

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

During the past year, the Group continued to strengthen its internal governance, focus on staff training, implement operating decisions, encourage technological innovation and reforms and develop sales channels. With the united efforts of its staff, the Group recorded encouraging growth in its operating results. As at 31 December 2006, the Group's turnover was HK\$430,016,000, representing an increase of 26.5% over the last year. Cash balance as at the end of the year was HK\$137,415,000, representing an increase of 68.6% over the last year. Operating profit increased sharply by 552.7% to HK\$70,940,000, including additional depreciation in respect of the hotel property of HK\$7,952,000 and additional provision for virtual interest of convertible notes of HK\$6,539,000.

FIBERBOARD OPERATIONS

The management has made tremendous efforts in various aspects internally and managed to increase the operating efficiency significantly. During the past year, the management continued to strengthen internal governance to drive the initiative of staff with concerted efforts made by all departments. For raw materials, the Group continued to actively purchase and reserve timber, which eased the tight supply of raw materials and ensured the full-load production of the production lines. Meanwhile, the Group improved its production technology through reconstructing machineries to further increase productivity and reduce material consumption and cost so as to achieve the result of high production and high effectiveness. As for sales, the Group successfully established a stable distribution network, resulting in smooth product flow and attaining balance between production and sales. The management also closely monitored changes in the market and adjusted product prices as appropriate to increase sales income. With the above policy and measures, the gross profit margin of the fiberboard business increased to 17.85% from 7.81% for the last year. This significantly increased the Group's operating profit. In November 2006, the Group purchased the production line originally leased by it for RMB10,063,000, resulting in annual rental savings of RMB4,406,000. The Group intends to further purchase the assets currently leased by it to stabilize and increase the production efficiency and further reduce the production cost so as to make preparations for the business development of the Group. As at 31 December 2006, total production of medium density fiberboards was 345,974 cubic metres. Total sales volume was 344,963 cubic metres, up 27.4% and 23.8% respectively from the same period last year. Total sales amount was HK\$403,817,000, representing an increase of 33.3% over the last year. Net operating profit was HK\$71,478,000, representing an increase of 94.3% over the last year.

CHAIRMAN'S STATEMENT (CONTINUED)

HOTEL BUSINESS

Facing intense competition in the Guilin hotel market, the Guilin Plaza, on one hand, has strengthened its sales team and sales efforts to continuously develop new clients, resulting in an increase in the occupancy rate and the operating income. On the other hand, it has reconstructed its equipment and facilities to reduce the expenditure on water, electricity and fuels with a view to reducing the operating cost. In addition, the management has continued to emphasize staff training and maintain the high quality service standard of the hotel so as to stabilize and attract clients. The average occupancy rate of the Guilin Plaza this year was 69.7%, up 2.9% from the same period last year. Turnover was HK\$24,654,000, representing an increase of 10.3% over the last year. After deducting depreciation of hotel property of HK\$7,952,000, the Guilin Plaza recorded an operating profit of HK\$983,000.

PROPERTY INVESTMENT

Upon active promotions to sluggish properties by the Group, the properties of the International Commercial Building in Huizhou and the Kiu Sun Factory Building in Kwun Tong, Hong Kong have been fully let. The overall rental income of the Group for the year was HK\$1,545,000, up 51.6% from the last year.

As for the progress achieved regarding the transfer of the land lots located in District No.18, Huizhou, the migrant workers who occupied the land lots have withdrawn in late 2006. The Group has received the third payment in the sum of RMB20,000,000 pursuant to the contract and is demanding payment of the balance from the transferee (approximately more than RMB17,000,000 after deducting tax).

PROGRESS OF LITIGATION

As at the date of this Annual Report, progress of litigation regarding the Company's wholly-owned subsidiaries Foshan City Nanhai Jia Shun Timber Company Limited ("Jia Shun") and Nanhai Heng Da Timber Company Limited ("Heng Da") with Shenzhen Development Bank was as follows:

On 7 February 2007, Jia Shun received a "List of sealed and detained properties" issued by the Intermediate People's Court (the "Court") of Foshan, Guangdong, for the sealing of the machinery equipment and plants of Jia Shun, for which no disposals were allowed. According to the opinions of the PRC lawyers, the relevant sealing was merely to prohibit disposal of the relevant properties by Jia Shun, but the relevant properties were still available for daily use by Jia Shun, there was no influence on the production and operation of Jia Shun. In addition, the PRC lawyers were of the opinion that the Court procedures of the current sealing did not comply with the format and procedures required by the relevant laws. Therefore, Jia Shun has raised petition to the Court on 5 March 2007, and requested to remove the above sealing.

CHAIRMAN'S STATEMENT (CONTINUED)

As at the date of this Annual Report, the relevant sealing has no impact on the production and operation of Jia Shun, and Jia Shun is operating as usual.

FINANCIAL POSITION AND ANALYSIS

As at 31 December 2006, the Group had total assets of HK\$764,171,000 (31 December 2005: HK\$678,111,000) and no bank loans (31 December 2005: nil). Convertible notes due on 9 May 2007 amounted to HK\$196,026,000 (31 December 2005: HK\$189,487,000). Net assets amounted to HK\$406,532,000 (31 December 2005: HK\$345,232,000). The gearing ratio was 25.7% (31 December 2005: 27.9%).

As at 31 December 2006, the convertible notes issued by the Group have repayment terms of less than one year, and have to be treated as current liabilities, causing the Group's net current liabilities to decrease to HK\$16,060,000 (31 December 2005: net current assets of HK\$96,727,000), and the current ratio (being current assets divided by current liabilities) was reduced to 1.04 times (31 December 2005: 1.67 times). The Group's bank deposits and cash amounted to HK\$137,415,000 (31 December 2005: HK\$81,505,000), representing an increment of HK\$55,910,000 during the period, which was mainly derived from a net cash inflow from operations of HK\$46,594,000. Therefore, the Group has prudently assessed the capital requirements in respect of the maturing convertible notes, and is now implementing the following effective measures to cope with the maturing debts:

- 1) Go through the procedures for the refund of VAT refund for 2006 promptly so as to collect as soon as possible the refund receivable of approximately RMB27,000,000 (VAT refund for January to November 2006 in the sum of approximately RMB21,000,000 has been refunded during the period between 1 January and 28 February 2007);
- 2) Promptly collect the remaining balance of the consideration for the transfer of the land lots located in District No.18, Huizhou in the sum of approximately more than RMB17,000,000 (after deducting tax, etc.);
- 3) Make every effort to enhance the Group's operation efficiency, so as to increase net cash inflow from operations;
- 4) Consider appropriately disposal of non-core operations for cash; and
- 5) Proactively seeking for new indebtedness and equity financing (such as additional banking facilities).

Based on the Group's currently available cash implementation of the above effective measures, the Group considers that the Group will have sufficient resources to satisfy its financial commitments in the foreseeable future.

CHAIRMAN'S STATEMENT (CONTINUED)

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 efforts and rectification, the Group has managed to overcome the issues that remained unsolved for years hindering its progress, laying a relatively solid foundation and creating conditions for expansion and development. Accordingly, the Group's operating target for the coming year is to actively and steadily advance, develop and expand by building upon its existing operations.

Since there is still a great demand for fiberboards in the global market, particularly developing countries, there is still much room for the development of the fiberboard operations. Therefore, over the coming year, the Group will focus its efforts on establishing stable channels for the supply of timber so as to satisfy the Group's production needs for existing and future expansion. Meanwhile, the Group will also devote itself to improving technology and technological innovation for products so as to increase the quality and added-values of products. It will adapt to the demand for products in the market and develop in the direction of product diversification. In addition, the Group will take full advantage of its existing resources and edges to actively seek for expansion opportunities, enhance the development of the fiberboard and related operations and further increase its corporate profitability so as to generate satisfactory returns for its shareholders.

Leung Siu Fai

Chairman

Hong Kong, 15 March 2007