



## RESULTS AND BUSINESS REVIEW

For the six months ended 30th June, 2004, the Group recorded a turnover of HK\$206,044,000, representing a substantial increase of 78% over HK\$115,708,000 in the corresponding period in 2003. The Group's operating profit for the first half year was HK\$908,000, whilst representing a turnaround compared with the corresponding period in the previous year.

### **Fiberboard and Veneer**

The Company strengthened the leadership on the board factory, and enhanced operation and production management. It implemented and improved various rules and policies. Through leasing the neighbouring plant, the production capacity of medium density fiberboard was enhanced. During the first half year, total output of medium density fiberboard was 145,907.76 m<sup>3</sup>, representing an increase of 96.95% over the corresponding period in the previous year. During the first half year, the overall board material business recorded a turnover of HK\$167,619,000, representing an increase of 56% over HK\$107,516,000 in the corresponding period in the previous year. Despite the satisfactory growth in turnover and improvement in production efficiency, the costs of raw materials have increased by approximately RMB18 million during the half year, which was attributable to surge of the prices of raw materials, such as wood, coal, methanol, urea, and resulted in significant trimming in the product gross margin. Under the measures of energy saving and reduction in consumption in the various production segments, the Fiberboard and Veneer business of the Group recorded an operating profit of HK\$2,773,000 during the first half year.



## **Hotel**

During the first quarter, the average occupancy of the Guilin Plaza Hotel was not satisfactory under the impact of avian-flu at the beginning of the year. Followed by the event fading out and the concrete adjustments made by the management to the marketing strategy, emphasis of promotion was placed on business conference groups, the occupancy rate gradually rebounded in the second quarter. As at 30th June, 2004, the Guilin Plaza Hotel recorded a turnover of HK\$7,893,000, an increase of 48% over the corresponding period in the previous year, which was turnaround from the corresponding period in the previous year, and recorded an operating profit of HK\$1,320,000.

## **Property Investment**

As Shanghai Zhonghui Real Estate Development Company Limited (上海中惠房地產發展有限公司) was in fact insolvent, and was involved in a number of litigation, it was unable to repay the outstanding debts to the Company as agreed. As Wen Ying Investments Limited, a wholly-own subsidiary of the Group, is still a party to the joint venture project, the opportunity of disposal was finally sought through repeated negotiations, so as to avoid the Company having to assume the joint venture's debts, and minimizing the Group's losses. The Group completed the disposal of the entire interests in Wen Ying Investments Limited to an independent third party at a consideration of RMB6,000,000.

Subsequent to the balance sheet date, the Group received a notice from the People's Government of Huizhou City alleging that the plot of land held by the Company located at district No. 18 in Huizhou has been idle and undeveloped. The People's Government of Huizhou City intended to dispose the land by public auction in the view of accelerating urban development, and would repay the proceeds after deducting charges to the landlord. In fact, preparation works for the land were commenced by the Company. Therefore, the Company is applying for an administration review to the relevant authority through a lawyer, and has reached the review procedures.



## **Financial Situation**

As at 30th June, 2004, the Group's total capital and long-term borrowings amounted to HK\$550,929,000 (31st December, 2003: HK\$566,271,000). Total borrowings was HK\$198,800,000 (31st December, 2003: HK\$221,550,000), with a gearing ratio of 36% (31st December, 2003: 39%), and net assets per Share was HK¢38 (31st December, 2003: HK¢38). The Group's bank deposits and cash were approximately HK\$39,478,000 (31st December, 2003: HK\$34,158,000), which was sufficient to meet the cash requirements for the Group's future operations.

## **Foreign Exchange Exposure**

The Group mainly earned revenue and incurred cost in Hong Kong Dollar and Renminbi. The Directors consider that the Group's foreign exchange risks are minimal.

## **PROSPECTS**

Output of the Group's medium density fiberboard represented approximately 20% of the total output in Guangdong Province. As material resources such as electricity, steam, and glue are produced by the factory itself, it enjoyed stability in the whole production process. Cost controls have been relatively proactive. Currently, there is a shortage of raw materials, and prices of raw materials are still high, which have inevitably caused negative impact to the gross profit margins of products. However, following the price surge for major materials of the board industry, the tendency of increase in price with respect to the finished products has been gradually accepted by the market. In August and September, the Group has gradually raised increase the prices of the Fiberboard and Veneer. The Group will re-integrate the resources of the board factory, and will fully capitalise on the production capacity to focus on enhancing economic efficiency. The Group is still positive and optimistic towards the prospects of the Fiberboard and Veneer industry.



In respect of hotel business, in order to secure customer sources, hotels started to cut prices to promote, creating a vicious cycle. As the Plaza Hotel is near to the convention and exhibition facilities, and the renovation for adding a few conferences due to adoption of positive operational policies, it has certain advantages and competitiveness in absorbing commercial business travellers.

Despite the various difficult situations, with timely and effective measures implemented by the management, and staff of all levels to solve problems and tackle the challenges jointly, efforts are devoted to consolidate the business base as well as exploring potentials for business development. By capitalising on its advantages in business, the Group is confident of gradually creating better efficiency.

## **DIRECTORS' INTERESTS IN SHARES**

As at 30th June, 2004, the interests and short positions of the Directors in the shares underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

(a) Interest in shares of the Company:

<b>Name of Director</b>	<b>Number of shares</b>	<b>Nature of interest</b>	<b>Notes</b>	<b>% of total issued share capital as at 30th June, 2004</b>
Leung Siu Fai	151,610,779	Corporate	1	16.57%
Kam Hung Chung	58,971,428	Corporate	2	6.44%
Peter Lee Yip Wah	200,000	Personal	3	0.02%



*Notes:*

1. These shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.
2. These shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest.
3. These shares were held by Mr. Peter Lee Yip Wah as beneficial owner.

(b) Interest in share options of the Company:

Share options were granted to certain directors of the Company pursuant to the share option scheme of the Company. Details of the directors' interest in share options granted by the Company are set out in the following section "Share Options" of this report.

Save as disclosed above, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under section 352 of the SFO as at 30th June, 2004.



## SHARE OPTIONS

Details of the movements in the share options granted under the former share option scheme, which was terminated on 20th May, 2003, during the period are as follows:

	Outstanding at 1st January, 2004	Lapsed during the period	Outstanding at 30th June, 2004
Directors			
Mr. Leung Siu Fai	5,000,000	5,000,000	—
Mr. Kam Hung Chung	5,000,000	5,000,000	—
Former Directors			
Mr. Sun Pak Fun	5,000,000	5,000,000	—
Total for directors	15,000,000	15,000,000	—
Employees	8,500,000	8,500,000	—
Total	23,500,000	23,500,000	—

The share options, being physically settled unlisted derivatives, were held by the respective grantees personally as beneficial owners. The consideration paid by each grantee for the share options granted was HK\$1.00. The share option could be exercised at an exercise price of HK\$0.347 per share during the period from 15th September, 2002 to 27th June, 2004. No share options were granted, exercised or cancelled under the former share option scheme during the period.

On 28th June, 2004, all share options granted under the former share option scheme was lapsed after expiry date.

The Company had on 20th May, 2003 adopted the existing scheme option scheme which 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 this scheme.



## SUBSTANTIAL SHAREHOLDERS

As at the 30th June, 2004, the following persons and corporations had, interests in 5% or more in the shares and underlying shares of the Company, as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of issued shares	Number of underlying shares in share options	Number of underlying shares in derivative interests*	Notes	Capacity	Percentage (in aggregate) of total issued shares as at 30th June, 2004
Leung Siu Fai	151,610,779	5,000,000	—	1	Beneficial owner and controlled corporation	17.12%
Mighty Management Limited	151,610,779	—	—	1	Beneficial owner	16.57%
Nam Keng Van Investment Co. Ltd.	89,271,895	—	32,592,592	2	—	13.32%
Lau Ming En	700,000	—	111,111,111		Beneficial owner	12.22%
Fung Kam Wing	—	—	111,111,111		Beneficial owner	12.14%
Topgrow Limited	—	—	92,592,592		Nominee for another person	10.12%
Wideco Investment Limited	—	—	92,592,592		Nominee for another person	10.12%
Delight View Enterprises Limited	—	—	74,074,074		Nominee for another person	8.10%
Kam Hung Chung	58,971,428	5,000,000	—	3	Beneficial owner and controlled corporation	6.99%
Sintex Investment Limited	58,971,428	—	—	3	Beneficial owner	6.44%



Name	Number of issued shares	Number of underlying shares in share options	Number of underlying shares in derivative interests*	Notes	Capacity	Percentage (in aggregate) of total issued shares as at 30th June, 2004
Zhong Baoguo	58,971,428	—	—	3	Controlled corporation	6.44%
Oriental Trade Ltd.	55,555,555	—	—		Beneficial owner	6.07%
Success Digital International Limited	—	—	55,555,555		Beneficial owner	6.07%
Gearway Limited	—	—	55,555,555		Nominee for another person	6.07%
He Yongwen	48,917,142	5,000,000	—	4	Beneficial owner and controlled corporation	5.89%
New City Holdings Limited	48,917,142	—	—	4	Beneficial owner	5.35%

\* *being unlisted physically settled derivatives interests*

*Notes:*

1. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai. In addition, Mr. Leung Siu Fai held 5,000,000 share options granted under the share option scheme of the Company which was lapsed after expiry date on 28th June, 2004.
2. These interests (including derivative interests in respect of 32,592,592 shares) were disclosed by Nam Keng Van Investment Co. Ltd.
3. These 58,971,428 shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest and Mr. Zhong Baoguo had 50% interest. In addition, Mr. Kam Hung Chung held 5,000,000 share options granted under the share option scheme of the Company which was lapsed after expiry date on 28th June, 2004.
4. These 48,917,142 shares were held by New City Holdings Limited which was wholly-owned by Mr. He Yongwen. In addition, Mr. He Yongwen formerly held 5,000,000 share options granted under the former share option scheme of the Company which was already lapsed after his resignation as director of the Company on 1st August, 2003.





## **INTERIM DIVIDEND**

The Board does not declare any interim dividend for the six months ended 30th June, 2004 (2003: nil).

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

During the six months ended 30th June, 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

## **EMPLOYEES**

The total number of employees of the Group is approximately 1,913.

The remuneration of each employee of the Group is determined on the basis of his or her performance and experience. The Group provides education allowances to the employees.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a general review of the unaudited interim financial statements for the six months ended 30th June, 2004. The interim financial report for the period ended 30th June, 2004 is unaudited, but has been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants, by HLM & Co..



## COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), at any time during the six months ended 30th June, 2004.

By Order of the Board

**Leung Siu Fai**

*Chairman*

Hong Kong, 21st September, 2004



## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2004

		Six months ended	
		30.6.2004	30.6.2003
		HK\$'000	HK\$'000
	Notes	(unaudited)	(unaudited)
Turnover	3	206,044	115,708
Cost of sales and services		<u>(188,368)</u>	<u>(77,640)</u>
Gross profit		17,676	38,068
Other income		1,159	6,105
Selling and distribution costs		(53)	(99)
Administrative expenses		<u>(16,681)</u>	<u>(15,723)</u>
Profit from operations	4	2,101	28,351
Provision for doubtful amounts	5	—	(159,826)
Finance costs		<u>(1,193)</u>	<u>(1,730)</u>
Profit (loss) for the period		<u>908</u>	<u>(133,205)</u>
Earnings (loss) per share	8		
Basic		<u>HK0.1 cent</u>	<u>(HK14.6 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>



## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th June, 2004

		30.6.2004	31.12.2003
		HK\$'000	HK\$'000
	Notes	(unaudited)	(audited)
<b>Non-current Assets</b>			
Investment properties	9	11,100	11,100
Property, plant and equipment		289,504	293,606
Properties held for development		80,000	80,000
Goodwill	10	100,294	103,103
		<u>480,898</u>	<u>487,809</u>
<b>Current Assets</b>			
Properties held for sale		104,600	128,700
Inventories		39,485	26,481
Trade and other receivables	11	16,204	13,195
Investments in securities		61	61
Pledged bank deposits		—	2,300
Bank balances and cash		39,478	31,858
		<u>199,828</u>	<u>202,595</u>
<b>Current Liabilities</b>			
Trade and other payables	12	89,251	77,087
Tax payable		2,546	2,546
Provision for loss in litigation		38,000	38,000
Bank borrowings		—	—
- due within one year	13	—	6,500
		<u>129,797</u>	<u>124,133</u>
<b>Net Current Assets</b>			
		<u>70,031</u>	<u>78,462</u>
		<u>550,929</u>	<u>566,271</u>
<b>Capital and Reserves</b>			
Share capital		91,500	91,500
Reserves		260,629	259,721
		<u>352,129</u>	<u>351,221</u>
<b>Non-current Liabilities</b>			
Convertible notes		198,800	198,800
Bank borrowings		—	—
- due after one year	13	—	16,250
		<u>198,800</u>	<u>215,050</u>
		<u>550,929</u>	<u>566,271</u>



## CONDENSED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Hotel property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	91,500	426,372	39,254	(57,236)	3,377	503,267
Exchange translation not recognized in the income statement	—	—	—	19	—	19
Surplus on revaluation of hotel properties	—	—	8,814	—	—	8,814
Loss for the year	—	—	—	—	(160,879)	(160,879)
At 31st December, 2003 and 1st January, 2004	91,500	426,372	48,068	(57,217)	(157,502)	351,221
Exchange translation not recognized in the income statement	—	—	—	—	—	—
Profit for the period	—	—	—	—	908	908
At 30th June, 2004	91,500	426,372	48,068	(57,217)	(156,594)	352,129



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2004

	Six months ended	
	30.6.2004	30.6.2003
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	29,945	(23,435)
Net cash from investing activities	628	8,221
Net cash used in financing activities	<u>(22,953)</u>	<u>(12,630)</u>
Increase (decrease) in cash and cash equivalents	7,620	(27,844)
Cash and cash equivalents at beginning of period	<u>31,858</u>	<u>46,792</u>
Cash and cash equivalents at end of period	<u><u>39,478</u></u>	<u><u>18,948</u></u>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	39,478	19,184
Bank overdraft	—	(236)
	<u><u>39,478</u></u>	<u><u>18,948</u></u>



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June, 2004*

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.



### 3. SEGMENT INFORMATION

The Group's turnover and contribution to profit (loss) for the period by business segments and geographical segments are as follows:

	<b>For the six months ended 30th June</b>			
	2004		2003	
	Segment		Segment	
	Turnover	results	Turnover	results
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>By business segments:</b>				
Fibreboard and veneer	167,619	2,773	107,516	(123,451)
Hotel operations	7,893	1,320	5,351	(730)
Property investment	30,532	5,929	1,719	1,111
Trading	—	—	1,122	(541)
	<u>206,044</u>	<u>10,022</u>	<u>115,708</u>	<u>(123,611)</u>
Interest income		76		10
Net unrealized holding gains on other investments		—		39
Unallocated corporate expenses		<u>(7,997)</u>		<u>(7,913)</u>
Finance costs		<u>2,101</u>		<u>(131,475)</u>
		<u>(1,193)</u>		<u>(1,730)</u>
Profit (loss) for the period		<u>908</u>		<u>(133,205)</u>





### 3. SEGMENT INFORMATION - continued

	For the six months ended 30th June			
	2004		2003	
	Turnover	Segment	Turnover	Segment
	<i>HK\$'000</i>	<i>results</i>	<i>HK\$'000</i>	<i>results</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>By geographical segments:</b>				
The People's Republic of China, other than Hong Kong	181,551	10,132	112,867	(124,213)
Hong Kong	24,493	(110)	2,841	602
	<u>206,044</u>	<u>10,022</u>	<u>115,708</u>	<u>(123,611)</u>
Interest income		76		10
Net unrealized holding gains on other investments		—		39
Unallocated corporate expenses		(7,997)		(7,913)
		<u>2,101</u>		<u>(131,475)</u>
Finance costs		(1,193)		(1,730)
Profit(loss) for the period		<u>908</u>		<u>(133,205)</u>

### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the six months ended 30th June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Depreciation of property, plant and equipment	5,837	3,117
Amortisation of goodwill	<u>2,809</u>	<u>2,785</u>



## 5. PROVISION FOR DOUBTFUL AMOUNTS

The Group made provisions in respect of the loss arise from a civil claim of Foshan Branch of Shenzhen Development Bank (“the Claimant”) on 20th August, 2003 against Nanhai Jia Shun Timber Company Limited (“Jia Shun”) and Nanhai Heng Da Timber Company Limited (“Heng Da”), the wholly-owned subsidiaries of the Company, and the repayment capability of other related persons:

	<b>For the six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Prepayments in advance to suppliers	—	47,234
Trade receivables	—	28,738
Other receivables	—	45,854
Provision for loss in litigation	—	38,000
	<u>—</u>	<u>38,000</u>
	<u>—</u>	<u>159,826</u>

## 6. 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 either period.

At the balance sheet date, the Group has unused tax losses of HK\$12,718,000 (2003: HK\$12,718,000) available for offsetting against future profits. No deferred tax assets have been recognised as it is uncertain whether there will be assessable profits in the future.

## 7. DIVIDENDS

The Board does not declare any interim dividend for the six months ended 30th June, 2004 (2003: nil).



## 8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit for the period of HK\$908,000 (30th June, 2003: a loss of HK\$133,205,000) and on 914,995,817 ordinary shares (30th June, 2003: 914,995,817 ordinary shares) in issue during the period.

No diluted earnings per share has been presented for the period ended 30th June, 2004 because the exercise of conversion of the Company's outstanding convertible notes would result in an increase in profit per share from continuing ordinary operations for the period.

No diluted loss per share was presented for the period ended 30th June, 2003 as the conversion price of convertible notes is higher than the average market price of the shares of the Company's shares for the period.

## 9. INVESTMENT PROPERTIES

At 30th June, 2004, the directors considered the carrying amounts of the Group's investment properties carried at the revalued amounts and estimated that the carrying amounts as at 30th June, 2004 do not differ significantly from the open market value of those properties as at 30th June, 2004. Consequently, no revaluation surplus or deficit has been recognised in the current period.

## 10. GOODWILL

	<i>HK\$'000</i> <i>(Unaudited)</i>
<b>COST</b>	
At 1st January, 2004 and 30th June, 2004	112,583
<b>AMORTISATION</b>	
At 1st January, 2004	9,480
Charge for the period	2,809
At 30th June, 2004	12,289
<b>NET BOOK VALUE</b>	
At 30th June, 2004	100,294
At 31st December, 2003	103,103

The goodwill is arising on acquisitions on subsidiaries in 2002. The amortisation period adopted for the goodwill is 20 years.



## 11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The following is an aging analysis of the Group's trade receivables at the reporting date:

	<b>30.6.2004</b> <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2003 <i>HK\$'000</i> <i>(audited)</i>
0 - 60 days	6,727	4,146
61 - 90 days	491	527
91 -120 days	303	291
> 120 days	<u>1,810</u>	<u>1,276</u>
Trade receivables	9,331	6,240
Other receivables	<u>6,873</u>	<u>6,955</u>
	<u><u>16,204</u></u>	<u><u>13,195</u></u>

## 12. TRADE AND OTHER PAYABLES

The following is an aging analysis of the Group's trade payables at the reporting date:

	<b>30.6.2004</b> <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2003 <i>HK\$'000</i> <i>(audited)</i>
0 - 60 days	11,646	5,548
61 - 90 days	2,341	4,151
91 -120 days	1,789	4,948
> 120 days	<u>13,268</u>	<u>806</u>
Trade payables	29,044	15,453
Other payables	<u>60,207</u>	<u>61,634</u>
	<u><u>89,251</u></u>	<u><u>77,087</u></u>



### 13. BANK BORROWINGS

During the period, the Group repaid HK\$22,750,000 (31st December, 2003: HK\$16,097,000) of its bank loans.

### 14. OPERATING LEASE ARRANGEMENTS

#### The Group as lessee

At 30th June 2004, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating lease in respect of rented premises and plant and machinery, which falling due as follows:

	30.6.2004 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2003 <i>HK\$'000</i> <i>(audited)</i>
Within one year	22,893	22,935
In the second to fifth years inclusive	27,258	38,699
	<u>50,151</u>	<u>61,634</u>

#### The Group as lessor

At 30th June 2004, the Group had contracted with tenants for the following future minimum lease payments:

	30.6.2004 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2003 <i>HK\$'000</i> <i>(audited)</i>
Within one year	758	888
In the second to fifth years inclusive	106	322
	<u>864</u>	<u>1,210</u>



## 15. CAPITAL COMMITMENTS

	30.6.2004 HK\$'000 (unaudited)	31.12.2003 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	—	19
Capital expenditure in respect of the acquisition of property, plant and equipment authorized but not contracted for	—	283

## 16. POST BALANCE SHEET EVENTS

On 1st July 2004, the group received a notice from Huizhou Government about the termination of the land use right in respect of the properties held for development with a carrying value of HK\$80,000,000. The group has appointed legal representative for application for the land use right extension. As the extension application is under process, the directors consider there is no necessary for providing impairment for properties held for development.



## 17. CONTINGENT LIABILITIES

- (a) On 16th January 2004, Jia Shun and Heng Da both received summons issued by the Intermediate People's Court of Foshan City, Guangdong Province, the People's Republic of China ("the Court") regarding a bank loan contract dated 23rd May 2003 was entered into between Heng Yi Timber Company Limited ("Heng Yi"), an independent third party, as borrower and the Claimant as lender in relation to a loan facility in a sum of RMB40m (equivalent to approximately HK\$38m) 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 Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang") in favour of the Claimant in relation to such loan (the "Claims"). As the operation 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.

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 Group and the respective board 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;
- 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.

Subsequent to this, the Group had applied to the Court to terminate the legal proceedings and the Court has ordered to suspend the legal proceedings in view that as there could involve criminal offences, which should prevail over the civil claims.



## 17. CONTINGENT LIABILITIES - continued

- (b) The Group had a maximum contingent consideration of HK\$48m 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 would have become payable, among others, when the consolidated net profit of Can Manage and its subsidiary, namely Jia Shun, achieved an amount of HK\$80m for the year ended 31st December 2003. 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 now, the directors could not reasonably ascertain the amount of contingent consideration, if any, which has to be paid to the vendor.