

BUSINESS REVIEW

For the six months ended 30th June 2001, the Group recorded consolidated profit attributable to shareholders of approximately HK\$14,635,000. The profits for the six months was primarily attributable to a gain of HK\$24,009,000 arising from the non-consolidation of other loans owed by a wholly-owned subsidiary, Famous (HK) Development Limited ("Famous") which is in the process of being wound up. The Company recently received a legal opinion advising that there will be no liability on the part of the Company arising from Famous' other loans under the loan agreements on the grounds that the Company is a separate legal entity and not a party to these agreements.

As the Company has been extensively engaged in the implementation of the restructuring, the day to day business operations of the Company were kept at a minimum level.

The Group's borrowings (including bank loans & other borrowing) at 30th June 2001 were HK\$81,466,000 (2000: HK\$80,100,000). Since March 1999, all banking facilities were frozen and the Group's bankers and other lender have demanded immediate payment of amounts due to them. Bank balances and cash of the Group as at 30th June 2001 amounted to HK\$270,000 (2000: HK\$6,214,000). The Group's debts to the total assets ratio was approximately 767% (2000: 320%) expressed as a percentage of bank loans and other borrowings net of bank balances and cash over total assets of the Group.

11.8% (2000: 11.9%) of the Group borrowings were denominated in foreign currencies. Group's borrowings were on a floating rate basis either at bank prime lending rates or short term inter-bank rates.

RESULTS OF RESTRUCTURING

The Company has entered into the investment agreements and compromise agreements (collectively the "Restructuring Agreements") with the Investors (China Merit Limited, Green Dynamics Investment Co. Ltd. & Precious Gold Holdings Limited) and Bank Groups respectively on 20th July 2001. The Company has obtained approvals of the Restructuring Agreements at an Extraordinary General Meeting held on 7th September 2001 by the Shareholders. A special resolution regarding the change of name of the Company to "Fushan Holdings Limited" was passed by the Shareholders at an Extraordinary General Meeting held on 14th September 2001 and the Restructuring Agreements have been duly completed on the same day. Upon completion of the Restructuring Agreements, the Company has issued 1,000,000,000 new shares to the Investors with issued capital at HK\$0.1 each for an aggregate amount of HK\$100 million in cash. The Company has applied HK\$58.7 million to settle both the secured and unsecured loans from the Bank Groups which amounted to approximately HK\$95.5 million and the whole indebtedness and all liabilities due by the Company to the Bank Groups have been released and fully discharged thereafter. Consequently, the Company has restored its net asset to a positive position.

The Investors now hold an aggregate of 1,010,750,000 shares, representing approximately 58.40% of the enlarged issued share capital of the Company whereas Mr. Wong Lik Ping ("Mr. Wong") and China Merit Limited which is solely owned by Mr. Wong hold an aggregate of 710,750,000 shares, representing approximately 41.06% of the enlarged issued share capital of the Company and is the single largest shareholder. There are changes of directors after completion of the Restructuring Agreements. The new Board, with effect from 14th September 2001 consists of Mr. Wong Lik Ping, Mr. Li King Luk and Mr. So Kwok Hoo as executive directors and Mr. Kee Wah Sze and Mr. Ng Ching Wo as independent non-executive directors. Mr. Ng Cheuk Fan has been

the financial controller and company secretary of the Company with effect from 14th September 2001.

FUTURE PROSPECTS

- (i) The Company will maintain the existing operations.
- (ii) While the existing gold jewellery inventories of the Group are ageing and have been written off in the accounts of the Group, the new Board will utilize their business network to procure any appropriate distributors for the purchase of the Group's existing inventories.
- (iii) The new Board will conduct a detailed review of the financial position and operations of the Group and will formulate management strategies as well as business plan to enlarge the revenue base and restore the profitability of the Group.
- (iv) The new Board will also explore other business opportunities and consider whether any asset disposals, asset acquisitions, business rationalizations and/or business diversifications will be appropriate in order to enhance the long term growth potential of the Group.

STAFF

As at 30th June 2001, the Group employed 12 employees. Staff remuneration packages are normally reviewed annually. The Group also provides other staff benefits, which include year-end double pay, discretionary bonus, contributory retirement benefit scheme and insurance scheme. Training programmes are provided for staff as and when required.

DETAILS OF THE CHARGES ON GROUP ASSETS

At 30th June 2001, the Group's leasehold property with net book value of HK\$9,766,000 (2000: HK\$9,970,000) was pledged to secure banking facilities granted to the Group. Since the Company has paid HK\$7,700,000 on 14th September 2001 pursuant to a Supplemental Compromise Agreement dated 20th July 2001, the mortgage on the property will be released and discharged.

CONTINGENT LIABILITIES

The Group had contingent liabilities amounting to a total of HK\$2,409,000 in respect of guarantees executed by the Company for bank loans and overdraft incurred by a former subsidiary, Link Works Technologies Limited. These liabilities had been discharged and released due to the completion of the compromise agreements dated 20th July 2001 on 14th September 2001.