MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	For the six months ended 31 October		Change
	2001	2000	**Increase/ (Decrease)**
	(Unaudited)	(Unaudited)	
	HK$'000	HK$'000	
Turnover	**158,627**	1,400,120	(89%)
Administrative expenses	**(35,174)**	(23,745)	48%
Operating Profit/(Loss)	**(374,546)**	28,009	(1,437%)
Profit/(Loss) Attributable to Shareholders	**(385,417)**	21,119	(1,925%)
Basic Earnings/(Loss) per Share	**(16.96) cents**	1.16 cents	(1,562%)

BUSINESS REVIEW

Financial Services

Burdened by economic ills and the September 11 terrorist attack, the total turnover of the local securities market has experienced a 28% contraction during the period under review when compared with the same of the previous financial year. With most of the investment capitals sidelined by a shell-shocked and uncertain market, most of the broking firms in Hong Kong are hard pressed to maintain a healthy bottom line. The securities broking division at Simsen is no exception.

For the six months ended 31 October 2001, the financial services of the Group, in particular, the securities broking division witnessed a rapid deterioration of commission income and trading profit. Average monthly turnover decelerated sharply, mirroring the sour sentiment of the market at large. To prepare for another lean year, the division understands that it has to change its mindset to accommodate a different business environment. In addition to putting effort to lure more business from the Mainland China, the division has been taking steps to minimize its overhead in order to cope with plunging share price and the cyclical nature of the broking business. The increase in administrative costs for the period for 48% when compared with the previous period reflected the costs incurred by new subsidiaries of the Group and the restructuring cost.

With respect to bullion trading operation, low liquidity and a deflating world economy have damaged the sentiment further. Except for a brief moment when Hong Kong gold price closed sharply higher at US$282 an ounce from the previous closing price of US$271.30 on account of terrorist attack on September 11, bullion price has remained flat most of the time for the period under review. With most of the major economies of the world on the brink of recession affecting trading volume and flattening bullion price, the division has found it hard to profit from trading operation. As a result, the bullion operation has not been able to contribute its share of profit to the Group.

Base Metals

For the period under review, the metal business performed steadily. The Aluminium smelter in the Mainland China, as usual, contributed to the Group's earnings. The precious metals manufacturing and trading of Chengdu Goldsilver Limited, which is the Group's jointly-controlled entity in the Mainland China, recorded a breakeven position on its first year of production. Nickel mining in the Northwest China suffered from drop of ore grading but is expected to pick up in ore grading by June 2002 when the third pit of mine comes on stream. Metal futures broking operated through the Group's real time electronic trading platform, tigermetal.com, keeps on its growth in clientele, turnover as well as commission income. The Group expects continuous growth in the metal business both in revenue as well as profit contribution.

PROSPECT

The local economy is expected to maintain a slim 0.1% annual gain as a result of economic stagnation in 2001. Retrenchment of the pre-1997 superficial propensity would continue to plague the market until Hong Kong is able to re-position itself to fully realize the enormous economic potential bestowing upon the Greater China Region. Looking ahead, the Group anticipates an U.S. led economic recovery would start to take shape in 2002 raising demand for base metals and opening more investment opportunities. In addition, China's accession to WTO is expected to further enhance the local equity market as one of the most important financial magnets for Chinese enterprises to attract off shore capital, while allowing foreign companies to establish their bridgehead here to China at the same time.

In securities broking, the goal is to try to maintain a balanced budget with effort spared to reduce costs and increase income revenue. However, with banks trying to expand their market share in securities broking on top of the leftover of the minimum commission requirement by April, the division is concerned that a major shake up of the industry is inevitable ensuring a more predacious and cut throat competition. Firms, which do not have sufficient resources to weather such a challenge, will be sacrificed for the better and the stronger ones. In response, the division would try to make the best uses of its resources in terms of preserving existing client base and expanding market share in China.

In bullion trading, the division inclines to shift its focus more to margin trading at the expense of physical trading in which all transactions have to be settled by costly physical delivery. The division also believes that the socio-political climate of the world at large has been worsening since the terrorist attack on 11 September, laying the groundwork for a more volatile bullion market in the future. Against this backdrop, the division anticipates to capitalize on such development by offering more speculative and hedging opportunities in the area.

In the second half of this financial year, the Group will continue to streamline all its divisions in response to weak economic conditions. The process involved is surely a long and painful one except that the Group would emerge from it as a leaner but wiser outfit, better prepare to profit from the next expansion cycle.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 October 2001, the current ratio of the Group maintained at approximately 0.97 and the net current liabilities were approximately HK$4,739,000, which was a decrease when compared with the corresponding amount at 30 April 2001.

The Group's gearing ratio, which was calculated based on the long term interest bearing borrowings and the shareholders' equity, maintained about 38.53%.

In order to strengthen the capital base of the Group and to improve the Group's financial position, the Directors is considering to take various measures to raise funds through including, but not limited to, loan from directors, external borrowings and private placements.

CURRENCY STRUCTURE

The Group had limited exposure to foreign exchange fluctuations as most of the transactions, including borrowings, were conducted in United States dollars, Hong Kong dollars or Renminbi. The exchange rates of these currencies were relatively stable for the period. Hence, there is no significant exchange risk.

CHARGES ON GROUP ASSETS

As at 31 October 2001 the Group's total bank borrowings amounted to HK$210,879,000 (30 April 2001: HK$225,491,000), which were secured by the Group's bank deposits, investment properties, leasehold land and buildings and listed investments of margin clients with the margin clients' consent.

EMPLOYEE AND REMUNERATION POLICY

As at 31 October 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.