



CHAIRMAN'S STATEMENT

DIVIDEND

The Directors do not recommend payment of a dividend for the year (2003: Nil).

BUSINESS REVIEW

For the whole year 2004, the Group recorded a turnover of HK\$375,602,000, an increase of 91% over the previous year, while operating loss in the whole year amounted to HK\$41,693,000.

Fiberboard Operations

Since the resumption of the operations of Nanhai Jia Shun Timber Company Limited ("Jia Shun") in October 2003, its business, production, operations, management have all been restored to the normal tracks. The two claims in which Jia Shun and Nanhai Heng Da Timber Company Limited ("Heng Da") were involved were still pending, and the court issued a notice for the suspension of the litigation in February 2004. However, this situation has not caused any impact to the production operation of Jia Shun. As at to date, the Group did not receive any notice with respect to the claims involving Jia Shun and Heng Da.

In 2004, Jia Shun performed a comprehensive inspection with respect to the corporate assets and capital verification, and conducted rationalisation, enhancement and consolidation to its internal management and control systems, whereby satisfactory results were obtained. For example, in respect of management, the various regulations and systems were improved and upgraded, with duties and procedures of the various positions confirmed. This in turn integrated potential resources within the entity, and motivated staff morale, thereby assuring Jia Shun to be operating smoothly, safely and steadily. In respect of control, a timber measuring team, logistics control team, price control team, contract review team have been established, which effectively strengthened the management in the intake, sales and stocking of materials of Jia Shun, and endeavoured in reducing production costs. In respect of operation production, a system of "Target profit assessment" and "Wages contracting" has been implemented, enabling the various manufacturing departments to generate greater economic efficiency for the Company on the basis of their own features.



CHAIRMAN'S STATEMENT (CONTINUED)

In 2004, total sales volume of medium density fiberboard amounted to 300,368 cubic meters, and total sales amount reached HK\$303,667,000, representing an increase of 106% and 114% over the previous year respectively. The medium density fiberboard operations achieved a turnaround and made a net profit of HK\$9,871,000 for the full year. Due to the prices of raw materials staying at a high level, gross profit margin of the products remained thin.

In respect of veneer operations, total sales amount reached HK\$49,926,000, representing an increase of 36.1% over the previous year. After deducting depreciation and provision for inventory impairments, an operating loss of HK\$16,707,000 was recorded instead. In order to improve operation efficiency, the Group established a cooperative production relationship with a container company, and commenced cooperation for the pre-operating procedures, such as spiral cutting and drying in the first stage. In the second stage, post-production procedures or more intensive cooperation will be conducted. It is anticipated to reach an output of 150,000 — 200,000 cubic meters per annum for spiral cutting and drying, thereby enabling the production of veneer to be totally profitable.

Hotel

Due to the occurrence of avian flu at the beginning of 2004, occupancy rate of the Guilin Plaza Hotel dropped significantly during the first quarter. In order to minimise the impact of external factors to the operations of the hotel, the management made concrete adjustments to its marketing strategy, and emphasis of promotion was placed on business conference groups so as to improve the occupancy rate and operating efficiency of the hotel.

As at 31st December 2004, Guilin Plaza Hotel recorded a turnover of HK\$19,804,000 in the whole year, an increase of 39.32% over the previous year. Operating profit was HK\$3,901,000, an increase of 167.19% over the previous year. Its average occupancy rate in the whole year was 61.73%, an increase of 8% over the previous year.



CHAIRMAN'S STATEMENT (CONTINUED)

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 its Chinese party was involved in a number of litigations, it was unable to repay the outstanding debts to the Company as agreed. Wen Ying Investments Limited, a wholly-owned subsidiary of the Group, is still a party to the joint venture project. In order to avoid the Company having to assume the joint venture's debts, and to minimize the Group's losses, the opportunity of disposal was finally sought through repeated negotiations. In February 2004, the Company succeeded in transferring its shareholding in Wen Ying Investments Limited to an independent third party for a consideration of RMB6,000,000.

In respect of the land lots No. 07, 08 and 09 located at district No. 18 in Huizhou held by the Group, prices of commercial properties in Huizhou continued to drop, while rate of vacancy of commercial properties were also high standing, since the acquisition of the above plots of land by the Company. As the relevant plot of land is only restricted for development into commercial buildings, the Company repeatedly made applications to the relevant government authority to change the use of the land for both residential and commercial purposes. However, the applications were not approved by the relevant government authority. In view of the above, we have been unsuccessful in identifying a buyer or developer to dispose of or cooperate for the development of the above land in the past years. In July 2004, the Company received a notice from the People's Government of Huizhou City, allegedly saying that the plot of land was not used for development and construction, and the municipal government decided to recover the land use right. The Company applied to the People's Government of Guangdong Province for administrative review and negotiated with the People's Government of Huizhou City, whereupon the People's Government of Huizhou City revoked its decision regarding the recovery of the land use right in November 2004. Since the People's Government of Huizhou City may declare the relevant plot of land as idle land pursuant to the relevant laws of the PRC any time, and impose idle charges on the Company, as well as recover the land use right unconditionally two years after the date of declaration as idle land, the Company finally succeeded in entering into a land use right transfer agreement with an independent third party through various channels for the transfer of the interests in the above three plots of land on 6th February 2005, for a consideration of RMB51,000,000, in order to minimise our losses, and to protect the interests of the Company and the shareholders. A down payment of RMB5,100,000 was received by the Company on the date the agreement was signed, and it is expected that the transfer will be completed within 2005. A loss of HK\$31,890,000 was incurred by the Group, and was reflected in the accounts in 2004.



CHAIRMAN'S STATEMENT (CONTINUED)

FINANCIAL SITUATION

As at 31st December, 2004, the Group's total assets amounted to HK\$640,897,000 (2003: HK\$690,404,000) and bank loans were fully repaid in January 2004 (2003: HK\$22,750,000). The total value of convertible notes due in 2007 was HK\$198,800,000 (2003: HK\$198,800,000). Net asset value amounted to HK\$309,528,000 (2003: HK\$351,221,000). Gearing ratio was 31.02% (2003: 32.09%).

Bank deposits and cash of the Group were approximately HK\$35,958,000 (2003: HK\$34,158,000), which was sufficient to satisfy the Group's future working capital requirements.

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

Currently, the fiberboard manufacturing operations of Jia Shun has become the key operating business of the Group. Despite the unsatisfactory effect on operation efficiency upon the occurrence of unforeseen incidents, we can still envisage from the market that the prospect of fiberboard manufacturing industry is promising. In view of the above, we shall continue to integrate resources, and strengthen our efforts in management. Under practicable circumstances, the scope of fiberboard business will expand, which will capitalize favorable opportunities in the market, and promote the enhancement of its efficiency.

Nevertheless, as there is still shortage in the supply of raw materials such as timber and coal, and prices continued to soar, it seriously affected the profitability of fiberboard business. Therefore, in order to reduce production costs and protect the stable supply of raw materials, the Group is now exploring and studying the possibility of establishing a timber raw material resources base, so as to ensure the fiberboard operation of the Company to continue to develop steadily.