

CHAIRMAN'S STATEMENT

For the year ended 31 December 2001, Fushan Holdings Limited (the "Company") and its subsidiaries (collectively as the "Group") recorded consolidated profit attributable to shareholders of HK\$48,357,000.

The profit was mainly attributable to jewellery sales of HK\$2,545,000, waiver of debts totalling HK\$41,052,000 by the Bank Group after completion of Restructuring Agreements on 14 September 2001 and together, with a gain of HK\$24,009,000 arising from the de-consolidation of a subsidiary, Famous (HK) Development Limited which is in the process of being wound up.

IMPORTANT ISSUES

On 20 July 2001, 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 and Precious Gold Holdings Limited) and the Bank Group respectively. The Company has completed the Investment Agreements on 14 September 2001 and issued 1,000,000,000 new shares to the Investors with issued price at HK\$0.10 each for an aggregate amount of HK\$100 million in cash. The Company has also completed the Compromise Agreements with the Bank Group on the same day and applied HK\$58.7 million to settle both the secured and unsecured bank loans from the Bank Group, which amounted to approximately HK\$95.5 million as at 31 December 2000 pursuant to the Compromise Agreements. The whole indebtedness and all liabilities due by the Company to the Bank Group have been released and fully discharged thereafter. Consequently, the Company has restored its net assets to a positive position.

The Investors then held an aggregate of 1,010,750,000 shares, representing approximately 58.4% of the enlarged issued share capital of the Company whereas Mr. Wong Lik Ping ("Mr. Wong") and China Merit Limited which was solely owned by Mr. Wong held an aggregate of 710,750,000 shares, representing approximately 41.06% of the enlarged issued share capital of the Company and was the single largest shareholder. There were changes in directors after completion of the restructuring. The new Board, with effect from 14 September 2001, consisted 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.

BUSINESS REVIEW

Due to the liquidity problem of the Group before the completion of the Restructuring Agreements, the sales activities of the Group have been maintained at a minimum scale. The overall jewellery sales was HK\$2,545,000 for the year ended 31 December 2001 whereas HK\$1,751,000 sales took place in Hong Kong and the remaining HK\$794,000 sales was in China. The turnover has much improved over previous year's sales of HK\$1,645,000 as new management quickly reactivated the sales effort in the fourth quarter right after the completion of debt restructuring. However, demand for luxury consumer items was still slow in Hong Kong because the market sentiment was not encouraging due to factors such as high unemployment rate and deflation.

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FINANCIAL POSITION

Charges on Assets

As at 31 December 2001, the Group was free from any mortgage charges on the Group's assets after completion of the debt restructuring.

Contingent Liabilities

As at 31 December 2001, all guarantees given and debts owed by the Group to the Bank Group were fully released and discharged after completion of the debt restructuring.

Gearing Ratio

As at 31 December 2001, the gearing ratio of the Group was nil as all the bank loans and other borrowings were fully settled upon completion of the debt restructuring. There was no further bank borrowing afterwards.

Liquidity and Financial Resources

The Group's cash and bank deposits as at 31 December 2001 amounted to HK\$36,923,000. The significant change to a positive cash position as compared with that of previous year was mainly due to the issue of 1,000,000,000 new shares of the Company to the Investors for cash. The net proceeds after the settlement of all the bank loans and borrowings was maintained as working capital for the Group.

Staff

The Group had 8 employees as at 31 December 2001. The employee remuneration is reviewed annually based on individual performance and subject to the financial situation of the Group as well. The Group also provides other staff benefits, which include year-end double pay, medical insurance and contributions to mandatory provident fund.

DIVIDEND

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2001.

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FUTURE PROSPECTS

After the restructuring, management has been working thoroughly to reduce the operating expenses in all aspects in order to improve the competitiveness of the Group in facing the current challenging business environment. Management has also reinstated the jewellery sales quickly with HK\$1,631,000 turnover in the fourth quarter of year 2001. Management will continue expanding the Company's sales networks in China so as to increase the sales volume and profit level from jewellery business.

Management will also explore to expand the scope of business of the Group with a view to enlarge the revenue base and restore the profitability of the Group. As China is already a member of the World Trade Organization, together with certain foreseeable assertive factors indicated by the government such as the targeted GDP growth, it is strongly believed that the economy of China will remain in a substantial growth stage in the future years. To capture this opportunity, the Group decided to raise further capital by issuing 230,000,000 new shares for cash through placement with placing price at HK\$0.15 per share in March 2002, obtaining an aggregate amount of HK\$34.5 million; this would enlarge and improve both the asset base and the financial position of the Group. Net proceeds from the placing will be used for making future investments if appropriate opportunity arises. In the event that there is no appropriate investment opportunity for the Group in the foreseeable future, the net proceeds will be retained by the Group for general working capital purposes. However, as the financial position of the Group has significantly improved, capability of the Group in the development of new products and new markets has also significantly increased; management is confident that the Group will benefit in both revenue growth as well as profit improvement in the long run even though the overall global economy is sluggish this year.

I would like to express my appreciation to the board members and the staff for their efforts and dedication to the Group in those difficult times and I look forward to the valuable contributions derived from the new organisation.

Wong Lik Ping

Chairman

Hong Kong, 24 April 2002