Management Discussion and Analysis

Bullion trading proved to be the most profitable division in the year under review. As gold price soared resulting from the Iraq war, weakening dollars, massive U.S. fiscal deficit, and accounting scandals in the equity market shadowed by terrorism in the world at large, the division witnessed a new interest in bullion trading in the retail market. Turnover of the year marked an increase of over 100% when compared with that of the previous year. But more significant, net profit showed a hefty increase of 300% over the same of last year, mainly due to cost rationalization and higher profit margin.

Without doubt, effort that the Group has been investing in the division during the last eighteen months has begun to bear fruit. The Board believes that the market still leave room for expansions and is determined to increase its market shares in the forthcoming year. Nonetheless, such optimistic mood prevailing in the bullion market could hardly propagate into the local equity market at all.

In the year under review, the Group's equity broking division was still impacted by among others, economic downturn, turbulent geopolitical climate, high unemployment rate and the SARS crisis. Moreover, accounting scandals in companies listed in the local exchange also severely damaged the confidence of investors, further souring market sentiment. Daily market turnover shrunk as a result, averaging about HK$6.4 billion when it was almost HK$7.5 billion in a year before. Eventually, the commission income of the operation experienced an inevitable contraction as much as 39%.

In order to alleviate the worsening situation, the division had to close down its branches further and undertake more intensive cost control measures. Simultaneously, the division had tried to market more equity related derivative products to our patrons, hoping to entice their interest to trade and provide hedging opportunities to cover their exposures, especially, in this period of uncertainties. As a result, the whole division had managed to achieve a net saving of 38% in operation expenditures, closely in line with revenue lost between the year under review and the previous year.

During the year under review, China has major growth in production capacity in the Aluminium industry, but surprisingly the market at the same time shown high consumption growth rate and supported the price of Aluminium. The Group's smelter, despite major increase in cost of raw material was able to maintain its performance. However, the smelter is facing an environmental upgrading to feed with overall requirements of the country. The group has not decided to go ahead on the technical conversion and is still watching the Aluminium industry's development. On the metals futures brokerage business, it had come to a time that although the business has grown so well, that the risks of the operation has became too big for the group to afford the operation, the management hence decided to sell off and cash in the profit. Nickel mining has gradually been improving its operation, however, lack of investment has been the restriction for its development, the group is looking into opportunities to raise further capital to pave for a faster development of the mines so as to increase the profitability of the operation.

PROSPECTS

As geopolitical uncertainties may be tempered with the quick resolution of the Iraq military conflict, on top of successive interest rate cuts by the Feds in jump starting the U.S. or even the world's economies, the Group expects to see more positive signs in the markets on the whole. In particular, around the second half of the new financial year. In addition, as Chinese economy continues to grow at its briskly rate, the open economy of Hong Kong is expected to benefit as well, and may be able to negotiate a slow turn around soon.

However, the Group is also mindful that the aftermath of the SARS outbreak on the local economy have yet to be fully revealed. It remains to be seen if the Hong Kong government could formulate an effective policy to minimize the damages caused and keep it from recurring.

Against this backdrop, the equity broking operation is prepared to streamline its operation further in anticipation of the worse, but at the same time is ready to realize any gains in case of market rebound. Indeed, the said operation may embark on a plan to provide trading related services to a number of small broking firms in exchange of user fees and certain undertakings. The benefit of which is to enable all participants of the scheme to share costs in proportion to their needs, while minimizing the chance of igniting a price war among the concerns resulting from government decision to liberalize the industry's commission structure in April 2003.

In addition, the Financial Service Division may decide to re-activate the trading right of its futures operation in the coming financial year if the relevant market is able to show more solid signs of turning a corner.

With respect to bullion trading operation, the Board expects bullion price will continue to surge attributable to bull technical trend and favorable fundamental factors, like continuing dollar weakness, exploding U.S. government's fiscal deficit, reducing gold sales by central banks, decreasing forward sales by producers, opening of Chinese bullion market and among others. The Board expects that rising bullion price will very likely attract more investors to diversify their portfolios into gold, while speculators will surely try to trade the market for quick profits. Sure enough, with all these market friendly sentiments supporting the operation, the Board expects its profit contribution to the Group will continue to increase in the year ahead.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 April 2003, the current ratio of the Group was at approximately 86.92% and the net current liabilities were approximately HK$19,952,000. The Group's gearing ratio, which was calculated based on the long term interest bearing borrowings and the shareholders' equity, was about 233%.

As at the balance sheet date, the Group's current assets fell below its current liabilities. The Directors have been working to improve the current liquidity of the Group.

CURRENCY STRUCTURE

The Group had limited exposure to foreign exchange rate 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 30 April 2003, the total bank loans amounted to HK$4,953,000 (2002: HK$180,415,000), which were secured by the bank deposits of a director of a subsidiary and certain plant and machinery of the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 30 April 2003, the Group employed a total of about 80 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 prevailing salary levels in the market. 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.

Haywood Cheung
Managing Director

Hong Kong, 5 September 2003