

Report of the *Directors*

The Directors present their annual report and the audited financial statements for the year ended 31 December 2001.

CORPORATE RESTRUCTURING

During the year, the Company entered into negotiations with certain bankers and the liquidator of a financial institution in Hong Kong (collectively the "Creditors") and an investor, Global Innovation Investment Limited ("GILL") for the restructuring of the Group's borrowings and the injection of new equity finance into the Company and its subsidiaries (the "Group"). Details of the corporate restructuring are set out in the circular dated 5 February 2001 issued in connection with the restructuring.

Pursuant to the restructuring scheme (the "Restructuring Scheme") involving, inter alia, capital reduction, compromise agreement with the Creditors, subscription agreement with GILL, whitewash waiver, participation offer, change of name, and general mandates to issue and repurchase of securities, a special general meeting was held on 23 March 2001 and a number of resolutions were passed by the shareholders to sanction the Restructuring Scheme. On the same date, the name of the Company was changed from Ta Fu International Holdings Limited 大福國際集團有限公司 to Fulbond Holdings Limited 福邦控股有限公司.

The aforesaid corporate restructuring and the Restructuring Scheme were completed on 30 March 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 17 and 18 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2001 are set out in the consolidated income statement on page 24.

No dividend was paid during the year.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group is set out on page 75 of this report.

Report of the Directors

SHARE CAPITAL AND WARRANTS

Pursuant to the Restructuring Scheme, the issued share capital of the Company was reduced from US\$16,569,000 to US\$828,000 by reducing the nominal value of the issued shares of the Company from US\$0.020 each to US\$0.001 each during the year. In addition, 5,961,742,317 new shares of US\$0.001 each ("New Shares") and 1,346,051,326 units of warrants to subscribe for New Shares in the Company were issued and allotted to various parties involved in the Restructuring Scheme.

On 20 August 2001, the Company entered into a subscription agreement with GILL pursuant to which the Company had conditionally agreed to allot and issue to GILL an aggregate of 790 million ordinary shares of the Company of US\$0.001 each at a price of HK\$0.040 per share. The subscription of the ordinary shares was completed on 3 September 2001.

During the year, the registered holders of 18,684,744 units of warrants exercised their rights to subscribe for ordinary shares of the Company of US\$0.001 each. At the balance sheet date the Company had outstanding 1,327,366,582 units of warrants. Exercise in full of such warrants would result in the issue of 1,327,366,582 additional ordinary shares of the Company of US\$0.001 each.

Details of the movements of the Company's share capital and warrants are set out in notes 30 and 32 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements of the Group's property, plant and equipment during the year are set out in note 16 to the financial statements.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group are set out in note 29 to the financial statements.

Pursuant to the Restructuring Scheme which was completed on 30 March 2001, the Creditors received cash of US\$6 million, 1,320 million New Shares and 132 million warrants and three-year loan notes with an aggregate face value of US\$4.4 million, which bear interest at the rate of 7% per annum. In return, approximately US\$48 million of the Creditor's indebtedness of the Group were released.

The principal of the three-year loan notes is repayable in six equal semi-annual instalments. During the year, the Company made a buy-back of the three-year loan notes of principal amount of US\$840,000 at a consideration of US\$588,000, which is 70% of the face value of the three-year loan notes being bought. During the year and subsequent to the buy-back, the Company repaid the first instalment of a principal amount of US\$593,000.

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PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the applicable law of Bermuda.

DIRECTORS

The directors during the year and up to the date of this report were:

Chairman

Dr. Yang Ding-Yuan (appointed on 30 March 2001)

Mr. Liu Ching-Chih (resigned on 30 March 2001)

Vice Chairman

Ms. Yeung Mi-Ki (resigned on 30 March 2001)

Executive Directors

Dr. Hu Ding-Hua (appointed on 30 March 2001)

Ms. Meng Tung-Mei, Grace (appointed on 30 March 2001)

Dr. Yang Sun-Fu (resigned on 30 March 2001)

Independent Non-executive Directors

Professor Edward S. Yang (appointed on 30 March 2001)

Mr. Chan Ting Fung, Tim (appointed on 29 June 2001)

Mr. Cheung Yuk-Leung (appointed on 30 March 2001
and resigned on 29 June 2001)

Mr. Hong Chun-Te (resigned on 30 March 2001)

Mr. Chan Wing-Cham, Lawrence (resigned on 30 March 2001)

In accordance with 86(2) of the Company's Bye-laws, Mr. Chan Ting Fung, Tim shall retire from office at the forthcoming annual general meeting, being eligible, offer himself for re-election.

Report of the Directors

DIRECTORS' INTERESTS IN SHARES AND WARRANTS

As at 31 December 2001, the following beneficial interests in the share capital and warrants of the Company as defined in the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were held by the directors and their associates as recorded in the register kept by the Company pursuant to Section 29 of the SDI Ordinance:

Interests of the directors in the shares and warrants of the Company:

Name of director	Nature of interest	Number of shares held	Number of units of warrants held
Dr. Yang Ding-Yuan	Corporate (<i>note</i>)	4,210,508,790	969,430,878

Note: Dr. Yang Ding-Yuan is the controlling shareholder of S.T.J. Technology Limited ("STJ") which beneficially owns 4,210,508,790 shares and 969,430,878 units of warrants of the Company as at 31 December 2001.

Save as disclosed above, no other interests were held or deemed or taken (under the SDI Ordinance) to be held by any directors or any of their associates in any equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) at 31 December 2001.

SHARE OPTIONS

During the year, a new share option scheme (the "New Share Option Scheme") was adopted by the Company on 19 November 2001 to replace the existing share option scheme (the "Old Share Option Scheme"). Pursuant to the New Share Option Scheme, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group. Details of the New Share Option Scheme are set out in note 31 to the financial statements.

The total number of shares in respect of which options may be granted under the New Share Option Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Report of the Directors

SHARE OPTIONS (continued)

No consideration is to be payable on the grant of an option. Options may generally be exercised at any time during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary thereof. The exercise price is determined by the directors of the Company, and will not be less than the highest of:

- (a) the closing price of the Company's shares on the date of grant;
- (b) the average closing price of the shares for the five business days immediately preceding the date of grant; and
- (c) the nominal value of the Company's share on the date of grant.

As at the date of the annual report, the total number of shares available for issue under the New Share Option Scheme is 2,363,109,201 shares and represent 29.7% shares of the issued capital of the Company.

No options were granted under the New Share Option Scheme during the year.

However, options granted under the Old Share Option Scheme prior to their termination which have not been fully exercised remain valid until such time that such options are fully exercised or have lapsed and will continue to be administered under the rules of the Old Share Option Scheme. Details of the Old Share Option Scheme are also set out in note 31 to the financial statements. The movements in the number of options outstanding which have been granted to directors and an employee of the Company under the Old Share Option Scheme were as follows:

	Date of grant	Exercise price	Number of share options		
			Outstanding at 1 January 2001	Lapsed during the year	Outstanding at 31 December 2001
Directors					
Mr. Liu Ching-Chih*	11 February 1997	HK\$1.85	20,716,000	–	20,716,000
Ms. Yeung Mi-Ki*	11 February 1997	HK\$1.85	20,716,000	(20,716,000)	–
Dr. Yang Sun-Fu*	11 February 1997	HK\$1.85	4,142,000	(4,142,000)	–
			<u>45,574,000</u>	<u>(24,858,000)</u>	<u>20,716,000</u>
Employee					
Ms. Tsang Shih-O	20 November 1999	US\$0.02	5,000,000	(5,000,000)	–
			<u>50,574,000</u>	<u>(29,858,000)</u>	<u>20,716,000</u>

* All the above directors resigned on 30 March 2001. Mr. Liu Ching-Chih remains as an employee of the Group and there is no change in the number of share options of the Company held by him. The share options granted to Dr. Yang Sun-Fu and Ms. Yeung Mi-Ki were cancelled upon their resignation as directors and employees of the Group.

Report of the Directors

SHARE OPTIONS (continued)

Save as disclosed above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the directors or chief executives to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the directors and chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' SERVICE CONTRACTS

Mr. Liu Ching-Chih and Ms. Yeung Mi-Ki entered into service agreements with the Company for a fixed term of five years commencing on 11 December 1996 and such agreements would continue thereafter until terminated in accordance with the terms of the agreements. Both Mr. Liu Ching-Chih and Ms. Yeung Mi-Ki resigned as directors during the year on 30 March 2001 and their service agreements were terminated automatically.

There are no service contracts which are not determinable by the Company within one year without payment of compensation (other than statutory compensation), of any director proposed for re-election at the forthcoming annual general meeting.

The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

- (a) On 11 October 2001, the Company entered into a subscription agreement with UniSVR Global Information Technology Corp. ("UniSVR"), a company incorporated in Taiwan of which Dr. Yang Ding-Yuan, a director of the Company, has a beneficial interest. Pursuant to the subscription agreement, UniSVR has agreed to allot and issue to the Company and the Company has agreed to subscribe for 5,440,000 shares out of a total of 6,800,000 new shares of UniSVR to be issued by UniSVR to potential investors at NT\$12.5. The subscription of 5,440,000 shares represented an approximately 13% of the issued share capital of UniSVR as enlarged by the issue of 6,800,000 new shares. All the new shares rank pari passu in all respects with all existing shares of UniSVR. Also pursuant to the subscription agreement, Dr. Yang Ding-Yuan has granted a Put Option for the Company to sell to STJ, a company incorporated in the British Virgin Islands of which Dr. Yang Ding-Yuan has beneficial interests, all the shares of UniSVR subscribed by the Company on the terms and conditions as disclosed in the circular to the shareholders of the Company dated 1 November 2001. The subscription of the shares of UniSVR by the Company at a total consideration of US\$1,974,000 was completed on 30 November 2001.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

(continued)

(a) (continued)

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the above subscription constituted a connected transaction and the details of the subscription were set out in the circular to the shareholders of the Company dated 1 November 2001.

(b) As disclosed in the Company's circular dated 5 February 2001 in relation to the corporate restructuring of the Company, STJ had granted an option to the Company on 1 February 2001 to acquire its 51% equity interests in Shenyang Fusheng Wood Chipboard Co., Ltd. 瀋陽福昇中密度板有限公司 ("Fusheng"), a sino-foreign joint venture company established in the People's Republic of China (the "PRC") within a period of two years from the completion of the corporate restructuring of the Company.

On 11 October 2001, the Company exercised the option and a wholly owned subsidiary of the Company incorporated in Hong Kong, Senbond Building Materials Limited, has entered into an agreement to acquire that 51% equity interest in Fusheng from STJ at a total consideration of NT\$55.5 million (equivalent to approximately US\$1,609,000), of which:

- (i) NT\$3 million (equivalent to approximately US\$86,000) will be satisfied in cash on the approval of the acquisition by the independent shareholders other than STJ, GILL and their respective associates;
- (ii) NT\$12 million (equivalent to approximately US\$348,000) will be satisfied in cash on completion of the acquisition; and
- (iii) The balance of NT\$40.5 million (equivalent to approximately US\$1,175,000) will be satisfied by the issue of convertible note in the principal amount of HK\$9,315,000 (equivalent to approximately US\$1,175,000) to be issued by the Company to STJ upon the completion of the acquisition. The principal terms of the convertible note has been disclosed in the circular to the shareholders of the Company dated 1 November 2001.

During the year, the Company has made the payment of NT\$3 million as a deposit for the acquisition. However, the completion of the acquisition is pending for the consents of relevant government authorities in the PRC.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

(continued)

- (c) Mr. Liu Ching-Chih and Ms. Yeung Mi-Ki have provided personal guarantees and pledged, respectively, 23,840,000 and 33,840,000 shares in the Company beneficially owned by themselves to the Creditors and a supplier of the Group as securities. In October 2001, the personal guarantees and the pledge of the shares of the Company to the supplier were released.

Save as disclosed above, no other contracts of significance to which the Company, or its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2001, the following shareholders were recorded in the register required to be kept under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company:

Name of shareholder	Notes	Number of shares held in the Company		
		Direct interests	Deemed interests	Total interests
GILL	(i)	4,172,370,084	–	4,172,370,084
STJ	(i)	38,138,706	4,172,370,084	4,210,508,790
Dr. Yang Ding-Yuan	(ii)	–	4,210,508,790	4,210,508,790

- (i) GILL, a company incorporated in Cayman Islands with limited liability, is a 70% owned subsidiary of STJ, a company incorporated in British Virgin Islands, which is deemed by the SDI Ordinance to be interested in the Company's shares in which GILL is interested.
- (ii) STJ is wholly owned by Dr. Yang Ding-Yuan and his family members. Dr. Yang Ding-Yuan is therefore, by virtue of Section 8 of the SDI Ordinance, deemed to be interested in the Company's shares in which STJ is interested.

Save as disclosed above, no other person was recorded in the register kept pursuant to Section 16(1) of the SDI Ordinance as having an interest in 10% or more in the issued share capital of the Company.

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MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentages of purchases attributable to the Group's five largest suppliers combined and the sales made to the Group's five largest customers combined were less than 30% of the Group's total value of purchases and sales, respectively.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share options and warrants as set out in notes 31 and 32 to the financial statements respectively, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2001.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, neither the Company, nor any of its subsidiaries had purchased, sold, or redeemed any of the Company's shares.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 December 2001 with the Code of Best Practice as set out in Appendix 14 of the Listings Rules except that the guidelines set out in paragraph 7 of the Code have not been fully complied with in that the independent non-executive directors are not appointed for a specific term but subject to retirement by rotation at Annual General Meeting of the Company in accordance with the provisions of the Company's Bye-laws.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

DR. YANG DING-YUAN

CHAIRMAN

Hong Kong, 25 April 2002