

# Report of the Directors

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The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 April 2002.

## 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, the holding of investment properties and mining operations in Mainland China.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 30 April 2002 and 2001 are set out in note 5 to the financial statements.

## RESULTS AND DIVIDENDS

The loss of the Group for the year ended 30 April 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 87.

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				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	<b>224,731</b>	1,643,880	1,816,504	887,664	1,680,408
Profit/(loss) before tax	<b>(509,547)</b>	(282,647)	17,486	(263,018)	(183,447)
Tax	<b>(847)</b>	(134)	(7,398)	(7,794)	(4,902)
Profit/(loss) before minority interests	<b>(510,394)</b>	(282,781)	10,088	(270,812)	(188,349)
Minority interests	<b>128</b>	17	2	-	-
Net profit/(loss) for the year	<b>(510,266)</b>	(282,764)	10,090	(270,812)	(188,349)

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## SUMMARY FINANCIAL INFORMATION (continued)

### ASSETS AND LIABILITIES AND MINORITY INTERESTS

	As at 30 April				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Fixed assets	61,670	84,103	68,183	27,460	72,710
Investment properties	148,570	181,150	171,220	255,731	438,920
Interests in associates and jointly-controlled entities	40,364	38,044	41,270	39,829	59,607
Intangible assets	52,156	95,747	24,884	–	–
Investments in securities	19,727	42,589	143,262	127,232	11,720
Other long term assets	3,100	33,699	117,400	54,845	54,935
Current assets	138,121	190,044	274,544	322,507	544,796
<b>Total assets</b>	<b>463,708</b>	<b>665,376</b>	<b>840,763</b>	<b>827,604</b>	<b>1,182,688</b>
Current liabilities	166,699	161,988	135,080	214,146	286,641
Long term liabilities	163,704	166,977	181,121	217,566	236,775
<b>Total liabilities</b>	<b>330,403</b>	<b>328,965</b>	<b>316,201</b>	<b>431,712</b>	<b>523,416</b>
Minority interests	–	128	–	–	–
<b>Net assets</b>	<b>133,305</b>	<b>336,283</b>	<b>524,562</b>	<b>395,892</b>	<b>659,272</b>

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 14 and 15 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 88.





## 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 33 to the financial statements.

## PRE-EMPTIVE RIGHTS

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 the existing shareholders.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 34 to the financial statements.

## DISTRIBUTABLE RESERVES

At 30 April 2002, 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\$225,494,000 as at 30 April 2002 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS

Approximately 70 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.

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## MAJOR SUPPLIERS

Approximately 60 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. Chan Ka Ling, Edmond (appointed on 28 September 2001)

Mr. Ip Yin Wah (resigned on 28 September 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. Chan Ka Ling, Edmond, being a director appointed after the 2001 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. Sit Chun Sze will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.





## 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 CONTRACTS

Save as disclosed in notes 40 and 41 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 April 2002, the interests of the directors in the issued share capital of the Company or 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 (the "SDI Ordinance"), were as follows:

Directors	Notes	Number of issued ordinary shares of HK\$0.01 each in the Company		
		Personal interest	Corporate interest	Total
Mr. Cheung Yan Lung	(a)	–	4,000,000	4,000,000
Mr. Haywood Cheung	(b)	–	77,748,090	77,748,090
Mr. Felipe Tan	(c)	1,008,600	2,900,000	3,908,600
Mr. So Pak Kwai		10,000	–	10,000
Mr. Chan Ka Ling, Edmond	(d)	–	50,000	50,000

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## DIRECTORS' INTERESTS IN SHARE CAPITAL(continued)

Notes:

- (a) The shares under "Corporate interest", which represent an approximately 1.47 percent equity interest in the Company as at 30 April 2002, 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 28.53 percent equity interest in the Company as at 30 April 2002, comprised (i) 30,418,000 ordinary shares held by Haywood Shares Holding Limited; (ii) 34,530,090 ordinary shares held by Peakhurst Limited; and (iii) 12,800,000 ordinary shares held by iWin Limited. Haywood Shares Holding Limited and iWin Limited are 99.99 percent and 75 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 1.06 percent equity interest in the Company as at 30 April 2002, were owned by Mr. Felipe Tan through his personal investment company, Join Rich Investments Limited.
- (d) The shares under "Corporate Interest", which represent an approximately 0.02 percent equity interest in the Company as at 30 April 2002, were owned by Mr. Chan Ka Ling, Edmond through his personal investment company, E-Source Holdings Limited.

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 OR DEBENTURES

Apart from as disclosed under the heading "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares and debentures of the Company granted to any director or their respective spouse and children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.





## SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 23 August 2001, the Stock Exchange announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of share option schemes, which came into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the directors consider that it is in the interests of the Company to adopt a new share option scheme. At the Company's special general meeting held on 4 March 2002, the share option scheme (the "Previous Share Option Scheme") adopted in 1994 with a life span of ten years was terminated and a new share option scheme (the "New Share Option Scheme") was adopted under which the directors may, on or before 3 March 2012, grant options to eligible participants including the Company's directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The New Share Option Scheme became effective on 4 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No share options have been granted under the New Share Option Scheme since its adoption on 4 March 2002. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options.



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## SHARE OPTION SCHEME (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

No share options were granted under the Previous Share Option Scheme for the period from 1 May 2001 to its termination on 4 March 2002. Notwithstanding the termination of the Previous Share Option Scheme, share options outstanding thereunder remain valid. Pursuant to the Previous Share Option Scheme, there were 10,580,000 share options outstanding as at 30 April 2002, which if fully exercised, would represent approximately 3.88% of the Company's shares in issue as at that date.

The following share options granted under the Previous Share Option Scheme were outstanding during the year:

Name or category of participant	Number of shares in respect of options				Date of grant of share options*	Exercise price of share options ** HK\$	Exercise period of share options outstanding	Price of Company's shares at date of exercise*** HK\$
	At 1 May 2001	Exercised during the year	Lapsed during the year	At 30 April 2002				
Directors								
Mr. Haywood Cheung	2,500,000	-	-	2,500,000	02/03/1998	2.8	02/09/1998 to 01/03/2008	-
Mr. Felipe Tan	500,000	-	-	500,000	20/01/1997	8.0	20/07/1997 to 19/01/2007	-
	1,750,000	-	-	1,750,000	02/03/1998	2.8	02/09/1998 to 01/03/2008	-
Mr. So Pak Kwai	30,000	-	-	30,000	20/01/1997	8.0	20/07/1997 to 19/01/2007	-
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	4,780,000	-	-	4,780,000				
Other employees								
in aggregate	50,000	-	-	50,000	20/01/1997	8.0	20/07/1997 to 19/01/2007	-
	5,750,000	-	-	5,750,000	02/03/1998	2.8	02/09/1998 to 01/03/2008	-
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	10,580,000	-	-	10,580,000				



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## SHARE OPTION SCHEME (continued)

No theoretical value of share options is disclosed as no share options were granted during the year.

\* *The vesting period of the share options is from the date of the grant until the commencement of the exercise period.*

\*\* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

\*\*\* *The price of the Company's shares as at the date of the exercise of the share options stated above is the weighted average of the Stock Exchange closing prices of the Company's shares immediately before the dates on which the options were exercised within the disclosure category.*

Summary details of the Company's share option scheme are also set out in note 33 to the financial statements.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time when the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional issued share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 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 2002:

<b>Name of company</b>	<b>Number of ordinary shares held</b>
Peakhurst Limited	34,530,090
RNA Holdings Limited #	34,530,090
Cheung's Enterprise Holdings Limited #	34,530,090
Haywood Shares Holding Limited	30,418,000

# *These companies are deemed to have interests in the same 34,530,090 ordinary shares held by Peakhurst Limited by virtue of Section 8 of the SDI Ordinance.*

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## **SUBSTANTIAL SHAREHOLDERS (continued)**

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section “Directors’ interests in shares” above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to 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 2002 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 40 to the financial statements.

## **PRACTICE NOTE 19 OF THE LISTING RULES**

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of a loan agreement which contains covenants requiring performance obligations of the controlling shareholder of the Company.





## **PRACTICE NOTE 19 OF THE LISTING RULES (continued)**

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 2002, the total outstanding amount under the Facility was approximately HK\$173,875,000 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 in a corporate controlling shareholder of the Company while the guarantee subsists. As at 30 April 2002, 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 12.67% of the total issued capital of the Company. Further details of this transaction are set out in note 41 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.

## **BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS**

### **Directors**

CHEUNG Yan Lung, CBE, OStJ, JP, aged 80, 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 30 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 49, 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 20 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.

# Report of the Directors

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## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS (continued)

### Directors (continued)

Felipe TAN, aged 47, is the Deputy Managing Director of the Company and a director of a number of subsidiaries of the Company. He has over 26 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.

SO Pak Kwai, aged 62, 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 38 years' experience in non-ferrous metals trading, gained mostly in Mainland China.

SIT Chun Sze, aged 51, 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 24 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 39, 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.

CHAN Ka Ling, Edmond, aged 43, is a certified public accountant in Hong Kong and a partner of Chan and Chan, a firm of certified public accountants practicing in Hong Kong. Mr. Chan was appointed as an independent non-executive director of the Company in September 2001.

IP Yin Wah, aged 55, 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 and resigned in September 2001.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 43 to the financial statements.



# Report of the Directors



## CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of 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 as required by paragraph 7 of the Code but are subject to retirement by rotation in accordance with the Company’s bye-laws.

## AUDIT COMMITTEE

The audit committee of the Company was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

## AUDITORS

Ernst & Young retire and a resolution for their re-appointment 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 2002