

## **DIRECTORS' REPORT**

The board of directors (the "Directors") present their report and the audited financial statements for the year ended 31 December 2001.

### **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The Company is an investment holding company. The Group's principal activities consist of the sale and marketing of gold jewellery products.

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities and markets is set out in note 4 to the financial statements.

### **CHANGE OF COMPANY NAME**

Pursuant to a special resolution passed on 14 September 2001, the name of the Company was changed from "Fu Hui Holdings Limited" to "Fushan Holdings Limited" and the Company adopted the Chinese name "福山控股有限公司" as part of its legal name.

### **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 December 2001 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 16 to 49.

The Directors do not recommend the payment of a dividend.

### **SHARE CAPITAL**

Pursuant to an ordinary resolution passed on 7 September 2001, the Company's authorised share capital was increased from HK\$100,000,000 to HK\$500,000,000 by the creation of an additional 4,000,000,000 shares of HK\$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

On 14 September 2001, the issued share capital of the Company was increased from HK\$73,080,000 to HK\$173,080,000 by the issue of 1,000,000,000 ordinary shares of HK\$0.1 each for cash at par. The reason for the issue was to facilitate the implementation of the debt restructuring and to provide additional working capital to the Group.

Details of the movements in share capital of the Company are set out in note 21 to the financial statements.

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### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

### **PROPERTY, PLANT AND EQUIPMENT**

The Group revalued its land and buildings at 31 December 2001, resulting in revaluation deficit of HK\$1,892,000 recognised in the consolidated income statement.

Details of the movements in property, plant and equipment are set out in note 14 to the financial statements.

### **FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 50.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### **DIRECTORS**

The directors during the year were :

Mr. WONG Lik Ping	(appointed on 14 September 2001)
Mr. LI King Luk	(appointed on 14 September 2001)
Mr. SO Kwok Hoo	
Mr. SUN Ming	(resigned on 15 August 2001)
Mr. SO Sik	(resigned on 14 September 2001)
Mr. NG Cheuk Fan	(resigned on 14 September 2001)
Mr. LI Jinlin	(removed on 13 September 2001)
Mr. WU Jian Rong	(resigned on 14 September 2001)
Mr. CHAN Chun Keung	(resigned on 14 September 2001)
Mr. KEE Wah Sze	
Mr. NG Ching Wo	(appointed on 14 September 2001)
Mr. LAM Ming Sum	(resigned on 14 September 2001)

Mr. Ng Ching Wo and Mr. Kee Wah Sze are independent non-executive directors and were appointed for a one-year term expiring on 13 September 2002 and 31 December 2002 respectively.

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2001, the interests of the directors and chief executive in the shares of the Company and its associated corporation, as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows :

Ordinary shares of HK\$0.10 each

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr. Wong Lik Ping	10,750,000	–	700,000,000 (note 1)	–	710,750,000

*Note:*

1. 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 at 31 December 2001.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements, which enable a director or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 31 December 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

Name of shareholders	Number of ordinary shares
China Merit Limited	700,000,000

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2001.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

#### Executive directors

Mr. Wong Lik Ping (age 41) Chairman, was appointed as a director of the Company on 14 September 2001. Mr. Wong has over 16 years' experience in trading business and financial industry and has held directorship with various private companies. Mr. Wong has extensive experience and investments in a wide range of businesses in the PRC.

Mr. Li King Luk (age 46) was appointed as a director of the Company on 14 September 2001. Mr. Li has over 18 years' experience in corporate management. He worked for a ceramics factory in Shanxi Province, the PRC as factory manager for 6 years. He also has over 13 years of experience in trading. Mr. Lee holds a Bachelor Degree in North Western University of Light Industry of the PRC (中國西北輕工業學院).

Mr. So Kwok Hoo (age 48) was appointed as a director of the Company on 20 March 1998. Mr. So holds Bachelor degrees in both Applied Science with major in Chemical Engineering and Business Administration obtained in Canada. He has over 19 years of experience in marketing of electrochemical and industrial products sales in Asia Pacific Region together with property investment experience in Hong Kong as well.

## DIRECTORS' REPORT

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

(Continued)

#### Independent non-executive directors

Mr. Ng Ching Wo (age 51) was appointed as an independent non-executive director of the Company on 14 September 2001. Mr. Ng is a partner of Fong & Ng, a solicitors firm in Hong Kong. Mr. Ng graduated from University of Alberta, Canada with the Degree of Master of Science (1975) and Bachelor of Laws (1980). He was admitted as a barrister and a solicitor in Alberta, Canada in 1981, as a solicitor in the United Kingdom in 1986 and in Hong Kong in 1987. Prior to 1 May 1996, Mr. Ng was a partner of a Canada-based multinational law firm, and stationed in the firm's Hong Kong office from May 1986 to April 1996. His practice concentrates on cross-border corporate, commercial, securities and China-related matters.

Mr. Kee Wah Sze (age 54) was appointed as an independent non-executive director of the Company on 11 April 1997. Mr. Kee is a partner of Messrs. Michael Cheuk, Wong & Kee and is a practicing solicitor in Hong Kong for over 20 years specialised in commercial field. He is a Notary Public of Hong Kong, a China Appointed Attesting Officer and holder of Master Degree in Chinese and Comparative Law of City University of Hong Kong and Master Degree in Law of the People's University of the PRC.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows :

	2001 %	2000 %
<b>Purchases</b>		
– the largest supplier	–	100%
– five largest suppliers combined	–	100%
<b>Sales</b>		
– the largest customer	30%	28%
– five largest customers combined	84%	59%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

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### **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Directors and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The Audit Committee comprises two independent non-executive directors, namely Mr. Ng Ching Woo and Mr. Kee Wah Sze. Two meetings were held during the current financial year.

### **AUDITORS**

Grant Thornton were appointed as auditors of the Group in 2001 in place of the resigning auditors, PricewaterhouseCoopers.

Grant Thornton retire and, being eligible, offer themselves for re-appointment, and a resolution to this effect will be proposed at the Annual General Meeting.

On behalf of the Board

**Wong Lik Ping**

*Chairman*

Hong Kong, 24 April 2002