

INTERIM REPORT 2003

FUSHAN HOLDINGS LIMITED

2003



福山控股有限公司
FUSHAN HOLDINGS LIMITED

INTERIM RESULTS

The board of directors (the “Directors”) of Fushan Holdings Limited (the “Company”) announces that the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2003 (the “period”) together with the unaudited interim results for the six months ended 30th June 2002 for comparison are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2003

		Six months ended 30th June	
	Notes	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover	2	610	2,635
Cost of sales	3	<u>–</u>	<u>–</u>
Gross profit		610	2,635
Other revenue		1,005	483
Administrative expenses		(3,360)	(3,624)
Other operating expenses		<u>–</u>	<u>–</u>
Operating loss	3	(1,745)	(506)
Finance costs		<u>–</u>	<u>–</u>
Loss before taxation		(1,745)	(506)
Taxation	4	<u>–</u>	<u>–</u>
Loss attributable to shareholders		<u>(1,745)</u>	<u>(506)</u>
Basic loss per share	5	<u>0.08 cents</u>	<u>0.03 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2003

	Notes	As at 30th June 2003 (Unaudited) HK\$'000	As at 31st December 2002 (Audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		5,894	6,153
Interest in an associate	6	<u>42,498</u>	<u>–</u>
		48,392	6,153
Current assets			
Trade receivables	7	352	–
Prepayments, deposits and other receivables	8	10,346	20,393
Cash and cash equivalents		<u>45,240</u>	<u>79,535</u>
		55,938	99,928
Current liabilities			
Other payables		<u>3,370</u>	<u>3,376</u>
		52,568	96,552
Net current assets		<u>100,960</u>	<u>102,705</u>
Net assets		<u>100,960</u>	<u>102,705</u>
CAPITAL AND RESERVES			
Share capital		208,080	208,080
Reserves		<u>(107,120)</u>	<u>(105,375)</u>
Shareholders' funds		<u>100,960</u>	<u>102,705</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

	Share Capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2003 (audited)	208,080	399,169	(504,544)	102,705
Loss for the period (unaudited)	<u>–</u>	<u>–</u>	<u>(1,745)</u>	<u>(1,745)</u>
At 30th June 2003 (unaudited)	<u>208,080</u>	<u>399,169</u>	<u>(506,289)</u>	<u>100,960</u>
At 1st January 2002 (audited)	173,080	368,469	(499,200)	42,349
Loss for the period (unaudited)	<u>–</u>	<u>–</u>	<u>(506)</u>	<u>(506)</u>
Issue of ordinary shares (unaudited)	23,000	11,500	<u>–</u>	<u>34,500</u>
At 30th June 2002 (unaudited)	<u>196,080</u>	<u>379,969</u>	<u>(499,706)</u>	<u>76,343</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	Six months ended 30th June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	7,297	(2,631)
Net cash outflow from investing activities	(41,592)	(717)
Net cash inflow from financing activities	—	34,500
(Decrease)/ Increase in cash and cash equivalents	(34,295)	31,152
Cash and cash equivalents at 1st January	79,535	36,923
Cash and cash equivalents at 30th June	45,240	68,075
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	1,210	77
Time deposits	44,030	67,998
	45,240	68,075

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation of financial statements and accounting policies

The unaudited condensed interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 (Revised) “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants (“HKSA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted and the basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2002 except that the Group has adopted the SSAP 12 (Revised) “Income Taxes”, issued by the HKSA, which is effective for financial statements relating to accounting periods commencing on or after 1st January 2003.

SSAP 12 (Revised) – Income taxes

In prior years, deferred tax liabilities were provided for using liability method in respect of the taxation effect arising from all material timing difference between the accounting and tax treatment of income and expenditure, which are expected with reasonably probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt. With effect from 1st January 2003, in order to comply with the revised SSAP 12, the Group adopted a new accounting policy for deferred tax. Under the revised SSAP 12, deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilized. Although the new accounting policy has been applied retrospectively, it has not had any material effect on the financial results of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

2. Revenue and segmental information

The Group is principally engaged in the sale and marketing of gold jewellery products. Starting from 2003, the Group is also engaged in the coal business. An analysis of the Group's turnover and contribution to operating loss for the periods by principal activities and markets is as follows:

	Turnover For the six months ended 30th June		Operating loss For the six months ended 30th June	
	(Unaudited) 2003 HK\$'000	(Unaudited) 2002 HK\$'000	(Unaudited) 2003 HK\$'000	(Unaudited) 2002 HK\$'000
Principal activities:				
Sale and marketing of gold jewellery products	352	2,635	352	2,631
Income from coal business	258	–	258	–
	<u>610</u>	<u>2,635</u>	<u>610</u>	<u>2,631</u>
Other revenue			1,005	483
Unallocated corporate expenses			(3,360)	(3,620)
			<u>(1,745)</u>	<u>(506)</u>
Principal markets:				
Hong Kong	352	2,635	(2,003)	(506)
Korea	258	–	258	–
	<u>610</u>	<u>2,635</u>	<u>(1,745)</u>	<u>(506)</u>

3. Operating loss

Operating loss is arrived after charging/(crediting):

	Six months ended 30th June	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Cost of inventories sold	2,988	11,126
Less: Provision for inventories written back upon disposal	(2,988)	(11,126)
	-----	-----
Property, plant & equipment – depreciation	259	241
Staff costs (including directors' remuneration and retirement benefits scheme contribution)	2,130	1,927
Bank interest income	(485)	(480)
Other interest income	(520)	–
	<u> </u>	<u> </u>

4. Taxation

No provision for current Hong Kong profits tax has been made in the interim financial statements in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for set off against current period's assessable profits or have tax losses for the period ended 30th June 2003.

As at 30th June 2003, no provision for deferred tax was recognized as the amount involved was immaterial.

5. Basic loss per share

The calculation of basic loss per share is based on the consolidated loss attributable to the shareholders for the six months ended 30th June 2003 of HK\$1,745,000 (2002: HK\$506,000) and the weighted average of 2,080,800,000 (2002: 1,861,683,978) ordinary shares in issue during the period.

6. Interest in an associate

	As at 30th June 2003 Unaudited HK\$'000	As at 31st December 2002 Audited HK\$'000
Share of net assets	42,498	–

As at 30th June 2003, the Company held an equity interest of 45% in Jinshan Energy Group Limited ("Jinshan Energy"), a sino-foreign joint venture incorporated in the People's Republic of China (the "PRC") with a registered capital of RMB100 million on 23rd May 2003. Jinshan Energy is engaged in the production and sale of fine coking coal products and side products. As at 30th June 2003, Jinshan Energy was in the stage of capital injection by the venturers. The registered capital has been fully paid by the venturers in July 2003. Hence, as at 30th June 2003, Jinshan Energy was not yet in operation and its net assets were mainly capital injected from the venturers.

7. Trade receivables

General credit terms of the Group range from 60 to 90 days. Ageing analysis of trade receivables was as follows:

	As at 30th June 2003 (Unaudited) HK\$'000	As at 31st December 2002 (Audited) HK\$'000
Current – 3 months	352	–

Subsequent to 30th June 2003, a total amount of HK\$352,000 was settled.

8. Prepayments, deposits and other receivables

Included in prepayments, deposits and other receivables was one short-term loan of HK\$10,000,000 as at 30th June 2003 (2002: two short term loans of HK\$10,000,000 each), advanced to one (2002: two) independent third party/parties for interest income. Both loans bear interest at 6.5% per annum. Subsequent to 30th June 2003, the short-term loan of HK\$10,000,000 was repaid.

9. Capital commitments

Capital commitments outstanding not provided for in the financial statements were as follows:

	As at 30th June 2003 (Unaudited) HK\$'000	As at 31st December 2002 (Audited) HK\$'000
Contracted for: Capital injection to an associate in the PRC in the form of shareholder's loan	5,960	–

BUSINESS REVIEW

The outbreak of SARS has adversely affected the weak economy of Hong Kong for the first half of the year. Almost all fields of business were greatly influenced by such incident especially in retails, tourism, foodstuffs and airline business. These industries have experienced severe financial losses or forced to scale down their businesses. The Group, however, made no difference to the awful market situation; sales turnover also sharply dropped in the first half of the year. Under such a difficult circumstance, we continued to manage cost level and to maintain positive cash flow. We also increased income generated from the business of coal trades and strengthened financial interest income. As a result, the loss for the six months ended 30th June 2003 was reduced to HK\$1.75 million.

There is a significant progress in the development of new business besides coal trades in the beginning of the year. In mid of May, the Group has also set up a sino-foreign equity joint venture (the "JV Company") with a registered capital of RMB100 million (approximately HK\$94 million) incorporated in the PRC with the PRC venturer. The total investment is RMB114 million (approximately HK\$108 million). The Group has an equity interest of 45% in the JV Company. The principal activities of the JV Company are engaged in the production and sales of coking coal and side products such as methanol and synthetic ammonia. The JV Company obtained the business license by end of May this year and the capital verification report was completed in July. The construction of coal plant is currently in progress and the JV Company is expected to put into the trial run by June next year. The Group's business will then turn into a new chapter after the operation commences.

Also, given that the conditions of the letter of intent in relation to the investment plan of the production of liquid crystal display ("LCD") in December last year were not fulfilled by the PRC joint venturer before or on the extended deadline in June this year, the letter of intent has lapsed and has no further effect. We have decided to terminate this investment plan by which it would not have any adverse effect on the business operation and financial aspects of the Group.

In conclusion, according to our cautious investment strategies during the uncertain economic environment in the beginning of the year, we have successfully reduced the risks and maintained positive cash flow to enhance ourselves for future investment opportunities.

FINANCIAL POSITION

Charges on Assets

At 30th June 2003, none of Group's assets was charged or subject to any encumbrance.

Contingent Liabilities

At 30th June 2003, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions.

Gearing Ratio

At 30th June 2003, the gearing ratio of the Group was nil.

Liquidity and Financial Resources

The Group's cash and bank deposits at 30th June 2003 amounted to HK\$45,240,000. The significant decrease was mainly due to the capital injection of approximately HK\$42,500,000 to an associate for its equity interest of 45% during the period.

Staff

The Group had 8 employees at 30th June 2003 with remuneration package to be reviewed annually.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30th June 2003 (2002: Nil).

FUTURE PROSPECTS

The local market indices in late June indicated improvement in certain aspects, together with the recent new policies introduced by the PRC Government to Hong Kong increase the chance of economic recovery in the second half of this year. Despite of that, the outbound economies are still uneven. There is also no concrete improvement in deflation, unemployment, and financial deficit as well as confidence on future economy. We wish the current market sentiment could improve both retails and consumer market and we would continue our effort in sales and marketing of gold jewellery products in the second half of the year.

The construction of the coal plant, our joint-venture investment, has already commenced. The trial run of production will be started in June next year and then fall into full gear afterwards. Sales will contribute to the Group's operating income. We will go on strengthening the coal trades to establish a steady income growth, which will be one of the major businesses of the Group. In order to strengthen lines of operations, the JV Company will work corporately with the local Bureau of Mineral in the fields of supply and sales of fine coking coal products by ensuring the steady and quality supply of raw coal.

Looking at the recent developments in the Mainland, manufacturing businesses increase rapidly and have established substantial foreign currencies reserve and well-off society. The huge infrastructure investments in the past few years not only enhanced the economic growth in the country, it also strengthened the basis of long-term developments as a whole. By improving communication, logistics, commerce and industries as well as regional traffics, the economic areas will be enlarged with a better interaction between inland and coastal cities. So far, highway networks have expanded to 1.7 million kilometers and become the second largest in the world after the United States. Demand for vehicles, like other developed countries, increases rapidly due to the improvement in wealth. Sales of passenger cars in the first half of the year are close to last year's whole production volume 1.1 million. All of these boom up the demand for the supply of steel and electricity and are expected to continue for a long period. We will take this opportunity to speed up our development in coal industry both vertically and horizontally, to ensure stable and quality supply of raw coal and to increase both effectiveness and efficiency of the operation. Accordingly, the Group will strengthen the developments in energy industry, increase profits and thereby extend our investment portfolio to be more sizable and stable in the long run.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At as 30th June 2003, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO") or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions in ordinary shares (HK\$0.10 each) of the Company:

Name of Director	Number of ordinary shares		Total
	Personal interests	Corporate interests	
Mr. Wong Lik Ping	90,750,000	700,000,000 (Note)	790,750,000

Note: Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 700,000,000 ordinary shares in the Company as at 30th June 2003.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors or chief executives of the Company 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 or their spouses 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 rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30th June 2003, the following persons, not being a Director or chief executive of the Company, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in ordinary shares (HK\$0.10 each) of the Company:

Name of shareholder	Number of ordinary shares	Percentage of holding
Green Dynamics Investment Company Limited	150,000,000	7.21%
Precious Gold Holdings Limited	150,000,000	7.21%
Mr. King Yuen	120,000,000	5.77%

Save as disclosed above, no other person other than the directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' Interest in Shares" above, had registered an interest or short position in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

At the last annual general meeting of the Company held on 20th June 2003, the shareholders of the Company approved the adoption of a new option scheme ("the Scheme") and to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution. The Scheme is designed to reward and provide incentive to, and strengthen the Group's business relationship with, the prescribed classes of participants who may contribute to the growth and development of the Group.

During the period ended 30th June 2003, no share options was granted under the Scheme.

PURCHASE, SALE OR REDEMPTION OF OWN SHARES

During the six months ended 30th June 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed shares of the Company.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited interim financial statements for the six months ended 30th June 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
SO Kwok Hoo
Executive Director

Hong Kong, 22nd September 2003