



福 山 控 股 有 限 公 司  
**FUSHAN HOLDINGS LIMITED**

2004  
**FUSHAN**

**INTERIM REPORT 2004**

## 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 2004 (the “period”) together with the unaudited interim results for the six months ended 30th June 2003 for comparison are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2004

		Six months ended 30th June	
	Notes	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>Turnover</b>	2	<b>907</b>	610
Cost of sales	3	—	—
<b>Gross profit</b>		<b>907</b>	610
Other revenue		312	1,005
Administrative expenses		(4,806)	(3,360)
Other operating expenses		(1,874)	—
<b>Operating loss</b>	2, 3	<b>(5,461)</b>	(1,745)
Finance costs		(4)	—
Share of losses of associates		(1,417)	—
<b>Loss before taxation</b>		<b>(6,882)</b>	(1,745)
Income tax	4	—	—
<b>Loss from ordinary activities before minority interests</b>		<b>(6,882)</b>	(1,745)
Minority interests		325	—
<b>Loss attributable to shareholders</b>		<b>(6,557)</b>	(1,745)
<b>Basic loss per share</b>	5	<b>0.32 cents</b>	0.08 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2004

	Notes	As at 30th June 2004 (Unaudited) HK\$'000	As at 31st December 2003 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	22,544	8,412
Construction in progress	7	32,472	–
Interest in associates	8	–	41,079
		<hr/>	<hr/>
		55,016	49,491
<b>Current assets</b>			
Inventories		1,969	–
Trade receivables	9	757	826
Prepayments, deposits and other receivables	10	46,846	93
Cash at banks and in hand		92,023	53,833
		<hr/>	<hr/>
		141,595	54,752
<b>Current liabilities</b>			
Bank overdrafts		24,991	–
Amount due to a minority shareholder of a subsidiary	11	18,875	–
Other payables		11,548	4,461
		<hr/>	<hr/>
		55,414	4,461
<b>Net current assets</b>		<hr/>	<hr/>
		86,181	50,291
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		141,197	99,782
<b>Minority interests</b>		<hr/>	<hr/>
		47,972	–
<b>Net assets</b>		<hr/>	<hr/>
		93,225	99,782
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>		208,080	208,080
<b>Reserves</b>		(114,855)	(108,298)
		<hr/>	<hr/>
<b>Shareholders' funds</b>		<hr/>	<hr/>
		93,225	99,782

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2004

	Share Capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Other reserves HK\$'000	Total HK\$'000
At 1st January 2004 (audited)	208,080	399,169	(507,349)	(118)	99,782
Loss for the period (unaudited)	—	—	(6,557)	—	(6,557)
<b>At 30th June 2004 (unaudited)</b>	<b>208,080</b>	<b>399,169</b>	<b>(513,906)</b>	<b>(118)</b>	<b>93,225</b>
At 1st January 2003 (audited)	208,080	399,169	(504,544)	—	102,705
Loss for the period (unaudited)	—	—	(1,745)	—	(1,745)
At 30th June 2003 (unaudited)	208,080	399,169	(506,289)	—	100,960

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

	Six months ended 30th June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Net cash inflow from operating activities	4,164	7,297
Net cash inflow/(outflow) from investing activities	9,039	(41,592)
Net cash outflow from financing activities	(4)	—
Increase/(Decrease) in cash and cash equivalents	13,199	(34,295)
Cash and cash equivalents at 1st January	53,833	79,535
Cash and cash equivalents at 30th June	67,032	45,240
<b>Analysis of balances of cash and cash equivalents:</b>		
Bank balances and cash	22,011	1,210
Time deposits	70,012	44,030
Less: Bank overdrafts	(24,991)	—
	67,032	45,240

## 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 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants 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 2003.

### 2. Revenue and segmental information

The Group is principally engaged in production and sale of coking coal products and side products, acting as an agent in the coal business and sales of gold jewellery products. An analysis of the Group’s turnover and contribution to operating loss for the periods by principal activities and markets is as follows:

	Turnover		Operating loss	
	For the six months ended 30th June		For the six months ended 30th June	
	(Unaudited) 2004 HK\$’000	(Unaudited) 2003 HK\$’000	(Unaudited) 2004 HK\$’000	(Unaudited) 2003 HK\$’000
<b>Principal activities:</b>				
Commission from coal business	757	258	757	258
Sales of gold jewellery products	150	352	150	352
	<u>907</u>	<u>610</u>	<u>907</u>	<u>610</u>
Gain on disposal of partial equity interest of a subsidiary			269	–
Interest income			43	1,005
Unallocated corporate expenses			(6,680)	(3,360)
			<u>(5,461)</u>	<u>(1,745)</u>
<b>Principal markets:</b>				
Hong Kong	150	352	(4,251)	(2,003)
Korea	–	258	–	258
China	757	–	(1,210)	–
	<u>907</u>	<u>610</u>	<u>(5,461)</u>	<u>(1,745)</u>

### 3. Operating loss

Operating loss is arrived after charging/(crediting):

	Six months ended 30th June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Cost of inventories sold	1,266	2,988
Less: Provision for inventories written back upon disposal	(1,266)	(2,988)
	-----	-----
	-	-
Property, plant & equipment – depreciation/amortization	415	259
Staff costs (including directors' remuneration and retirement benefits scheme contribution)	2,441	2,130
Goodwill written off (included in "other operating expenses")	1,248	-
Gain on disposal of partial equity interest of a subsidiary (included in "other revenue")	(269)	-
Bank interest income	(43)	(485)
Other interest income	-	(520)
	=====	=====

### 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 2004.

As at 30th June 2004, no deferred tax liabilities have been provided as the amount involved was immaterial and no deferred tax assets have been recognized in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit will be available against which the deductible temporary differences and tax losses can be utilized.

### 5. Loss per share

#### (a) Basic

The calculation of basic loss per share is based on the consolidated loss attributable to the shareholders for the six months ended 30th June 2004 of HK\$6,557,000 (2003: HK\$1,745,000) and the weighted average of 2,080,800,000 (2003: 2,080,800,000) ordinary shares in issue during the period.

#### (b) Diluted

No diluted earnings per share have been presented as the Company did not have any share options outstanding for both 2003 and 2004.

### 6. Property, plant and equipment

During the six months ended 30th June 2004, the Group acquired property, plant and equipment at a cost of approximately HK\$14,547,000 (2003: NIL) which is solely attributable to the subsidiary being acquired during the period.

### 7. Construction in progress

During the six months ended 30th June 2004, the addition in construction in progress in an amount of approximately HK\$32,472,000 (2003: NIL) is solely attributable to the construction in progress of coking plant of a subsidiary being acquired during the period.

## 8. Interest in associates

	<b>As at 30th June 2004 Unaudited HK\$'000</b>	As at 31st December 2003 Audited HK\$'000
Share of net assets	–	41,079
Amount due from an associate	<u>3,739</u>	<u>3,739</u>
	<b>3,739</b>	44,818
Less: Provision for doubtful amount	<u>(3,739)</u>	<u>(3,739)</u>
	<u>–</u>	<u>41,079</u>

As at 31st December 2003, the Group held a 45% interest 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. As at 31st December 2003, share of net assets represented share of net assets of Jinshan Energy.

On 27th May 2004, the Group entered into the Acquisition Agreement with one of the shareholders of Jinshan Energy to acquire further 20% of the equity interest in Jinshan Energy. Upon completion of the Acquisition Agreement on 8th June 2004, Jinshan Energy became a subsidiary of the Company and its results and financial position were consolidated into the financial statements of the Group as the Group increased its equity interest in Jinshan Energy from 45% to 65%. Jinshan Energy is engaged in the production and sale of coking coal products and side products.

## 9. Trade receivables

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

	<b>As at 30th June 2004 (Unaudited) HK\$'000</b>	As at 31st December 2003 (Audited) HK\$'000
Current – 3 months	<u>757</u>	<u>826</u>

Subsequent to 30th June 2004, a total amount of HK\$757,000 was settled.

## 10. Prepayments, deposits and other receivables

Included in prepayments, deposits and other receivables were two deposits of HK\$14,108,000 and HK\$23,514,000 paid by two non-wholly owned subsidiaries for two potential investment projects in relation to a coking plant and a mine respectively.

## 11. Amount due to a minority shareholder of a subsidiary

The amount represented consideration payable to a minority shareholder of a subsidiary in respect of the consideration for the acquisition of further 20% of the equity interest in Jinshan Energy as mentioned in note 8. The amount was unsecured and interest free. Subsequent to the period ended 30th June 2004, the amount was settled.

## 12. Commitments

- (a) Capital commitments outstanding at 30th June 2004 not provided for in the financial statements were as follows:

	<b>As at 30th June 2004 (Unaudited) HK\$'000</b>	As at 31st December 2003 (Audited) HK\$'000
Contracted for:		
Funding to a subsidiary (2003: an associate) in the PRC in the form of shareholder's loan	8,560	5,960
Capital expenditure in relation to the acquisition and construction of certain plants and machineries	<u>107,143</u>	–
	<u><b>115,703</b></u>	<u>5,960</u>

- (b) At 30th June 2004, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	<b>As at 30th June 2004 (Unaudited) HK\$'000</b>	As at 31st December 2003 (Audited) HK\$'000
Within one year	304	–
In the second to fifth years	665	–
After five years	<u>6,805</u>	–
	<u><b>7,774</b></u>	–

## 13. Post Balance Sheet Event

Subsequent to the period ended 30th June 2004, an indirect non-wholly owned subsidiary of the Group ("the Borrower") and an independent third party ("the Lender") entered into a secured loan agreement for an amount of RMB40,000,000 at an interest rate of 8% per annum and repayable by three installments. The loan is secured by certain plants and machineries of the Borrower and is guaranteed by the Borrower's immediate holding company which is a non-wholly owned subsidiary of the Company and a company which is a wholly-owned company of the controlling shareholder of the Company.

## BUSINESS REVIEW

During the first half of 2004, an associated company became our subsidiary of the Group ("the Subsidiary"), as we were successfully to increase our equity interest in this associated company to 65% by further acquiring its 20% shareholding. We have expanded our exposure in the coal industry since the principal activities of the Subsidiary are engaged in the production and sale of coking coal products. We had made good progress in the coal trades compared with a year ago. However, as the Subsidiary is currently at the construction stage, it does not contribute any revenue to the Group and indeed, the Group borne its pre-operating expense. Eventually, the Group recorded an unaudited loss of HK\$6.56 million for the first half of 2004.

In 2004, the economies in major countries such as the US continued to have growth and drive up the demand of energy resources. Oil price was raised to a record high level in the first six months; coal price has also been adjusted upwards together. All these factors were in line with our strategic plan made in the early of last year to commit us investing into the coal industries. Based on that, we have concentrated our effort to the coal trades in the first half of the year and also, we made two announcements dated on 2nd June and 25th June this year respectively to increase and restructure our equity interest to 65% in the subsidiary. The Group becomes the controlling shareholder of the Subsidiary, which is our Group's major subsidiary now.



Through the acquisition, our principal activities become more focused on the production and sale of coking coal products and side products besides the coal trades and jewellery sales. This segment is expected to play an important role in the revenue and profit portfolio of the Group. The Subsidiary has completed the infrastructure works and is currently in purchasing and installation of plant and machineries. The production is expected to commence by the end of this year or in the beginning of 2005. This will poise us in the development of business in the energy resources industry and the implementation of long-term investment strategy.

## **FINANCIAL POSITION**

### **Material acquisitions and disposals**

On 27th May 2004, the Group entered into the Acquisition Agreement to acquire further 20% equity interest in an associated company which was owned 45% equity interest by the Group at a consideration of RMB20 million before the acquisition. Upon completion of the Acquisition Agreement on 8th June 2004, the associated company became a subsidiary of the Company ("the Subsidiary") as the Group held its 65% equity interest. The Subsidiary is engaged in the production and sale of coking coal products and side products through its two non-wholly owned subsidiaries in the PRC.

On 24th June 2004, the Subsidiary entered into the Disposal Agreement to dispose 25% equity interest in a subsidiary at a consideration of RMB7,500,000. Before and after the completion of the Disposal Agreement on 29th June 2004, the Subsidiary held 90% and 65% shareholding of the subsidiary respectively.

### **Charges on Assets**

At 30th June 2004, except for fixed deposit of HK\$25,000,000 being pledged as security for banking facilities, none of Group's assets was charged or subject to any encumbrance. Subsequent to the period end 30th June 2004, none of Group's assets was charged or subject to any encumbrance.

### **Contingent Liabilities**

At 30th June 2004, the Group was not liable to any borrowings or guarantees given to any banks or financial institutions.

### **Gearing Ratio**

At 30th June 2004, the gearing ratio of the Group was 28%. Subsequent to the period end 30th June 2004, all bank borrowings have been repaid as a result of the gearing ratio of the Group was reduced to zero.

### **Liquidity and Financial Resources**

The Group's cash and cash equivalent at 30th June 2004 amounted to HK\$67,032,000.

### **Staff**

The Group had 8 employees at 30th June 2004 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 2004 (2003: Nil).

## FUTURE PROSPECTS

China is currently the largest capital investment nation in the world. The investment module from foreign investors to China has also been changed from OEM to manufacturing process instead. This actually helps the movement of industrialization in China with the improvement in its competitiveness in the long run and reforms the industrial structure as well. The demand of energy resources such as electricity and oil will be significantly increased. To follow this economic growth pattern, we will ensure our coal plant be on schedule to produce and generate profit. We will also expand the production capacity progressively in line with the market demand. Besides, as highlighted in the 2003 annual report, the former management of the Subsidiary was working on the integration of business upstream into coal mining. We will continue the process and make announcement once the project is confirmed.

China, considered as a new growing market, is expected to have a non-smoothness of economic development progress. Besides, there are still many uncertainties, which may affect the economy such as potential rise in global interest rates, impact on high oil price and the tight situation between the straits. We will continue to evaluate the market situation and tune our business strategies accordingly. However, we believe maintaining a healthy financial status is crucial to manage the above risks and we will carry on to secure our strong cash flow position in order to deliver the revenue growth and support the future investments as well.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION

At as 30th June 2004, 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	1,070,000,000 <i>(note)</i>	1,160,750,000

*Note:* Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,070,000,000 ordinary shares in the Company as at 30th June 2004.

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 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 AND SHORT POSITION**

At 30th June 2004, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the section "Directors' and Chief Executives' Interest and Short Positions" above, 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.

## **SHARE OPTION SCHEME**

At the 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.

The exercise price of options is to be determined by the Directors and is the highest of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and the nominal value of the share on the date of grant.

No share option was outstanding as at 30th June 2004 and no share option was granted under the Scheme during the period.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES**

During the six months ended 30th June 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## **AUDIT COMMITTEE**

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30th June 2004.

## **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 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities ("the Listing Rules") on the Stock Exchange.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by directors ("Code of Conduct"). The Directors have made enquiry to all directors of the Company to confirm that they have complied with the Code of Conduct during the six months ended 30th June 2004.

By Order of the Board  
**SO Kwok Hoo**  
*Executive Director*

Hong Kong, 20th September 2004

*As at the date of this interim report, the executive directors of the Company comprise Mr. Wong Lik Ping, Mr. So Kwok Hoo and Mr. Li King Luk; the independent non-executive directors of the Company comprise Mr. Ng Ching Wo, Mr. Kee Wah Sze and Mr. Choi Wai Yin.*