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EXECUTIVE DIRECTORS

Mr. Kwok Viem, Peter (*Chairman*)
Mr. Ma Ting Hung (*Vice Chairman*)
Ms. Li So Mui
Mr. Qiu Yiyong
Mr. Sun Xinguo
Mr. Tian Yuchuan
Mr. Zhang Jijing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan Ren Da, Anthony
Mr. Tsang Link Carl, Brian

AUDIT COMMITTEE

Mr. Fan Ren Da, Anthony
Mr. Tsang Link Carl, Brian

COMPANY SECRETARY

Ms. Li So Mui

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

REGISTERED OFFICE

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Bermuda

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SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Stock Code: 1205

PRINCIPAL BANKER

CITIC Ka Wah Bank Limited

(Expressed in HK\$'000)

THREE YEARS KEY FINANCIAL DATA

	2002	2001	2000
Turnover	24,003	52,753	58,451
Net profit/(loss) attributable to shareholders	(15,217)	(10,244)	41,224
Total assets	1,252,386	1,281,204	160,515
Net assets	1,222,495	239,611	104,391

On behalf of the board of directors (the "Directors"), it is my great pleasure to present to our shareholders the annual report of CITIC Resources Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2002.

The global uncertainties and international conflicts continue to affect the economic condition. These have been prolonging lackluster growth in our primary markets and perpetuating price fluctuations in raw materials such as logs, the primary raw materials of our manufacturing operations. The global economy is still vulnerable and that unavoidably, this year is going to be another challenging year.

The Company obtained further equity from a group member of China International Trust and Investment Corporation ("CITIC"), resulting that its ultimate shareholding interest in the Company is 41.26% of the total issued share capital of the Company. Following this and to better reflect the business intention of the Group in future, the name of the Company was changed to CITIC Resources Holdings Limited in October 2002. Given the cash rich position, the Group is ready for investment and development, particularly in natural resources projects such as forestry and aluminium.

Although the global economic slowdown persists and presents an uncertain business environment, the Group remains confident of its resilience in the face of economic adversity. The Directors remain alert to ensure that our shareholders receive excellence in corporate governance in all respects and continue to review critically the Group's internal controls and disciplines and to make improvements wherever possible. We are confident that the existing systems and control are well performed - but we are not contented.

RESULTS

The Group recorded a consolidated turnover of HK\$24.0 million for the year ended 31 December 2002 (2001: HK\$52.8 million), slipped by 54.5% as compared with last year. Net loss attributable to shareholders was HK\$15.2 million (2001: HK\$10.2 million).

As at 31 December 2002, total assets amounted to HK\$1,252.4 million (2001: HK\$1,281.2 million). Net assets amounted to HK\$1,222.5 million (2001: HK\$239.6 million).

DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year.

BUSINESS REVIEW AND OUTLOOK

The principal activities of the Group are the manufacture and sale of plywood. As the timber industry is still affected by the arduous economic environment, the business remains difficult. The Group has experienced an unexpected slowdown notwithstanding that the Directors have expended considerable effort in strengthening the business and imposed a number of measures to sustain the performance.

Though difficulties remain, the Group continues to pursue active developments in its core business. In the latter half of the year, to further diversify the products and expand the customer base, the Group had suspended production for several months to reconstruct the production lines. New production line of veneer has been set up and undergone trial run. Although the temporary suspension of production had greatly affected the performance of last year, it will broaden the scope of operations and enhance the efficiency and productivity in future, representing an evolution towards a greater level of customization and product differentiation. The substantial decrease in turnover was also caused by the aggressive market competition in plywood products, coupled with the unexpected continuous decline in demand since 2000.

The sustained focus and core expertise of the Group, enhanced by the expansion and diversification of operations, encourage confidence in the long-term business prospects. The Group took the opportunity to spruce up its strengths and competitive edge by revisiting and refocusing its business strategy and product portfolio. This re-organization evolution is critical in fully equipping the Group to maximize its potential and optimize its business performance. At the same time, the Directors continue to reduce the operating costs and to improve the quality of the products.

To cater for future growth of the Group, new directors with expertise and extensive experience in the forestry and aluminium industry have joined the Group and are expected to provide the Group with power in new business ventures. The Directors are actively exploring investment opportunities in natural resources in the hope that these, over time, will make a meaningful contribution to the earnings of the Group.

Given the strong financial position of the Group, the Directors are optimistic about the business growth and focused investments. The financial strength will be used wisely and with discretion. The Group will strive to restore a profit growth and to leverage the available opportunities to maximize the returns for its shareholders.

APPRECIATION

I would like to express my sincere gratitude to our staff for their hard work and dedication over the past year, and also to our shareholders, customers, suppliers, bankers and business associates for their continuous support. We look forward to a better set of results in the year ahead.

PUBLICATION OF ANNUAL REPORT

The 2002 Annual Report containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the respective website of The Stock Exchange of Hong Kong Limited and the Company in due course.

Peter Kwok Viem

Chairman

Hong Kong, 11 April 2003

FINANCIAL REVIEW

Group's financial results:

Operating results	Notes	Year ended 31 December		Increase/ (decrease) %
		2002 HK\$ million	2001 HK\$ million	
• Turnover	1	24.0	52.8	(54.5)
• Net loss attributable to shareholders	2	15.2	10.2	49.0
• Loss per share		HK(0.56 cent)	HK(0.50 cent)	

Financial position	Notes	As at 31 December		Increase/ (decrease) %
		2002 HK\$ million	2001 HK\$ million	
• Cash & bank balances	3	1,123.5	141.9	691.8
• Total assets		1,252.4	1,281.2	(2.2)
• Shareholders' equity	3	1,222.5	239.6	410.2

Financial ratios	Notes	2002	2001
		• Gross loss margin *1	4
• Stock turnover *2	5	5.1 times	6.9 times
• Debtors payment period *3		20 days	16 days
• Creditors payment period *4	6	14 days	44 days
• Current ratio *5	3	62.8 times	1.1 times
• Total liabilities to total capital *6	7	2.4%	14.8%

*1 gross loss / turnover

*2 cost of sales / [(opening stock + closing stock) / 2]

*3 accounts receivable / turnover x 365 days

*4 accounts payable / cost of sales x 365 days

*5 current assets / current liabilities

*6 liabilities / (shareholders' equity + liabilities) (2001: excluding the loan pledged by bank deposit)

Notes:

1. the decrease was caused by:
 - (a) the temporary suspension of production for the reconstruction of production lines,
 - (b) the aggressive market competition in plywood products, and
 - (c) the unexpected continuous decline in demand since 2000

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT'D)

2. the increase of loss was caused by the aggressive market competition and the loss on disposal and written-off of fixed assets arising from the reconstruction of production lines
3. the increase was a result of new equity of HK\$1,000 million, which was a secured loan in 2001
4. the economies of scale were not attained
5. the deterioration was due to the temporary suspension of production
6. the credit term allowed by the creditors was shortened due to small volume of individual transaction
7. gearing was sustained at healthy level

During the year, the Group ceased the production of fancy plywood as the selling price of the products dropped dramatically in the past several years. It was inevitably to cease it in order to reduce the negative impact to the Group. Focus was put on plywood, representing almost the total production. At the end of the year, the new production line of veneer has undergone trial run. The Directors hope that the market will pick up gradually this year. For the time being, the Group still focuses on its manufacturing activities in the People's Republic of China (the "PRC").

LIQUIDITY AND FINANCIAL RESOURCES

The Company obtained further equity from Keentech Group Limited ("Keentech"), an indirect wholly-owned subsidiary of China International Trust and Investment Corporation during the year. In June 2002, the Company entered into agreements to acquire 35% of the voting rights of Fletcher Challenge Forests Limited ("Fletcher"), a listed company in New Zealand. To partly satisfy the acquisition cost, the convertible loan notes of HK\$1,000 million issued in January 2002 by the Company to Keentech were converted into equity in June. However, the acquisition was not approved by the shareholders of Fletcher in August and therefore, the proceeds remain in the Company and will be used for other investments.

As at 31 December 2002, the Group was free from bank borrowings and the cash balance was HK\$1,123.5 million. The Directors are of the view that there is sufficient cash to satisfy the working capital needs and other financing requirements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group had around 200 full time employees, including the management and administrative staff and the production workers. Most of them station in the PRC while the remaining in Hong Kong.

The employees' remuneration, promotion and salary increment are assessed based on individual's performance, professional and working experience and are referred to the prevailing industry practice. Rent-free quarters are provided to the PRC employees. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme.

DIRECTORS

Mr. Kwok Viem, Peter	<i>Chairman</i>
Mr. Ma Ting Hung	<i>Vice Chairman</i>
Ms. Li So Mui	<i>Executive Director</i>
Mr. Qiu Yiyong	<i>Executive Director</i>
Mr. Sun Xinguo	<i>Executive Director</i>
Mr. Tian Yuchuan	<i>Executive Director</i>
Mr. Zhang Jijing	<i>Executive Director</i>
Mr. Fan Ren Da, Anthony	<i>Independent Non-executive Director</i>
Mr. Tsang Link Carl, Brian	<i>Independent Non-executive Director</i>

DIRECTORS' BIOGRAPHIES

Mr. Kwok Viem, Peter, the Chairman of the Company, is responsible for the strategic planning and corporate development of the Group. He received a Master of Philosophy Degree in Management Studies from the University of Hong Kong and a Doctoral Degree in Finance from the University of California at Berkely. He has over 27 years' experience in the banking and finance industry and has held senior management positions with various financial institutions. In February 1998, he became a member of the Chinese People's Political Consultative Conference.

Mr. Ma Ting Hung, the Vice Chairman and Chief Executive of the Company, is responsible for the business development and financial management of the Group. He holds a Bachelor of Arts Degree majoring in Economics from the University of Southern California. Mr. Ma has over 15 years' experience in the banking and finance industry.

Ms. Li So Mui, joined in 2000 as an Executive Director and the Company Secretary of the Company, is responsible for the financial management and general administration of the Group. She holds a Master Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Association of International Accountants. Ms. Li has over 25 years' experience in the accounting and banking field.

Mr. Qiu Yiyong, joined in 2002 as an Executive Director of the Company, is responsible for the corporate development of the Group. He holds a Bachelor of Economics Degree from the Xiamen University and is a qualified senior statistician in PRC. He is the managing director of Shortridge Limited and a director of Keentech Group Limited, both are wholly owned subsidiaries of China International Trust and Investment Corporation ("CITIC"). He also holds directorship in several other subsidiaries of CITIC group. Before joining CITIC group, he was a director of two companies listed on The Stock Exchange of Hong Kong Limited. Mr. Qiu has over 21 years' experience in investment management.

Mr. Sun Xinguo, joined in 2002 as an Executive Director of the Company, is responsible for the corporate development of the Group. He holds a Bachelor of Arts Degree from the Fudan University. He is a director of CITIC and the president and CEO of Citifor Inc. and CITIC Forests (NZ) Limited. He also holds directorship in several other subsidiaries of CITIC group. Mr. Sun has over 27 years' experience in timber investment, marketing and operation, import and export, securities investment and corporate finance.

Mr. Tian Yuchuan, joined in 2001 as an Executive Director of the Company, is responsible for the management and operations of the Group. He holds a Bachelor of Arts Degree from the Beijing Foreign Studies University. He is the deputy managing director of CITIC Forests (NZ) Limited and a director of CITIC USA Holdings Inc., CITIC Canada Limited and Citifor Inc., an USA based investment company having assets in timber and forest products. Mr. Tian has over 16 years' experience in equity investment, corporate finance, business management and forestry industry.

Mr. Zhang Jijing, joined in 2002 as an Executive Director of the Company, is responsible for the corporate development of the Group. He holds a Bachelor of Engineering Degree from the Hefei Polytechnic University and a Master of Economics Degree from the Graduate School of the Chinese Academy of Social Sciences in Beijing. He is a director of CITIC, the deputy chairman of CITIC Australia Pty. Limited and the chairman of CITIC Australia Trading Limited, a company listed on The Australian Stock Exchange Limited. Mr. Zhang has over 17 years' experience in corporate management, industrial investment, business finance and aluminium industry.

Mr. Fan Ren Da, Anthony, joined in 2000 as an Independent Non-executive Director of the Company. He holds a Master Degree in Business Administration from the USA. He is the managing partner of AsiaTech Ventures Limited. He also holds directorship in Jin Feng Cigarette Paper Company (China), Hong Kong United Youth Association and a number of high-tech companies. Before that, he had held senior management positions with various financial institutions and was the managing director of a company listed on The Stock Exchange of Hong Kong Limited. Mr. Fan is an independent non-executive director of two companies listed respectively on The Stock Exchange of Hong Kong Limited and the Singapore Exchange Securities Trading Limited.

Mr. Tsang Link Carl, Brian, joined in 2000 as an Independent Non-executive Director of the Company. He is a practicing solicitor in Hong Kong and is a partner of the Hong Kong law firm of Lu, Lai & Li. He holds a LLB Degree from the King's College, London. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. Mr. Tsang is a non-executive director of several other companies listed on the Main Board and the GEM Board of The Stock Exchange of Hong Kong Limited.

SENIOR MANAGEMENT'S BIOGRAPHIES

Mr. Chung Ka Fai, Alan, joined in 1996 as a Chief Accountant of the Company. He is an associate member of the Australian Society of Certified Practising Accountants. Mr. Chung has over 12 years' experience in the accounting field and previously worked for a number of multinational companies.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Pacific Place Conference Centre, Mont Blanc Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Friday, 27 June 2003 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2002.
2. To re-elect directors and authorize the directors to fix their remuneration.
3. To re-appoint auditors and authorize the directors to fix their remuneration.

By Order of the Board

Li So Mui

Company Secretary

Hong Kong, 11 April 2003

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the head office and principal place of business of the Company at Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2002.

CHANGE OF NAME

Pursuant to a resolution passed on 31 October 2002 and the approval of the Registrar of Companies in Bermuda and Hong Kong on 31 October 2002 and 27 November 2002 respectively, the name of the Company was changed from South East Asia Wood Industries Holdings Limited to CITIC Resources Holdings Limited.

PRINCIPAL ACTIVITIES

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.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 20 to 48.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

(Expressed in HK\$'000)

Results

	Year ended 31 December			Period ended	Year ended
	2002	2001	2000	31 December	30 September
Turnover	24,003	52,753	58,451	303,654	440,177
Profit/(loss) before tax	(15,217)	(10,244)	23,888	(400,012)	(16,864)
Tax	-	-	17,183	-	-
Profit/(loss) before minority interests	(15,217)	(10,244)	41,071	(400,012)	(16,864)
Minority interests	-	-	153	555	10,585
Net profit/(loss) attributable to shareholders	(15,217)	(10,244)	41,224	(399,457)	(6,279)

Assets, Liabilities and Minority Interests

	31 December	31 December	31 December	31 December	30 September
	2002	2001	2000	1999	1998
Fixed assets	107,959	114,703	116,381	127,998	418,378
Prepayments	12,582	-	-	-	-
Long term investments	-	-	9,431	10,998	-
Other long term assets	-	-	-	-	21,021
Current assets	1,131,845	1,166,501	34,703	53,372	282,820
Total assets	1,252,386	1,281,204	160,515	192,368	722,219
Current liabilities	18,029	1,029,894	32,662	220,123	216,973
Long term bank and other loans	11,862	11,699	23,462	40,451	221,044
Long term portion of lease payable	-	-	-	-	12,761
Total liabilities	29,891	1,041,593	56,124	260,574	450,778
Minority interests	-	-	-	4,257	16,341
	1,222,495	239,611	104,391	(72,463)	255,100

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity on page 22 respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay its debts as and when they fall due. The Company's share premium account, with a balance of HK\$1,200,879,000 as at 31 December 2002, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$1,066,000 (2001: HK\$1,024,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 59% of the total sales for the year and sales to the largest customer included therein amounted to 19%. Purchases from the Group's five largest suppliers accounted for 61% of the total purchases for the year and purchases from the largest supplier included therein amounted to 18%.

None of the directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest at any time during the year in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year and at the date of this report were:

Executive directors:

Mr. Kwok Viem, Peter

Mr. Ma Ting Hung

Ms. Li So Mui

Mr. Qiu Yiyong (appointed on 1 February 2002)

Mr. Sun Xinguo (appointed on 1 February 2002)

Mr. Tian Yuchuan

Mr. Zhang Jijing (appointed on 1 February 2002)

Mr. Mak Sun Keung, Albert (resigned on 1 February 2002)

Independent non-executive directors:

Mr. Fan Ren Da, Anthony

Mr. Tsang Link Carl, Brian

The independent non-executive directors are not appointed for a specific term and all of the directors, without limitation to executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-law 87(1) & (2) of the Company's bye-laws, Mr. Ma Ting Hung and Mr. Fan Ren Da, Anthony will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material beneficial interest, either direct or indirect, in any contract of significance to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as set out below:

Director	Type of interest	Number of ordinary shares of HK\$0.05 each in the Company
Mr. Kwok Viem, Peter (Note)	Corporate	1,440,000,000
Mr. Ma Ting Hung (Note)	Corporate	1,440,000,000
Mr. Zhang Jijing	Family	28,000

Note: The shares disclosed above are held by United Star International Inc., a company incorporated in the British Virgin Islands, which is beneficially owned as to 50% by Mr. Kwok Viem, Peter and 50% by Mr. Ma Ting Hung.

In addition to the above, one of the directors has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme disclosed in note 22 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of the Hong Kong Statement of Standard Accounting Practice 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 22 to the financial statements. During the year ended 31 December 2002 and up to the date of this report, no share options were granted, exercised, lapsed, cancelled or outstanding under Scheme.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the following interests of 10% or more in the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares held	Percentage of total issued shares
United Star International Inc. (Note 1)	1,440,000,000	43.68
Keentech Group Limited (Note 2)	1,360,180,588	41.26
CITIC International Holdings Limited (Note 2)	1,360,180,588	41.26
China International Trust and Investment Corporation (Note 2)	1,360,180,588	41.26

Note 1: These interests are also included as corporate interests of Mr. Kwok Viem, Peter and Mr. Ma Ting Hung, as disclosed under the heading "Directors' interests in shares" above.

Note 2: Keentech Group Limited, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC International Holdings Limited, a company incorporated in the British Virgin Islands. China International Trust and Investment Corporation, a company incorporated in the People's Republic of China, is the direct holding company of CITIC International Holdings Limited.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out under the heading "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 27 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

Peter Kwok Viem

Chairman

Hong Kong, 11 April 2003



安永會計師事務所

To the members

CITIC Resources Holdings Limited

(Formerly South East Asia Wood Industries Holdings Limited)

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong, 11 April 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2002

(Expressed in HK\$'000)

	Notes	2002	2001
TURNOVER	5	24,003	52,753
Cost of sales		<u>(28,535)</u>	<u>(56,315)</u>
Gross loss		(4,532)	(3,562)
Other revenue and gains	5	20,613	21,028
Selling and distribution costs		(989)	(1,406)
Administrative expenses		(20,209)	(22,389)
Other operating expenses		<u>(10,100)</u>	<u>(3,891)</u>
LOSS FROM OPERATING ACTIVITIES	6	(15,217)	(10,220)
Finance costs	9	<u>–</u>	<u>(24)</u>
LOSS BEFORE TAX		(15,217)	(10,244)
Tax	10	<u>–</u>	<u>–</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	11, 23	<u>(15,217)</u>	<u>(10,244)</u>
LOSS PER SHARE	12		
Basic		<u>HK(0.56 cent)</u>	<u>HK(0.50 cent)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

21

31 December 2002
(Expressed in HK\$'000)

	Notes	2002	2001
NON-CURRENT ASSETS			
Fixed assets	13	107,959	114,703
Prepayments	15	12,582	–
		<u>120,541</u>	<u>114,703</u>
CURRENT ASSETS			
Inventories	16	3,065	8,158
Prepayments, deposits and other receivables		3,939	14,082
Accounts receivable	17	1,343	2,356
Pledged bank deposit	18, 21	–	1,000,000
Cash and bank balances	18	1,123,498	141,905
		<u>1,131,845</u>	<u>1,166,501</u>
CURRENT LIABILITIES			
Accounts payable	19	1,067	6,787
Accrued liabilities and other payables	20	16,962	23,107
Other loans	21	–	1,000,000
		<u>18,029</u>	<u>1,029,894</u>
NET CURRENT ASSETS		<u>1,113,816</u>	<u>136,607</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,234,357</u>	<u>251,310</u>
NON-CURRENT LIABILITIES			
Other loans	21	11,862	11,699
		<u>1,222,495</u>	<u>239,611</u>
CAPITAL AND RESERVES			
Issued capital	22	164,824	106,000
Reserves	23	1,057,671	133,611
		<u>1,222,495</u>	<u>239,611</u>

Peter Kwok Viem
Director

Ma Ting Hung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2002

(Expressed in HK\$'000)

	Issued capital (note 22)	Reserves (note 23)					Sub-total	Total
		Share premium account	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses		
At 1 January 2001	96,000	126,998	65,527	-	4,104	(188,238)	8,391	104,391
New issue of shares	10,000	140,000	-	-	-	-	140,000	150,000
Share issuance expenses	-	(4,536)	-	-	-	-	(4,536)	(4,536)
Net loss for the year	-	-	-	-	-	(10,244)	(10,244)	(10,244)
At 31 December 2001 and 1 January 2002	106,000	262,462	65,527	-	4,104	(198,482)	133,611	239,611
Translation differences arising on consolidation	-	-	-	860	-	-	860	860
Net gains and losses not recognised in the profit and loss account	-	-	-	860	-	-	860	860
New issue of shares	58,824	941,176	-	-	-	-	941,176	1,000,000
Share issuance expenses	-	(2,759)	-	-	-	-	(2,759)	(2,759)
Net loss for the year	-	-	-	-	-	(15,217)	(15,217)	(15,217)
At 31 December 2002	164,824	1,200,879	65,527	860	4,104	(213,699)	1,057,671	1,222,495

CONSOLIDATED CASH FLOW STATEMENT

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Year ended 31 December 2002
(Expressed in HK\$'000)

	Notes	2002	2001 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(15,217)	(10,244)
Adjustments for:			
Interest expenses	9	–	24
Interest income	5	(12,409)	(6,305)
Exchange gains arising from bank deposits denominated in New Zealand dollars, net	5	(6,945)	–
Waiver of amount due to a former director of the Company	5	(1,135)	–
Waiver of other loans	5	–	(9,848)
Write-back of accounts and other payable	5	–	(3,207)
Loss on disposal of a long term investment	6	–	1,431
Depreciation	6	3,575	3,760
Loss on disposal/write-off of fixed assets	6	6,722	535
Operating loss before working capital changes		(25,409)	(23,854)
Decrease/(increase) in inventories		5,093	(55)
Decrease/(increase) in prepayments, deposits and other receivables		6,058	(3,488)
Decrease/(increase) in accounts receivable		1,013	(859)
Increase/(decrease) in accounts payable		(5,720)	5,036
Decrease in accrued liabilities and other payables		(5,105)	(4,597)
Cash used in operations		(24,070)	(27,817)
Interest paid		–	(24)
Net cash outflow from operating activities		(24,070)	(27,841)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		12,998	6,305
Exchange gains arising from bank deposits denominated in New Zealand dollars, net		6,945	–
Proceeds from disposal of a long term investment		3,500	2,000
Purchases of fixed assets	13	(3,931)	(2,754)
Proceeds from disposal of fixed assets		1,438	137
Decrease/(increase) in pledged bank deposits		1,000,000	(1,000,000)
Increase in prepayments		(12,582)	–
Net cash inflow/(outflow) from investing activities		1,008,368	(994,312)

CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

Year ended 31 December 2002

(Expressed in HK\$'000)

	Notes	2002	2001 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	21, 22	–*	150,000
Shares issuance expenses	22	(2,759)	(4,536)
Proceeds from issue of convertible loan notes		1,000,000*	–
Inception/(repayment) of current other loans		(1,000,000)*	1,000,000
Drawdown/(repayment) of non-current other loans		53	(1,915)
Net cash inflow/(outflow) from financing activities		(2,706)	1,143,549
INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		141,905	20,509
Effect of foreign exchange rate changes, net		1	–
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		1,123,498	141,905
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	709	308
Non-pledged time deposits with original maturity of less than three months when acquired	18	1,122,789	141,597
		1,123,498	141,905

* On 25 January 2002, the Company issued redeemable floating rate convertible loan notes (the "Notes") of HK\$1,000 million to Keentech Group Limited ("Keentech"), an indirect wholly-owned subsidiary of China International Trust and Investment Corporation. The proceeds from the issue of the Notes was applied to settle a loan of principal amount of HK\$1,000 million granted by Keentech to Maxpower Resources Limited, an indirect wholly-owned subsidiary of the Company.

The Notes were fully converted into 1,176,470,588 ordinary shares of the Company in June 2002. Further details of the other loans and the Notes are set out in notes 21 and 22 to the financial statements, respectively.

31 December 2002
(Expressed in HK\$'000)

	Notes	2002	2001
NON-CURRENT ASSETS			
Interests in subsidiaries	14	<u>99,625</u>	<u>96,214</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		2	1,936
Bank balances	18	<u>1,123,031</u>	<u>141,606</u>
		<u>1,123,033</u>	<u>143,542</u>
CURRENT LIABILITIES			
Accrued liabilities and other payables		<u>163</u>	<u>145</u>
NET CURRENT ASSETS			
		<u>1,122,870</u>	<u>143,397</u>
		<u>1,222,495</u>	<u>239,611</u>
CAPITAL AND RESERVES			
Issued capital	22	<u>164,824</u>	106,000
Reserves	23	<u>1,057,671</u>	<u>133,611</u>
		<u>1,222,495</u>	<u>239,611</u>

Peter Kwok Viem
Director

Ma Ting Hung
Director

31 December 2002

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.

Pursuant to a resolution passed on 31 October 2002 and the approval of the Registrar of Companies in Bermuda and Hong Kong on 31 October 2002 and 27 November 2002 respectively, the name of the Company was changed from South East Asia Wood Industries Holdings Limited to CITIC Resources Holdings Limited.

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 NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. As a result of the revision to SSAP 1, a consolidated statement of changes in equity is now included on page 22 of the financial statements in place of a consolidated statement of recognised gains and losses that was previously presented.

SSAP 11 prescribes the accounting treatments and disclosure requirements for foreign currency activities. The revised SSAP 11 requires the profit and loss accounts of overseas subsidiaries to be translated at the weighted average rates for the year, rather than translated at the applicable exchange rates ruling at the balance sheet date as was previously required. The revised SSAP has not had any significant impact on the financial statements.

2. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (CONTINUED)

SSAP 15 (Revised) prescribes the provision of information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the year into those from operating, investing and financing activities. In addition, cash flows from overseas subsidiaries arising during the year are now translated into Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. The format of the cash flow statement as set out on pages 23 and 24 has been revised in accordance with the revised SSAP 15. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. Disclosures are now required in respect of the Company's share option scheme, as detailed in note 22 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of this SSAP.

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 2002. 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.

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.

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits 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.

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.

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.

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the 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.

The employees of the Group's subsidiaries which operate 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.

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 applicable interest rate.

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.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement.

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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 cash equivalents 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.

31 December 2002
(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.

	Manufacture and sale of plywood		Trading of timber products		Consolidated	
	2002	2001	2002	2001	2002	2001
Segment revenue:						
Sales to external customers	22,281	52,753	1,722	-	24,003	52,753
Other revenue	49	1,175	-	-	49	1,175
	<u>22,330</u>	<u>53,928</u>	<u>1,722</u>	<u>-</u>	<u>24,052</u>	<u>53,928</u>
Segment results	<u>(22,533)</u>	<u>(14,530)</u>	<u>160</u>	<u>-</u>	<u>(22,373)</u>	<u>(14,530)</u>
Interest income and unallocated gains					20,564	19,853
Unallocated expenses					<u>(13,408)</u>	<u>(15,543)</u>
Loss from operating activities					<u>(15,217)</u>	<u>(10,220)</u>
Finance costs					-	<u>(24)</u>
Loss before tax					<u>(15,217)</u>	<u>(10,244)</u>
Tax					-	-
Net loss from ordinary activities attributable to shareholders					<u>(15,217)</u>	<u>(10,244)</u>
Segment assets	111,175	122,976	-	-	111,175	122,976
Unallocated assets					<u>1,141,211</u>	<u>1,158,228</u>
					<u>1,252,386</u>	<u>1,281,204</u>
Segment liabilities	24,821	30,284	-	-	24,821	30,284
Unallocated liabilities					<u>5,070</u>	<u>1,011,309</u>
					<u>29,891</u>	<u>1,041,593</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002
(Expressed in HK\$'000)

4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments (continued)

	Manufacture and sale of plywood		Trading of timber products		Consolidated	
	2002	2001	2002	2001	2002	2001
Other segment information:						
Depreciation	3,245	3,316	-	-	3,245	3,316
Unallocated amounts					330	444
					<u>3,575</u>	<u>3,760</u>
Other non-cash expenses	6,682	535	-	-	6,682	535
Unallocated amounts					40	-
					<u>6,722</u>	<u>535</u>
Capital expenditure	2,778	2,735	-	-	2,778	2,735
Unallocated amounts					1,153	19
					<u>3,931</u>	<u>2,754</u>

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

	PRC		Thailand		Other Asian countries		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
Segment revenue:								
Sales to external customers	19,689	52,050	340	703	3,974	-	24,003	52,753
	<u>19,689</u>	<u>52,050</u>	<u>340</u>	<u>703</u>	<u>3,974</u>	<u>-</u>	<u>24,003</u>	<u>52,753</u>
Other segment information:								
Segment assets	111,175	122,976	-	-	-	-	111,175	122,976
Unallocated amounts							1,141,211	1,158,228
							<u>1,252,386</u>	<u>1,281,204</u>
Capital expenditure	2,778	2,735	-	-	-	-	2,778	2,735
Unallocated amounts							1,153	19
							<u>3,931</u>	<u>2,754</u>

31 December 2002
(Expressed in HK\$'000)

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:

	2002	2001
Turnover		
Sales of goods	<u>24,003</u>	<u>52,753</u>
Other revenue and gains		
Sales of scraps	49	142
Interest income	12,409	6,305
Exchange gains arising from bank deposits denominated in New Zealand dollars, net	6,945	–
Waiver of amount due to a former director – note 20	1,135	–
Waiver of other loans – note 21	–	9,848
Write-back of accounts and other payables	–	3,207
Others	<u>75</u>	<u>1,526</u>
	<u>20,613</u>	<u>21,028</u>
Total revenue and gains	<u>44,616</u>	<u>73,781</u>

6. LOSS FROM OPERATING ACTIVITIES

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

	2002	2001
Cost of inventories sold *	28,535	56,315
Depreciation	3,575	3,760
Minimum lease payments under operating leases on land and buildings	2,982	3,763
Auditors' remuneration	430	600
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	10,336	12,581
Pension scheme contributions	<u>93</u>	<u>185</u>
	<u>10,429</u>	<u>12,766</u>
Loss on disposal of a long term investment **	–	1,431
Loss on disposal/write-off of fixed assets **	6,722	535
Exchange losses/(gains) arising from principal activities, net **	<u>(8)</u>	<u>1,670</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002
(Expressed in HK\$'000)

6. LOSS FROM OPERATING ACTIVITIES (CONTINUED)

* The costs of inventories sold for the year ended 31 December 2002 include HK\$3,423,000 (2001: HK\$7,437,000), 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.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
Fees:		
Executive directors	–	–
Independent non-executive directors	<u>240</u>	<u>240</u>
	<u>240</u>	<u>240</u>
Other emoluments of executive directors:		
Salaries, housing allowance, other allowances and benefits in kind	<u>4,934</u>	4,992
Pension scheme contributions	<u>38</u>	<u>93</u>
	<u>4,972</u>	<u>5,085</u>
	<u>5,212</u>	<u>5,325</u>

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

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	7	3
HK\$1,000,001 – HK\$1,500,000	2	4
HK\$1,500,001 – HK\$2,000,000	<u>1</u>	<u>–</u>
	<u>10</u>	<u>7</u>

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.

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included four (2001: four) directors, details of whose remuneration are set out in note 7 above. The remaining individual (2001: one) is not a director, whose remuneration is analysed as follows:

	2002	2001
Salaries, housing allowance, other allowances and benefits in kind	538	532
Pension scheme contributions	7	13
	<u>545</u>	<u>545</u>

As at 31 December 2002, the Group had no significant provision for long service payments to its employees pursuant to the requirements of the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

9. FINANCE COSTS

	2002	2001
Interest income over the Group's deposit of HK\$1,000 million pledged against the Notes *	(6,078)	–
Interest expenses on the Notes *	6,078	–
Interest expenses on bank loans and overdrafts	–	24
	<u>–</u>	<u>24</u>

* The interest income earned from the Group's deposit of HK\$1,000 million was directly paid to Keentech by the bank for settlement of accrued interest on the Notes, further details of which are also set out in note 21 to the financial statements.

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 (2001: Nil). 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.

A subsidiary established and operating in the PRC was exempted from income tax for two years starting from its first profitable year of operations in 1997 and was entitled to 50% relief from income tax for the following three years under the Income Tax Law of the PRC. The tax holiday of this subsidiary expired in 2001. For the year ended 31 December 2002, the tax rate applicable to this subsidiary 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.

No deferred tax has been provided as the Company and the Group had no significant timing differences at the balance sheet date.

No provision has been made for taxes which would arise on the remittance to Hong Kong of the retained profits of overseas companies as it is not anticipated that these amounts will be remitted in the near future.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$14,357,000 (2001: HK\$10,244,000).

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\$15,217,000 (2001: HK\$10,244,000) and the weighted average of 2,738,162,772 shares (2001: 2,059,726,027 shares) in issue 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.

A diluted loss per share amount for the year ended 31 December 2001 has not been presented because there were no dilutive events existing during that year.

13. FIXED ASSETS

Group

	Leasehold improvements	Machinery, tools and equipment	Furniture and fixtures	Motor vehicles	Total
Cost:					
At beginning of year	5,208	120,261	944	982	127,395
Additions	1,607	1,171	28	1,125	3,931
Disposals/write-off	(3,743)	(7,349)	(81)	(788)	(11,961)
Exchange realignment	39	1,134	–	2	1,175
At 31 December 2002	<u>3,111</u>	<u>115,217</u>	<u>891</u>	<u>1,321</u>	<u>120,540</u>
Accumulated depreciation:					
At beginning of year	1,057	11,155	269	211	12,692
Provided during the year	385	2,783	151	256	3,575
Disposals/write-off	(1,145)	(2,440)	(45)	(171)	(3,801)
Exchange realignment	9	105	–	1	115
At 31 December 2002	<u>306</u>	<u>11,603</u>	<u>375</u>	<u>297</u>	<u>12,581</u>
Net book value:					
At 31 December 2002	<u>2,805</u>	<u>103,614</u>	<u>516</u>	<u>1,024</u>	<u>107,959</u>
At 31 December 2001	<u>4,151</u>	<u>109,106</u>	<u>675</u>	<u>771</u>	<u>114,703</u>

31 December 2002
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14. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
Unlisted shares, at cost	173,133	173,133
Due from subsidiaries	326,239	280,092
Due to subsidiaries	(15,205)	(1,467)
Provision for impairment	(384,542)	(355,544)
	99,625	96,214

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 paid-up share/ registered capital	Percentage of effective equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands	US\$10,000	100	Investment holding
Starbest Venture Limited	British Virgin Islands	US\$1	100	Investment holding
Indirectly held				
Feston Manufacturing Limited	British Virgin Islands	US\$10,000	100	Dormant
Maxpower Resources Limited	British Virgin Islands	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 Timber Products Company Limited (Note)	PRC	HK\$60,000,000	100	Manufacture and sale of plywood

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2002
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14. INTERESTS IN SUBSIDIARIES (CONTINUED)

Note: Dongguan Xinlian Timber Products Company Limited is a wholly foreign-owned enterprise established by Wing Lam (International) Timber Limited 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 are intended to be capitalised in the cost of the potential investments.

16. INVENTORIES

	Group	
	2002	2001
Raw materials	702	3,367
Work in progress	944	1,070
Finished goods	1,419	3,721
	<u>3,065</u>	<u>8,158</u>

The inventories carried at net realisable value included in the above balance amounted to HK\$1,419,000 (2001: HK\$3,721,000) 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	
	2002	2001
Within one month	1,077	1,606
One to two months	3	114
Two to three months	-	132
Over three months	263	504
	<u>1,343</u>	<u>2,356</u>

The normal credit terms granted to debtors range from 30 to 45 days.

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18. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSIT

	Group		Company	
	2002	2001	2002	2001
Cash and bank balances	709	308	242	9
Time deposits *	<u>1,122,789</u>	<u>1,141,597</u>	<u>1,122,789</u>	<u>141,597</u>
	1,123,498	1,141,905	1,123,031	141,606
Less: Pledged for other loans **	<u>-</u>	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>
	1,123,498	141,905	1,123,031	141,606

* Approximately HK\$1,000 million of the time deposits of the Company and the Group has been placed in CITIC Ka Wah Bank Limited and designated for funding the Group's potential investment projects.

** At 31 December 2001, the Group pledged its bank deposit of HK\$1,000 million to secure the other 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	
	2002	2001
Within one month	731	4,947
One to two months	310	1,237
Two to three months	14	-
Over three months	<u>12</u>	<u>603</u>
	1,067	6,787

20. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in accrued liabilities and other payables in 2001 was an amount due to a director (the "Ex-director"), who resigned during the year, of HK\$2,144,000 which was unsecured, interest-free and had no fixed terms of repayment.

During the year, the Group entered into a deed of waiver with 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 the year.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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(Expressed in HK\$'000)

21. OTHER LOANS

	Notes	Group	
		2002	2001
Current portion	(a)	–	1,000,000
Non-current portion	(b)	<u>11,862</u>	<u>11,699</u>
		<u>11,862</u>	<u>1,011,699</u>

- (a) On 21 May 2001, pursuant to a loan agreement (the “Loan Agreement”) entered into between the Company, Maxpower Resources Limited (“Maxpower”) (a wholly-owned subsidiary of the Group) and Keentech Group Limited (“Keentech”) (an indirect wholly-owned subsidiary of China International Trust and Investment Corporation), Keentech agreed to grant a loan (the “Facility”) of HK\$1,000 million to Maxpower. Keentech became a shareholder of the Company upon the placing of the shares of the Company on 20 April 2001. The Facility was secured by a charge over the Group’s deposit of HK\$1,000 million (the “Charge A”).

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 Facility and the Charge A were subsequently settled and discharged upon the completion of the Subscription Agreement and the issue of the Notes on 25 January 2002. 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 B”) 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 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 B was discharged thereafter (note 22).

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21. OTHER LOANS (CONTINUED)

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

On 12 April 1999, the Ex-shareholders of Wing Lam confirmed they would indemnify the Group against all monetary losses arising from the litigation (the "Litigation"), which is further detailed in note 25 to the financial statements, and further agreed that the loans due from the Group to them could be used to offset such indemnity.

On 28 June 2000, Nusoil Manufacturing Limited ("Nusoil"), a wholly-owned subsidiary of the Company, and the Ex-shareholders of Wing Lam entered into an acquisition agreement whereby Nusoil agreed to purchase the other loans (the "Loans") owing by Wing Lam to the Ex-shareholders of Wing Lam at a consideration of US\$1,499,900 (equivalent to approximately HK\$11,699,000), resulting in the remaining amount of the other loans of approximately HK\$9,848,000 (included in the balance of other revenue and gains for the year ended 31 December 2001) being waived, after setting-off the legal costs incurred.

According to a letter dated 12 March 2003 issued by the Group's legal advisors in connection with the Litigation, the management of China Foreign Trade Development Company, the plaintiff of the Litigation (the "Plaintiff"), is being sued under a criminal charge and investigated in respect of creating forged documents, including those documents created by the Plaintiff related to the alleged amount claimed against the Group by the Plaintiff under various re-export contracts (the "Claim"). The legal advisors therefore strongly believe that the Group can succeed in the Litigation and no claims or liabilities will be made against the Group. 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 12 March 2003 and, accordingly, the Claim 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 (2001: HK\$11,699,000) are classified as a non-current liability at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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22. SHARE CAPITAL

Shares

	Notes	Number of ordinary shares	
Authorised:			
Ordinary shares of HK\$0.01 each as at 1 January 2001		20,000,000,000	200,000
Consolidation of every five shares of HK\$0.01 each to one share of HK\$0.05 each	(b)	<u>(16,000,000,000)</u>	<u>—</u>
Ordinary shares of HK\$0.05 each as at 31 December 2001 and 1 January 2002		4,000,000,000	200,000
Increase in share capital	(c)	<u>2,000,000,000</u>	<u>100,000</u>
Ordinary shares of HK\$0.05 each as at 31 December 2002		<u>6,000,000,000</u>	<u>300,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each as at 1 January 2001		9,600,000,000	96,000
Issue of shares	(a)	1,000,000,000	10,000
Consolidation of every five shares of HK\$0.01 each to one share of HK\$0.05 each	(b)	<u>(8,480,000,000)</u>	<u>—</u>
Ordinary shares of HK\$0.05 each as at 31 December 2001 and 1 January 2002		2,120,000,000	106,000
Issue of shares	(d)	<u>1,176,470,588</u>	<u>58,824</u>
Ordinary shares of HK\$0.05 each as at 31 December 2002		<u>3,296,470,588</u>	<u>164,824</u>

- (a) Pursuant to a placing agreement dated 20 April 2001, a total of 1,000,000,000 ordinary shares of HK\$0.01 each were placed by United Star International Inc. ("United Star"), the controlling shareholder of the Company, to Keentech at a price of HK\$0.15 per placing share (the "Placing Price"). At the same time, United Star agreed to subscribe for an aggregate of 1,000,000,000 new ordinary shares at the Placing Price. The net proceeds of the subscription of approximately HK\$145.5 million were used for general working capital of the Group.

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(Expressed in HK\$'000)**22. SHARE CAPITAL (CONTINUED)****Shares (continued)**

- (b) On 26 June 2001, an ordinary resolution was passed at a special general meeting to consolidate every five issued and unissued shares of HK\$0.01 each in the capital of the Company into one share of HK\$0.05 each (the "Consolidated Shares"). All of the Consolidated Shares rank pari passu in all respects with the previously existing share capital of the Company.
- (c) 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.
- (d) Pursuant to the Subscription Agreement as explained in note 21 to the financial statements, the Notes of HK\$1,000 million 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. The conversion took place in two tranches on 18 June 2002 and 25 June 2002. Consequently, 1,176,470,588 shares were issued to Keentech.

Share options

SSAP 34 was adopted during the year as explained in note 2 and under the heading "Share option scheme" in note 3 to the financial statements. As a result, detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

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.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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22. SHARE CAPITAL (CONTINUED)

Share options (continued)

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 price 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 2002 and up to the date of this report, no share options were granted, exercised, lapsed, cancelled or outstanding under the Scheme.

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 22 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 2001	126,998	172,934	(291,541)	8,391
New issue of shares	140,000	–	–	140,000
Share issuance expenses	(4,536)	–	–	(4,536)
Net loss for the year	–	–	(10,244)	(10,244)
At 31 December 2001 and 1 January 2002	262,462	172,934	(301,785)	133,611
New issuance 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	1,200,879	172,934	(316,142)	1,057,671

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23. RESERVES (CONTINUED)

(b) Company (continued)

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. CONTINGENT LIABILITIES

	Company	
	2002	2001
Guarantee for other loans granted to a subsidiary (note 21)	—	1,000,000
	<u> </u>	<u> </u>

25. LITIGATION

On 14 January 1999, the Plaintiff (as defined in note 21(b)) issued a writ of summons against Dongguan Xinlian Timber Products Company Limited ("Dongguan Xinlian"), a subsidiary held through Wing Lam, in respect of the Claim. A judgement (the "Judgement") was issued in respect of the Claim and, pursuant thereto, Dongguan Xinlian is liable to pay an aggregate sum of approximately HK\$26,894,000. However, 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 could be used to offset any such indemnity. According to a letter dated 12 March 2003 issued by the Group's legal advisors in connection with the Litigation, the management of the Plaintiff is being sued under a criminal charge and investigated in respect of creating forged documents, including those documents created by the Plaintiff relating to the Claim found during the above-mentioned appeal process. The legal advisors therefore strongly believe that Dongguan Xinlian can succeed in its appeal and no claims or liabilities will be made against Dongguan Xinlian. 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.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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26. 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 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
Within one year	2,774	3,952
In the second to fifth years, inclusive	8,495	13,705
After five years	<u>10,088</u>	<u>18,307</u>
	<u>21,357</u>	<u>35,964</u>

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2001: Nil).

27. POST BALANCE SHEET EVENT

On 21 March 2003, a wholly-owned subsidiary of the Company which is established and operating in the PRC obtained a trust receipt loan and bank overdraft facility of HK\$20 million. The facility is secured by the Group's pledge of a deposit of HK\$20 million and a corporate guarantee by Wing Lam.

28. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April 2003.