

## CHAIRMAN'S STATEMENT

In 2005, the Board of Directors of the Group further strengthened the development direction of the Company and enhanced internal governance. It has adopted a strategy of emphasizing professionals, improving the system, clarifying the task and increasing rewards and penalties so as to significantly drive the initiative of staff, sharply reduce production costs, improve product quality and attain balance between production and sales, thereby achieving encouraging results. The Group recorded a turnover for the whole year of HK\$339,865,000, down 9.5% from 2004. Cash balance as at the end of the year was HK\$81,505,000, up 127% from 2004. Operating profit for the whole year was HK\$10,869,000. Since the new or revised accounting standards had to be adopted during the year, the Group had goodwill impairment loss of HK\$7,604,000, additional depreciation in respect of the hotel property of HK\$7,500,000 (2004 restated: HK\$7,174,000) and additional provision for virtual interest of convertible notes of HK\$6,257,000.

### FIBERBOARD OPERATIONS

The sustained high prices of raw materials in China and tight supply of timber at the beginning of the year result in the failure to operate at full capacity during the early period of the year. This led to a sharp increase in the production cost with unsatisfactory operating results in the first half of the year. In light of this, the management has actively analyzed and investigated the cause in a comprehensive manner, analyzed the cost structure of products in detail and keep abreast of market information accurately, and took effective measures decisively in the second half of the year to further improve production techniques and product quality, reduce production costs and drive the initiative of staff. Consequently, the threat posed by a tight supply of raw materials and high prices was eliminated and the operating efficiency was significantly improved. During the year, the total sales volume of medium density fiberboard amounted to 278,629 cubic metres, down 7.2% from 2004. The total sales amount was HK\$302,964,000, down 0.2% from 2004. However, operating profit was HK\$36,793,000, up 273% from 2004. As at 31 December, 2005, the Group reserved timber of 87,492 tonnes worth approximately HK\$24,638,000 so as to be well-prepared for balanced production in 2006.

For the year, the turnover of veneer operations amounted to HK\$13,523,000 and the operating loss was HK\$1,431,000, down 72.9% and 91.4% from 2004 respectively. Taking into account the operating environment and the economic effectiveness of veneer operations, the Board of Directors decided to suspend its veneer operations from July this year.

## CHAIRMAN'S STATEMENT (CONTINUED)

In addition, the directors of the Company have actively followed up the litigation relating to the Company's subsidiaries, namely Nanhai Jia Shun Timber Company Limited and Nanhai Heng Da Timber Company Limited, as disclosed in 2004 Annual Report, 2005 Interim Report and the announcement dated 1 December 2005 (the "Announcement"). Based on the rationale stated in the Announcement, the Board strongly believes that they can successfully defend the claims.

### HOTEL OPERATIONS

During the past year, since the growth of room supply exceeded that of clients in the Guilin hotel market, competition in the aspects of clients and prices was very intense. In view of this, the management, on one hand, has strengthened staff training, improved service standard and efficiency so as to reduce client loss. On the other hand, it has stepped up its sales efforts among potential clients to secure clients and increase the occupancy rate. In addition, the management has also strengthened cost management and control to further reduce the operating expenditure. The average occupancy rate of the Guilin Plaza Hotel in 2005 was 66.8% and the turnover for the whole year was HK\$22,359,000, up 8.1% and 12.9% from 2004 respectively. However, under the new or revised accounting standards, the depreciation for the Guilin Plaza Hotel for the whole year increased additionally by HK\$7,500,000 and amounted to HK\$7,752,000 plus the original normal depreciation, resulting in an operating loss of HK\$2,750,000 for the hotel operations this year.

### PROPERTY INVESTMENT

After conducting market investigations and analyses, the Group has taken measures to revitalize its vacant land and properties which were sold or leased as the Group deemed fit. In 2005, the Group entered into a land use right transfer agreement with an independent third party relating to the transfer interests in respect of land lots No.07, 08 and 09 located at District No. 18, Huizhou City. The transfer amount is RMB51,000,000. The Group has received part of the transfer amount totaling RMB10,200,000. As part of such land is illegally occupied, the completion of the above transfer is pending upon completion of matters relating to expulsion of illegal occupants. Besides, 35 offices with a total area of 4,288 square metres at the International Commercial Building (國際商業大廈) in Huizhou City have all been leased. The two commercial levels of the International Commercial Building (國際商業大廈) in Shantou have also been leased. Accordingly, the Group's rental income increased. For the year, the overall rental income of the Group was HK\$1,019,000, up 25.6% from 2004.

## CHAIRMAN'S STATEMENT (CONTINUED)

### FINANCIAL SITUATION AND ANALYSIS

As at 31 December, 2005, the Group had total assets of HK\$678,111,000 (31 December, 2004 restated: HK\$640,897,000) and no bank loans (31 December, 2004: nil). Convertible notes due in 2007 amounted to HK\$189,487,000 (31 December, 2004 restated: HK\$168,255,000). Net assets amounted to HK\$345,232,000 (31 December, 2004 restated: HK\$340,073,000). The gearing ratio was 27.9% (31 December, 2004 restated: 26.3%).

The Group's bank deposits and cash were approximately HK\$81,505,000 (2004: HK\$35,958,000), which were 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

Following years of restructuring and efforts, the Group has laid relatively solid foundation in its operating capabilities, financial soundness and corporate governance. The focus and objective of the Group in 2006, on one hand, is to establish a timber supply base to eliminate the obstacle of a shortage of timber supply so as to ensure the operation of production lines at full capacity and balanced production. On the other hand, the Group will develop channels for sales of timber and establish a stable distribution network to ensure smooth product flow, thereby achieving balance between production and sales. In addition, the Company will continue to put emphasis on staff training, improve the professional skills and service standard of staff so as to increase the product quality and service standard, increase market share and improve operating effectiveness of the enterprise.

The economy of China has been growing on a sustained basis and the fiberboard market delivers a great potential for development. The Group will continue to adopt a prudent operation policy to establish a solid foundation. The Group is optimistic that on the existing basis, it can further capitalize on the existing advantages of enterprises under its management to build up quality product and service brands and gradually establish its competitive edge in the industry, thereby striving for satisfactory returns for its shareholders.

I would like to take this opportunity to express my heartfelt thanks to all directors and all staffs for their continued efforts, enthusiasm and contribution to the Group.

**Leung Siu Fai**  
*Chairman*

Hong Kong , 6 April, 2006