No share options are permitted to be granted to an eligible participant which, if exercised in full, would result in such eligible participant becoming entitled to subscribe for such number of shares of the Company as, when aggregated with the total number of shares of the Company already issued and remaining issuable to him or her under the Scheme, would exceed 25% of the aggregate number of the shares of the Company being issued and issuable under the Scheme.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the issued share capital of the Company from time to time, excluding any shares issued pursuant to the Scheme.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to each grantee, provided that such period of time should not exceed a period of three years commencing on the expiry of six months after the date when the option is accepted and expiring on the last day of such three-year period or 20 August 2007, whichever is the earlier.

The subscription price for the shares under the Scheme will be a price determined by the board of directors and notified to each grantee and will be the higher of: (i) a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option granted to a grantee; and (ii) the nominal value of the shares of the Company.

The Scheme became effective on 21 August 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The Stock Exchange of Hong Kong Limited amended the requirements for share option schemes under the Listing Rules. These requirements have come into effect from 1 September 2001. The Company is required to comply with such new requirements in granting new share options under the Scheme from the said date. During the year ended 31 December 2003 and up to the date of this report, no share options were granted, exercised, lapsed, cancelled or outstanding under the Scheme.

(Expressed in HK$'000)

23. RESERVES

(a) Group

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the holding company of the Group acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares in 1997 over the nominal value of the share capital of the Company issued in exchange therefor.

(b) Company

	Share premium account	Contributed surplus	Accumulated losses	Total
At 1 January 2002	262,462	172,934	(301,785)	133,611
New issue of shares	941,176	–	–	941,176
Share issuance expenses	(2,759)	–	–	(2,759)
Net loss for the year	–	–	(14,357)	(14,357)
At 31 December 2002 and 1 January 2003	1,200,879	172,934	(316,142)	1,057,671
Net loss for the year	–	–	(57,841)	(57,841)
At 31 December 2003	1,200,879	172,934	(373,983)	999,830

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation detailed in note (a) above, over the nominal value of the share capital of the Company issued in exchange therefor. In accordance with the laws of Bermuda, the contributed surplus of the Company may be distributed in cash or in specie in certain prescribed circumstances.

24. LITIGATION

On 14 January 1999, China Foreign Trade Development Company, the plaintiff of the Litigation (the "Plaintiff") issued a writ of summons against Dongguan Xinlian, an indirect wholly-owned subsidiary of the Company held through Wing Lam (another indirect wholly-owned subsidiary of the Company), in respect of a claim (the "Claim") for HK$49,624,000 together with interest thereon, being the alleged amount due to the Plaintiff under various re-export contracts. A judgement (the "Judgement") was issued in respect of the Claim and, pursuant thereto, Dongguan Xinlian was liable to pay an aggregate sum of approximately HK$26,894,000. Subsequently, Dongguan Xinlian filed an appeal against the Judgement.

On 23 April 1998, the Ex-shareholders of Wing Lam gave an undertaking in relation to the Group's acquisition of a 51% equity interest in Wing Lam to indemnify the Group from all losses, liabilities and claims incurred or suffered in connection with the Claim and other prescribed matters arising on or before the completion of this acquisition. The Claim is in respect of contracts entered into by Dongguan Xinlian prior to the Group's acquisition of its initial 51% equity interest in Wing Lam. Due to the Judgement, on 12 April 1999, the Ex-shareholders of Wing Lam confirmed that they would indemnify all monetary losses arising from the Claim and agreed that the loans due from Dongguan Xinlian to them of HK$11,862,000, could be used to offset any such indemnity.

On 12 August 2003, certain members of the management of the Plaintiff were sentenced to imprisonment under a criminal charge in respect of creating forged documents, including those documents created by them relating to the Claim. However, on 19 December 2003, the People's High Court of Guangdong Province issued a decision that Dongguan Xinlian is liable to pay US$4,800,000 (approximately HK$37,440,000) together with interest thereon (the "New Judgement"). On 17 January 2004, Dongguan Xinlian filed its appeal to the State Supreme Court against the New Judgement, requesting for the withdrawal of the New Judgement and also a decision that Dongguan Xinlian is not liable to the Plaintiff in any aspect.

According to a letter dated 11 February 2004 issued by the Group's legal advisors in connection with the Litigation, there were a number of conflicts and discrepancies in the New Judgement. The legal advisors believe that the New Judgement is not supported by evidence and is in breach of legal proceedings and that the New Judgement should be withdrawn. Taking into account the above considerations, the directors believe that the Litigation will have no impact on the financial results of the Group and accordingly, no provision is considered necessary.

(Expressed in HK$'000)

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and manufacturing premises in the PRC under operating lease arrangements. Leases for the properties are negotiated for terms ranging from 3 to 10 years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
Within one year	**2,950**	2,774
In the second to fifth years, inclusive	**9,081**	8,495
After five years	**7,964**	10,088
	19,995	21,357

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2002: Nil).

26. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following transactions:

(a) On 19 January 2004, the Group entered into conditional sale and purchase agreements (as amended by a supplemental agreement dated 30 January 2004) with CITIC Australia Pty Limited ("CA"), CITIC Group and CITIC Portland Holdings Pty Limited whereby the Group agreed to purchase the entire equity interests in CITIC Resources Australia Pty Limited ("CRA") and CITIC Portland Surety Pty Limited ("CPS") from CA for a total consideration of US$139.5 million (equivalent approximately HK$1,088.1 million). The total consideration has been satisfied by the allotment and issue to CA of an aggregate of 750,413,793 new ordinary shares of HK$0.05 each in the Company's share capital. CA is an Australian company wholly owned by CITIC Group, and in turn is an associate of Keentech, a substantial shareholder of the Company. The major assets of CRA and CPS are as follows:

- a 22.5% equity interest in Portland Joint Venture, which is an unincorporated co-operative joint venture that owns and operates the Portland Aluminium Smelter in the State of Victoria, Australia;

- an 81% equity interest in CITIC Australia Trading Limited ("CATL"), a company incorporated in the State of Victoria, Australia and listed on the Australian Stock Exchange ("ASX"), which is engaged in commodities trading;

26. POST BALANCE SHEET EVENTS (continued)

- a 7% equity interest in the Coppabella and Moorvale Joint Venture, which is an unified unincorporated co-operative joint venture that owns and operates the Coppabella and Moorvale coal mines in Bowen Basin in the State of Queensland, Australia;

- a 13.95% equity interest in Macarthur Coal Limited, a company listed on the ASX and which is engaged in coal mining business; and

- a 5.01% equity interest in Aztec Resources Limited, a company listed on the ASX and which is engaged in minerals exploration.

The transactions constituted major and connected transactions under the Listing Rules and were approved by independent shareholders of the Company on 22 March 2004. The transactions were completed on 31 March 2004. Further details of the transactions are set out in the circular of the Company dated 6 March 2004.

(b) On 2 February 2004, the Company entered into a placing agreement with United Star International Inc. ("USI"), a substantial shareholder of the Company, and a placing agent, under which a placement of 270,000,000 of the Company's then existing ordinary shares of HK$0.05 each held by USI was made to not less than six independent investors at a price of HK$1.45 per share procured by the placing agent. In return, a subscription of 270,000,000 new ordinary shares of HK$0.05 each in the Company was made by USI at the same price for a total cash consideration, before expenses, of approximately HK$391.5 million.

The Company intends to apply such net proceeds to finance future investments and asset acquisitions with a particular focus on businesses involving natural resources. Details of the placing are set out in the announcement of the Company dated 2 February 2004.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.