

Report of the Directors

30 April 2001

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 30 April 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The ongoing principal activities of the subsidiaries have not changed during the year and consisted of bullion, futures and securities broking and trading, the provision of margin and loan financing, shipment sales of metals and metal scraps, in-warehouse sales of metals and the holding of investment properties. During the year, the Group commenced its mining operations in Mainland China.

SEGMENTAL INFORMATION

An analysis of the turnover and contribution to the Group's profit/(loss) from operating activities by principal activity and geographical area of operations for the years ended 30 April 2001 and 2000 is as follows:

	Turnover		Contribution to profit/(loss) from operating activities	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Bullion, securities and futures contracts broking and trading business and margin financing	23,472	103,227	11,409	63,171
Loan financing	2,499	1,249	492	772
Shipment sales				
– Metals	30,636	373,503	11	(9,161)
– Metal scraps	19,664	7,813	7	397
– Others	4,722	121	2	(154)
In-warehouse metals sales	1,556,120	1,326,888	576	7,280
Property investment	6,767	3,703	5,722	(23,788)
Investment holding	–	–	(284,951)	–
	1,643,880	1,816,504	(266,732)	38,517

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SEGMENTAL INFORMATION (Continued)

	Turnover		Contribution to profit/(loss) from operating activities	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical area:				
People's Republic of China (the "PRC"):				
Hong Kong	57,237	182,416	(156,377)	40,425
Mainland China	18,753	283	7	(60)
United Kingdom	1,557,629	1,342,227	576	7,154
Switzerland	3,737	143,426	1	(5,548)
Taiwan	–	–	(110,941)	–
Others	6,524	148,152	2	(3,454)
	1,643,880	1,816,504	(266,732)	38,517

RESULTS AND DIVIDENDS

The loss of the Group for the year ended 30 April 2001 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 67.

The directors do not recommend the payment of any dividend in respect of the year.

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SUMMARY FINANCIAL INFORMATION

The following is a summary of the results and of the assets and liabilities of the Group for the last five financial years extracted from the published audited financial statements, restated where appropriate:

Results

	Year ended 30 April				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	1,643,880	1,816,504	887,664	1,680,408	2,017,551
Profit/(loss) before tax	(282,647)	17,486	(263,018)	(183,447)	(16,817)
Tax	(134)	(7,398)	(7,794)	(4,902)	694
Profit/(loss) before minority interests	(282,781)	10,088	(270,812)	(188,349)	(16,123)
Minority interests	17	2	–	–	–
Net profit/(loss) for the year	(282,764)	10,090	(270,812)	(188,349)	(16,123)

Assets and Liabilities

	As at 30 April				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Fixed assets	84,103	68,183	27,460	72,710	808
Investment properties	181,150	171,220	255,731	438,920	–
Interests in associates and jointly-controlled entities	38,044	41,270	39,829	59,607	53,152
Intangible assets	95,747	24,884	–	–	–
Investments in securities	42,589	143,262	127,232	11,720	9,395
Other long term assets	33,699	117,400	54,845	54,935	–
Current assets	190,044	274,544	322,507	544,796	305,148
Total assets	665,376	840,763	827,604	1,182,688	368,503
Current liabilities	161,988	135,080	214,146	286,641	195,151
Long term liabilities	166,977	181,121	217,566	236,775	46,868
Total liabilities	328,965	316,201	431,712	523,416	242,019
Minority interests	128	–	–	–	–
Net assets	336,283	524,562	395,892	659,272	126,484

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 11 and 12 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in notes 13 and 37 to the financial statements.

JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Group's interests in jointly-controlled entities and principal associates are set out in notes 14 and 15 to the financial statements, respectively.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings of the Group at the balance sheet date are set out in notes 23 to 26 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital, together with the reasons therefor, and share options of the Company are set out in note 29 to the financial statements. There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 April 2001, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of HK\$25,760,000 is currently not available for distribution. The Company's share premium account with a balance of approximately HK\$1,099,997,000 as at 30 April 2001 may be distributed in the form of fully paid bonus shares.

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MAJOR CUSTOMERS

Approximately 96 percent of the Group's turnover was derived from in-warehouse sales contracts on recognised metal exchanges and bullion, securities and futures contracts trading in respect of which the underlying respective customers could not be identified. Sales attributable to the five largest customers, excluding the in-warehouse sales contracts on recognised metal exchanges and bullion, securities and futures contracts trading, accounted for less than 30 percent of the Group's turnover for the year.

MAJOR SUPPLIERS

Approximately 97 percent of the Group's purchases was derived from in-warehouse purchase contracts on recognised metal exchanges and bullion, securities and futures contracts trading in respect of which the underlying respective suppliers could not be identified. Purchases from the five largest suppliers, excluding the in-warehouse purchases contracts on recognised metal exchanges and bullion, securities and futures contracts trading, accounted for less than 30 percent of the Group's purchases for the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. Cheung Yan Lung
Mr. Haywood Cheung
Mr. Felipe Tan
Mr. So Pak Kwai
Mr. Sit Chun Sze

Independent non-executive directors

Mr. Chiu Pak Yue, Leo
Mr. Ip Yin Wah (appointed on 28 April 2001)
Mr. David M. Norman (resigned on 18 January 2001)

Independent non-executive directors are not appointed for a specific term as all of the directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-law no. 86(2) of the Company's bye-laws, Mr. Ip Yin Wah, being a director appointed after the 2000 annual general meeting, will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

In accordance with bye-law no. 87 of the Company's bye-laws, Mr. So Pak Kwai will retire by rotation and being eligible, will offer himself for re-election at the forthcoming annual general meeting.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments of directors of the Company and the five highest paid employees in the Group are set out in notes 5 and 6 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 April 2001, the interests of the directors and their associates in the issued share capital of the Company and its associated corporations, as recorded in the register that was required to be maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

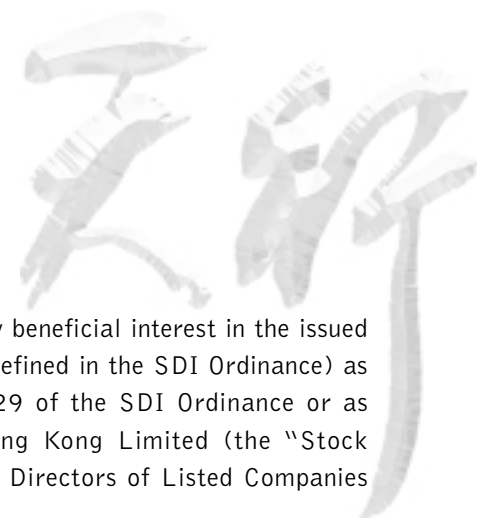
Directors	Notes	Number of issued ordinary shares of HK\$0.10 each in the Company		
		Personal interest	Corporate interest	Total
Mr. Cheung Yan Lung	(a)	–	40,000,000	40,000,000
Mr. Haywood Cheung	(b)	–	777,980,908	777,980,908
Mr. Felipe Tan	(c)	10,086,000	29,000,000	39,086,000
Mr. So Pak Kwai		100,000	–	100,000

Notes:

- (a) The shares under "Corporate interest", which represent an approximately 1.76 percent equity interest in the Company as at 30 April 2001, were held by Benton Shares Holding Limited, a company 99 percent owned by Mr. Cheung Yan Lung.
- (b) The shares under "Corporate interest", which represent an approximately 34.24 percent equity interest in the Company as at 30 April 2001, comprised (i) 304,680,000 ordinary shares held by Haywood Shares Holding Limited, (ii) 345,300,908 ordinary shares held by Peakhurst Limited; and (iii) 128,000,000 ordinary shares held by iWin Limited. Haywood Shares Holding Limited and iWin Limited is a company 99.99 percent and 70 percent, respectively, owned by Mr. Haywood Cheung, whilst Peakhurst Limited is a company in which Mr. Haywood Cheung has an approximate 48.53 percent interest held through Cheung's Enterprise Holdings Limited, a company 75 percent owned by Mr. Haywood Cheung.
- (c) The shares under "Corporate interest", which represent an approximately 1.28 percent equity interest in the Company as at 30 April 2001, were owned by Mr. Felipe Tan through his personal investment company, Join Rich Investments Limited.

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DIRECTORS' INTERESTS IN SHARE CAPITAL (Continued)

Save as disclosed above, none of the directors or their associates had any beneficial interest in the issued share capital of the Company or any of its associated corporations (as defined in the SDI Ordinance) as recorded in the register that was required to be kept under Section 29 of the SDI Ordinance or as otherwise 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 (the "Model Code").

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms and conditions of the Company's employee share option scheme, as further detailed in note 29 to the financial statements, which was approved by shareholders at the special general meeting held on 27 January 1994, the directors were granted options to subscribe for the Company's ordinary shares, the details of which are as follows:

Directors	Date of grant of share options	Number of share options outstanding at beginning of year and at 30 April 2001	Exercise price per share HK\$
Mr. Haywood Cheung	2 March 1998	25,000,000	0.28
Mr. Felipe Tan	20 January 1997 2 March 1998	5,000,000 17,500,000	0.80 0.28
Mr. So Pak Kwai	20 January 1997	300,000	0.80

The share options are exercisable during a period of ten years commencing from the date at which the share options were granted. No share options were granted or exercised during the year.

Save as disclosed above, none of the directors or their respective spouse or children under 18 years of age was granted any right to subscribe for the share capital of the Company, and there was no exercise of any such right as recorded in the register that was required to be kept under Section 29 of the SDI Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 35 and 36 to the financial statements, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

Pursuant to Section 16(1) of the SDI Ordinance, the Company has been notified of the following registered interests of 10 percent or more in the issued share capital of the Company as at 30 April 2001:

Name of company	Number of ordinary shares held
Peakhurst Limited	345,300,908
RNA Holdings Limited #	345,300,908
Tem Fat Hing Fung (Holdings) Limited #	345,300,908
Cheung's Enterprise Holdings Limited #	345,300,908
Haywood Shares Holding Limited	304,680,000

These companies are deemed to have interests in the same 345,300,908 ordinary shares held by Peakhurst Limited by virtue of Section 8 of the SDI Ordinance.

Save as disclosed above, no person other than the directors of the Company whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

In the opinion of the board of directors of the Company, including the independent non-executive directors, the rental transactions with Lee Fung Hong (Cheung's) Forex Dealers Limited, a company in which Mr. Haywood Cheung, a director of the Company, is a shareholder, for the year ended 30 April 2001 were:

- (i) in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms and on terms that were fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) in accordance with the terms of the agreement governing such transactions; and
- (iv) that the aggregate value of the connected transactions did not exceed 0.9 percent of the Group's net asset value upon completion of the acquisition of the entire interests in Mankeen Management Limited and its subsidiaries, and Lee Fung Hong (International) Futures Limited, on 11 July 1997.

Further details of the connected transactions are set out in note 35 to the financial statements.

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EMPLOYEE AND REMUNERATION POLICY

As at 30 April 2001, the Group employed a total of approximately 200 employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. When formulating staff remuneration and benefit policies, primary considerations are given to their performance and the prevailing salary levels in the market. The benefits provided to the employees by the Group include training, provident funds and medical coverage. Through the share option scheme established for the senior personnel, it is intended to integrate their responsibilities, authority and benefits.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits scheme of the Group and the employer's contribution costs charged to the profit and loss account for the year are set out in notes 2 and 4 to the financial statements, respectively.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Directors

CHEUNG Yan Lung, CBE, OStJ, JP, aged 79, is the father of Mr. Haywood Cheung. He joined the Company in July 1997 as an executive director and was appointed as Chairman of the Board on 29 August 1997. Mr. Cheung has more than 29 years' experience in securities brokerage and comprehensive experience in metals trading. He has served as the President of the New Territories General Chamber of Commerce, an Executive Councillor of the Heung Yee Kuk, Chairman of Regional Council Members' Association Limited and a member of the Board of Directors of the Community Chest. Mr. Cheung was also formerly a Hong Kong Affairs Adviser, a member of the District Board (North), Chairman of the Regional Council, a member of the Hong Kong Housing Authority and a member of the Board of Directors of the Kowloon-Canton Railway Corporation along with his involvement in many other charitable and social organisations. He is also a director of Cheung's Enterprise Holdings Limited, a substantial shareholder of the Company.

Haywood CHEUNG, aged 48, is the son of Mr. Cheung Yan Lung. He joined the Company in July 1997 as an executive director and is the Deputy Chairman and Managing Director of the Company. He has over 19 years' experience in metals trading, securities and futures brokerage and forex dealing in Hong Kong. Mr. Cheung also has extensive business connections in Hong Kong and Mainland China. He has served as an Executive Committee Member of the Chinese Gold & Silver Exchange Society. He is also a director of a number of subsidiaries of the Company and 3 substantial shareholders of the Company, namely Cheung's Enterprise Holdings Limited, Haywood Shares Holding Limited and Peakhurst Limited.

Felipe TAN, aged 46, is the Deputy Managing Director of the Company and a director of a number of subsidiaries of the Company. He has over 25 years' experience in metals trading and related businesses in Hong Kong and Mainland China. Mr. Tan is responsible for the strategic planning and day-to-day management of the Group.

BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF (Continued)

Directors (Continued)

SO Pak Kwai, aged 61, joined the Group in 1988. He is an executive director of the Company and a director of a number of subsidiaries of the Company. Mr. So is in charge of shipment trading of non-ferrous metals. He has over 37 years' experience in non-ferrous metals trading, gained mostly in Mainland China.

SIT Chun Sze, aged 50, joined the Company as an executive director in November 1997 and is currently the President of the Hong Kong Bullion Dealer's Club. Previously, he worked with two international bullion banks and has over 23 years' experience in the field of precious metals trading. He is also a director of RNA Holdings Limited, which is a substantial shareholder of the Company and its subsidiaries.

CHIU Pak Yue, Leo, aged 38, is a practising solicitor in Hong Kong and a partner in Chiu & Partners, a firm of solicitors in Hong Kong. Mr. Chiu was appointed as an independent non-executive director of the Company in October 1997.

IP Yin Wah, aged 54, is a certified public accountant in Hong Kong and the sole proprietor of Y. W. Ip & Company, a firm of certified public accountants practising in Hong Kong. Mr. Ip was appointed as an independent non-executive director of the Company in April 2001.

David M. NORMAN, aged 45, is a practising solicitor in Hong Kong and a partner in Richards Butler, an international law firm. Mr. Norman resigned as an independent non-executive director of the Company in January 2001.

Senior management staff

CHAN Hoi Po, aged 42, joined the Group in July 1997 and is the General Manager of the subsidiaries of the Company engaged in bullion, futures and securities broking and trading. Before joining the Group, Mr. Chan was appointed as a dealing manager and subsequently promoted to marketing director in a local financial institute. He has over 19 years' experience in bullion dealing and financial brokerage. He is also a director of a number of subsidiaries of the Company.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 38 to the financial statements.

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LOAN AGREEMENT WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER UNDER PRACTICE NOTE 19 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE ("PRACTICE NOTE 19")

A wholly-owned subsidiary of the Company has a banking facility with a total limit of HK\$240,000,000 (the "Facility"). As at 30 April 2001, the total outstanding amount under the Facility was approximately HK\$184,720,000 which is scheduled to be fully repaid by August 2007. Under the terms of the Facility, one of the substantial shareholders of the Company provided a corporate guarantee to an extent of HK\$56,328,000 and agreed to hold not less than 4,853 shares of a corporate controlling shareholder of the Company while the guarantee is subsisting. As at 30 April 2001, the said shares represented 48.53% of the total issued capital of the said controlling shareholder which in turn holds a direct interest of approximately 15.24% of the total issued capital of the Company. Further details of this transaction are set out in note 36 to the financial statements. As far as the directors are aware, the Group does not have any other borrowings with terms providing that a default would be triggered by the default of the Facility.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the accounting year covered by this annual report, except that the independent directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The Company established an Audit Committee presently comprising the two independent non-executive directors of the Company in compliance with the requirement of the Code of Best Practice as set out in Appendix 14 of the Listing Rules. In establishing the terms of reference for the committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997. The committee had met twice in the year. During the meetings, the committee reviewed the connected transactions, interim and annual reports of the Company and discussed with the management the auditing, internal controls and financial reporting matters.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Haywood Cheung

Chairman of the Meeting

Hong Kong, 29 August 2001