

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### **Executive Directors**

Mr. CHEUNG Yan Lung CBE, OStJ, JP (*Chairman*)

Mr. Haywood CHEUNG

(*Deputy Chairman & Managing Director*)

Mr. Felipe TAN (*Deputy Managing Director*)

Mr. SO Pak Kwai

Dr. CHANG Si-Chung

#### **Independent Non-Executive Directors**

Mr. CHIU Pak Yue, Leo

Mr. CHAN Ka Ling, Edmond

### **COMPANY SECRETARY**

Ms. KO Yuen Kwan

### **REGISTERED OFFICE**

Clarendon House

Church Street

Hamilton HM11

Bermuda

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

3rd Floor

Cameron Commercial Centre

468 Hennessy Road

Causeway Bay

Hong Kong

### **RESIDENT REPRESENTATIVE**

Codan Services Limited

Clarendon House

Church Street

Hamilton HM11

Bermuda

### **PRINCIPAL BANKERS**

Bank of Communications, Hong Kong Branch

Bank of China (Hong Kong) Limited

Industrial and Commercial Bank of

China (Asia) limited

Wing Lung Bank Limited

### **SOLICITORS**

Chiu & Partners

Richards Butler

### **AUDITORS**

Ernst & Young

Certified Public Accountants

15th Floor Hutchison House

10 Harcourt Road

Central

Hong Kong

### **PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE**

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

14 Bermudiana Road

Pembroke

Bermuda

### **HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE**

Tengis Limited

Ground Floor

BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong



## INTERIM RESULTS 2003/2004

The Board of Directors of Simsen International Corporation Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 October 2003 together with the comparative figures are as follows. These interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED For the six months ended 31 October 2003

HK\$'000	Notes	2003	2002
<b>Turnover</b>	2		
Continuing operations		71,551	60,966
Discontinued operations		–	–
		<b>71,551</b>	60,966
Cost of sales		(47,542)	(48,648)
<b>Gross profit</b>		<b>24,009</b>	12,318
Other revenue		1,569	3,901
Selling and distribution costs		(864)	(1,068)
Administrative expenses		(20,996)	(19,612)
Impairment loss on long term assets		(210)	–
Other operating expenses		(3,194)	(9,084)
<b>Profit/(Loss) from operating activities</b>	3	<b>314</b>	(13,545)
Finance costs	4	(2,775)	(5,970)
Share of results of:			
Jointly-controlled entities		2,736	3,032
Associates		–	(6,783)
<b>Profit/(Loss) before tax</b>			
Continuing operations		275	(23,109)
Discontinued operations		–	(157)
		<b>275</b>	(23,266)
<b>Tax</b>	5		
Continuing operations		(1,460)	(361)
Discontinued operations		(94)	–
		<b>(1,554)</b>	(361)
<b>Loss before minority interests</b>		<b>(1,279)</b>	(23,627)
Minority interests		549	(135)
<b>Loss attributable to shareholders</b>		<b>(730)</b>	(23,762)
<b>Loss per share</b>	6		
– Basic		<b>(0.18) cents</b>	(8.37) cents
– Diluted		<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**  
**31 October 2003**

HK\$'000	Notes	(Unaudited) At 31 October 2003	(Audited) At 30 April 2003
<b>NON-CURRENT ASSETS</b>			
Fixed assets		40,084	47,222
Investment properties		124,462	123,194
Interests in jointly-controlled entities		26,250	26,951
Interests in associates		(345)	(509)
Intangible assets		47,376	49,756
Investments in securities	7	7,289	7,399
Other long term assets		2,900	2,907
		<b>248,016</b>	<b>256,920</b>
<b>CURRENT ASSETS</b>			
Investments in securities	7	6,935	2,998
Inventories		6,652	7,993
Trade receivables	8	107,823	41,123
Prepayments, deposits and other receivables		7,466	45,795
Due from a related company		182	–
Gold on hand		174	153
Bank trust account balances		14,375	6,922
Pledged bank deposits		19,635	17,446
Cash and bank balances		13,823	10,148
		<b>177,065</b>	<b>132,578</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	9	109,620	83,291
Tax payable		9,616	8,928
Other payables and accrued liabilities		45,066	21,982
Due to related companies		1,543	5,470
Interest-bearing bank loans and other borrowings		19,511	32,859
Convertible note	10c	8,000	–
		<b>193,356</b>	<b>152,530</b>
<b>NET CURRENT LIABILITIES</b>		<b>(16,291)</b>	<b>(19,952)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>231,725</b>	<b>236,968</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans and other loans		5,344	–
Convertible note and bonds	10c	150,000	158,000
Deferred tax		20	20
Loan from a related company		4,000	7,109
Loans from directors		1,772	3,846
Due to a minority shareholder		1,595	–
		<b>162,731</b>	<b>168,975</b>
<b>MINORITY INTERESTS</b>		<b>1,831</b>	<b>128</b>
		<b>67,163</b>	<b>67,865</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	10	4,126	4,126
Reserves		63,037	63,739
		<b>67,163</b>	<b>67,865</b>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED**  
**For the six months ended 31 October 2003**

HK\$'000	2003	2002
Net cash inflow/(outflow) from operating activities	<b>1,830</b>	(20,121)
Net cash inflow from investing activities	<b>2,960</b>	28,656
Net cash outflow from financial activities	<b>(1,503)</b>	(5,402)
Increase in cash and cash equivalents	<b>3,287</b>	3,133
Cash and cash equivalents at beginning of period	<b>(1,758)</b>	(6,406)
Cash and cash equivalents at end of period	<b>1,529</b>	(3,273)
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<b>13,823</b>	12,620
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	<b>1,000</b>	-
Bank overdrafts, secured	<b>(13,294)</b>	(15,893)
	<b>1,529</b>	(3,273)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED**  
**For the six months ended 31 October 2003**

HK\$'000	Issued capital	Share premium account	Capital reserve	General reserve	Currency translation reserve	Non-trading investment revaluation reserve	Accumulated losses	Sub-total	Total
At 1 May 2003	4,126	254,516	-	1,117	222	31	(192,147)	63,739	67,865
Movement in fair value	-	-	-	-	-	28	-	28	28
Net loss for the period	-	-	-	-	-	-	(730)	(730)	(730)
At 31 October 2003	4,126	254,516	-	1,117	222	59	(192,877)	63,037	67,163
At 1 May 2002	2,726	225,494	4,176	722	(5,478)	53	(94,388)	130,579	133,305
Private placement	1,400	29,312	-	-	-	-	-	29,312	30,712
Exchange realignment	-	-	-	-	(183)	-	-	(183)	(183)
Movement in fair value	-	-	-	-	-	(13)	-	(13)	(13)
Net loss for the period	-	-	-	-	-	-	(23,762)	(23,762)	(23,762)
At 31 October 2002	4,126	254,806	4,176	722	(5,661)	40	(118,150)	135,933	140,059



## NOTES TO INTERIM FINANCIAL STATEMENTS

### 1. *Basis of preparation and accounting policies*

These interim financial statements are unaudited, but have been reviewed by the Company's Audit Committee. The unaudited interim financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The basis of preparation and accounting policies adopted in preparing these interim financial statements are the same as those adopted in preparing the Company's annual financial statements for the year ended 30 April 2003, except that the Group has adopted SSAP 12 (Revised) "Income taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of balance sheet liability method, whereby deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions. The adoption of new revised SSAP 12 represents a change in accounting policy. However, the accumulated deferred taxation in relation to prior years has not been restated as the effect of this change is not material to the current and prior periods' financial statements.

### 2. *Segmental information*

In compliance with SSAP 26, segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- the securities segment engages in bullion, securities and futures contracts broking and trading business, and margin financing;
- the shipment sales segment engages in shipment sales of metals, metal scraps and others;
- the mining segment represents the mining operations in Mainland China;
- the corporate and other segment comprises the holding of investment properties and loan financing, together with corporate income and expenses items; and
- the in-warehouse metals sales segment engaged in in-warehouse metals sales and was discontinued in the previous year.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

## 2. Segmental information (continued)

### (a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

For the six months ended 31 October

HK\$'000	Continuing operations								Discontinued operations		Consolidated	
	Securities		Shipment sales		Mining		Corporate and Others		In-warehouse metals sales			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Revenue:												
Sales to external customers	16,030	1,949	35,559	39,689	18,240	15,457	1,722	3,871	-	-	71,551	60,966
Other revenue and gains	464	247	171	-	17	-	848	978	-	-	1,500	1,225
Total revenue	16,494	2,196	35,730	39,689	18,257	15,457	2,570	4,849	-	-	73,051	62,191
Segment results	3,821	(11,635)	(552)	135	2,022	4,228	(4,989)	(9,240)	-	(157)	302	(16,669)
Interest, dividend income and unallocated revenue											69	3,124
Unallocated expenses											(57)	-
Profit/(Loss) from operating activities											314	(13,545)
Finance costs											(2,775)	(5,971)
Share of profits and losses of:											2,736	3,032
- jointly-controlled entities											-	(6,782)
- associates												
Profit/(Loss) before tax											275	(23,266)
Tax											(1,554)	(361)
Loss before minority interests											(1,279)	(23,627)
Minority interests											549	(135)
Net loss attributable to shareholders											(730)	(23,762)

### (b) Geographical segments

The following table presents revenue and profit/(loss) for the Group's geographical segments.

For the six months ended 31 October

HK\$'000	Mainland China		Hong Kong		United Kingdom		Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	Segment revenue:									
Sales to external customers	19,110	17,105	42,429	37,592	-	-	10,012	6,269	71,551	60,966
Segment results	1,995	2,516	(1,407)	(13,367)	-	(157)	(286)	(5,661)	302	(16,669)



### 3. *Loss from Operating Activities*

The Group's loss from operating activities is arrived at after charging/(crediting):

HK\$'000	For the six months ended 31 October	
	2003	2002
Amortisation charged	2,525	775
Depreciation charged	2,666	2,173
Cost of inventories sold	47,542	48,648
Loss on disposal of fixed assets	–	1,233
Unrealised holding (profit)/loss on trading investments	(4,734)	7,051
Gain on partial disposal of a subsidiary	–	(350)
Staff costs	8,872	8,915
Net rental income	705	(3,927)
Dividend income from listed investments	1	4
Provision for loss on other long term assets	210	–
Provision for doubtful debts	–	281

### 4. *Finance costs*

HK\$'000	For the six months ended 31 October	
	2003	2002
Interest on bank loans, overdrafts and other loans wholly repayable within five years	2,775	5,970

### 5. *Taxation*

HK\$'000	For the six months ended 31 October	
	2003	2002
Elsewhere than Hong Kong	689	–
Underprovision in prior period	94	–
	783	–
Share of tax attributable to associates	–	115
Share of tax attributable to jointly-controlled entities	771	246
Tax charge for the period	1,554	361

No provision for Hong Kong profits tax for the period under review has been made as the Group had no assessable profits arising in Hong Kong. The underprovision in prior period in respect of Hong Kong profit tax is calculated at 16% of the assessable profits arising in Hong Kong for 2002.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax asset in respect of unutilised tax losses carried forward, which are available to set off against future assessable profit, has been recognised as it is uncertain that these tax losses will be utilized in the foreseeable future.



## 6. Loss per share

- (a) The basic loss per share is calculated based on the unaudited consolidated net loss attributable to shareholders for the period of HK\$730,000 (2002: loss of HK\$23,762,000) and on 412,566,000 ordinary shares in issue (2002: weighted average of 283,979,000 ordinary shares).
- (b) Diluted earnings/(loss) per share for the periods ended 31 October 2003 and 2002 are not shown as the potential ordinary shares were anti-dilutive.

## 7. Investments in securities

HK\$'000	At 31 October 2003	At 30 April 2003
Non-trading investments:		
Listed equity investments in Hong Kong, at market value	76	41
Unlisted equity investments in Hong Kong, at fair value	485	485
Unlisted equity investments outside Hong Kong, at fair value	25,993	22,078
Less: Provision for impairment	(19,189)	(15,164)
	<u>6,804</u>	<u>6,914</u>
	7,365	7,440
Less: Portion classified as current assets	(76)	(41)
Long term portion	<u>7,289</u>	<u>7,399</u>
Trading investments:		
Listed equity investments in Hong Kong, at market value	<u>6,859</u>	<u>2,957</u>
Investment in securities classified as current assets:		
Non-trading investments	76	41
Trading investments	6,859	2,957
	<u>6,935</u>	<u>2,998</u>



## 8. Trade receivables

The Group has a stringent monitoring system on credit control and it normally trades with its customers under the following credit terms:

- (a) cash before or upon delivery;
- (b) letter of credit at sight or usance; or
- (c) open credit of 31-90 days.

An aged analysis of trade receivables is as follows:

HK\$'000	At 31 October 2003	At 30 April 2003
0 – 30 days	99,502	38,204
31 – 60 days	2,836	147
61 – 90 days	1,010	651
Over 90 days	5,797	3,443
	<b>109,145</b>	<b>42,445</b>
Provision for bad and doubtful debts	<b>(1,322)</b>	<b>(1,322)</b>
	<b>107,823</b>	<b>41,123</b>

## 9. Trade payables

An aged analysis of trade payables is as follows:

HK\$'000	At 31 October 2003	At 30 April 2003
0 – 30 days	109,229	81,286
31 – 60 days	363	818
61 – 90 days	–	–
Over 90 days	28	1,187
	<b>109,620</b>	<b>83,291</b>

## 10. Share capital

### (a) Shares

HK\$'000	At 31 October 2003	At 30 April 2003
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	500,000	500,000
Issued and fully paid:		
412,566,000 ordinary shares of HK\$0.01 each	4,126	4,126

## 10. Share capital (continued)

### (b) Share options

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.

At the Company's special general meeting held on 4 March 2002, the existing share option scheme (the "Previous Share Option Scheme") adopted in 1994 with a life span of 10 years was terminated and a new share option scheme (the "New Share Option Scheme") was adopted.

Under the New Share Option Scheme 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.

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



## 10. Share capital (continued)

### (b) Share options (continued)

Notwithstanding the termination of the Previous Share Option Scheme, the share options previously outstanding thereunder remain valid. Pursuant to the Previous Share Option Scheme, there were 10,500,000 share options outstanding as at 31 October 2003, which if fully exercised, would represent approximately 2.55% of the Company's shares in issue as at that date.

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

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
	At 1 May 2003	Lapsed during the period	At 31 October 2003			
<b>Directors</b>						
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
Other employees in aggregate	4,780,000	-	4,780,000			
	20,000	-	20,000	20/01/1997	8.0	20/07/1997 to 19/01/2007
	5,700,000	-	5,700,000	02/03/1998	2.8	02/09/1998 to 01/03/2008
	<u>10,500,000</u>	<u>-</u>	<u>10,500,000</u>			

\* 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.

## 10. Share capital (continued)

### (c) Convertible note and bonds

HK\$'000	Notes	At 31 October 2003	At 30 April 2003
2% convertible note	(i)	8,000	8,000
4.25% convertible bonds	(ii)	150,000	150,000
		<b>158,000</b>	<b>158,000</b>

(i) 2% HK\$8,000,000 convertible note due 2004

Pursuant to a subscription agreement dated 28 August 2002 entered into between the Company and 立億投資股份有限公司 (the "Noteholder"), which is a Taiwanese company owned by Helix Technologies Inc., a 2% convertible note due 15 October 2004 in the principal sum of HK\$8,000,000 (the "Note") was issued by the Company to the Noteholder on 16 October 2002. The proceeds from the issue of the Note have been utilised to provide working capital for the Group's operations.

The Note is convertible into ordinary shares of HK\$0.01 each of the Company at a conversion price equivalent to an arithmetic average of the closing prices of the shares of the Company during the 10 consecutive trading days immediately prior to (and excluding) the maturity date of the Note, i.e. 15 October 2004 (the "Maturity Date"). The Noteholder may, within the period of 30 calendar days immediately prior to the date which is 15 calendar days before (but excluding) the Maturity Date, elect to convert the entire Note at the conversion price. The Note was not converted into shares of the Company during the six months ended 31 October 2003.

(ii) 4.25% HK\$150,000,000 convertible bonds due 2006

Pursuant to a subscription agreement dated 12 December 2002 entered into between the Company and Industrial and Commercial Bank of China (Asia) Limited (the "Bondholder"), the 4.25% convertible bonds (the "Bonds") due 19 January 2006 in the principal sum of HK\$150,000,000 were issued by the Company to the Bondholder on 20 January 2003.

The Bonds are convertible into ordinary shares of HK\$0.01 each of the Company, in units of HK\$2,000,000, at a conversion price of HK\$0.25 (subject to adjustments). The conversion in full of the Bonds would, under the present capital structure of the Company, result in the issue of 600,000,000 shares of the Company. No Bonds were converted into shares of the Company during the six months ended 31 October 2003.

The Bank of Communications, Hong Kong Branch (the "Guarantor") guarantees the Company's obligation to repay the outstanding principal amount of the Bonds up to HK\$150,000,000. The interest payments of the Bonds are secured by rental income, rental deposits and insurance proceeds on certain properties and bank deposits of the Group.

The proceeds from the issue of the Bonds were utilised to repay the Group's bank borrowings owed to the Guarantor.



### 11. *Connected transactions*

During the period, the Group had the following connected 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:

HK\$'000	For the six months ended 31 October	
	2003	2002
Rental income received	815	815
Rental expenses paid	54	61

The monthly rental was calculated by reference to open market rates. The independent non-executive directors of the Company have reviewed and confirmed that the above transactions are in accordance with the terms of the agreement governing such transactions.

### 12. *Related party transactions*

(a) In addition to the connected transactions as set out in note 12 and those disclosed in other notes to these financial statements, the Group had the following material transactions with related parties during the period:

HK\$'000	Notes	For the six months ended 31 October	
		2003	2002
Loan interest paid to a related company	(i)	64	76
Net interest paid to a related company	(ii)	7	–
Management fee paid to a related company	(iii)	–	117
Management fee received from:			
– a jointly-controlled entity	(iii)	140	140
– a related company	(iii)	522	202
– associates	(iii)	160	386
Administrative fee paid to an associate	(iii)	–	85
Rental expense paid to related companies	(iv)	323	329
Services fees paid to related companies	(v)	31	621
Purchases of goods from a jointly-controlled entity	(vi)	28,744	9,815

(i) The interest paid to a related company arose from a loan from a related company which is unsecured, bears interest at the London Interbank Offered Rate plus 2% per annum and is repayable within the period up to 30 September 2005.

(ii) The interest paid to a related company arose from an amount due to a related company to whom a future account is maintained. The interest is charged at prime rate plus 1% per annum.

(iii) The management and administrative fees paid and received were based on actual costs incurred for the services provided.

**12. Related party transactions (continued)**

- (iv) The monthly rental payable was based on the actual cost incurred.
  - (v) The service fees were based on the actual cost incurred for the services provided.
  - (vi) The directors consider that the purchases were made according to terms and conditions comparable to those offered to other customers of the jointly-controlled entity.
- (b) Cheung's Enterprise Holdings Limited, a shareholder of the Company, has provided a corporate guarantee and undertakings in relation to its shareholding in a company which was a substantial shareholder of the Company for banking facilities granted to a subsidiary of the Company totalling HK\$56,328,000 as at 31 October 2003 (30 April 2003: HK\$56,328,000).
- (c) Mr. Haywood Cheung, a director of the Company, has guaranteed banking facilities granted to a subsidiary of the Company totalling HK\$32,000,000 (30 April 2003: HK\$32,000,000). As at 31 October 2003 and 30 April 2003 the Group had not utilised any of the banking facilities.

**13. Post balance sheet event**

Subsequent to the balance sheet date, the Group had the following transaction:

Pursuant to agreements dated 29 August 2003 entered into amongst Simsen (China) Investment Limited (the "Vendor"), a wholly-owned subsidiary of the Company, the Company, Alexis Resources Limited ("Alexis") and Belmont Holdings Group Limited (the "Purchaser"), a 43.53% equity interest in Alexis held by the Vendor and a portion of the outstanding loan of HK\$11,697,000 due from Alexis to the Vendor at that date were disposed to the Purchaser at an aggregate consideration of HK\$30,222,000 in cash. The Purchaser is a company incorporated in the British Virgin Islands with limited liability and is currently owned as to 0.01% by a minority shareholder of Alexis and the remaining 99.99% by four independent third parties. The disposal was completed on 14 January 2004. Further details of the transaction are set out in the press announcement of the Company dated 3 September 2003.

**14. Approval of the interim financial statements**

These interim financial statements were approved by the Board of Directors on 15 January 2004.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group posted a net loss of about HK\$730,000 for the period ended 31 October 2003. Turnover of the Group for the period under review was about HK\$72 million, an increase of about 17% from the same period last year.

#### **Financial Services – Securities Broking**

Hong Kong's fortunes were a picture of doom and gloom during the early part of the period under review. The sudden attack of SARS epidemic had almost single-handedly devastated both the local economy and the Greater China Region. Retail sector, especially, the tourist industry and all its related activities were hit hardest. Wheels and deals in Hong Kong's business world were ground to a halt all of a sudden.

However, investor sentiment was not seriously hurt against such a backdrop of pessimism and helplessness in Hong Kong. Surprisingly, turnover of the local securities market was relatively steady when compared to the turnover of the previous year. When SARS was tormenting Hong Kong in May 2003, market turnover registered a loss of 15% against the same period a year before. But that deficit was soon overlooked as the market witnessed a swift and strong rebound in the following months as soon as the SARS outbreak began to level off. In addition, Hong Kong government bowing to public pressure to shelf the unpopular article 23 legislation coupled with Beijing promises to help jumpstarting the local economy had also accelerated the pace of market recovery.

With investor confidence on the mend, trading volumes of the Group's securities brokerage division began to pick up. For the period under review, its total turnover witnessed an increase of 45% while the values of its investment portfolio managed an unrealised gain of 166% compared to those of the last interim period. With respect to financial risk, the division's risk management operation was able to reduce its doubtful debts to a quite insignificant level. The division believes that all these important factors are pivotal to the profitability of the operation, in spite of fierce competitions from banks and the removal of minimum commission rate for the period under study.

#### **Financial Services – Bullion Trading**

Amid the SARS crisis and the uncertainty of the Hong Kong economy, world bullion price continued to climb recording a rise of 15.6% between May and October 2003. Without any doubt, bullion business has successfully made a turnaround, asserting itself as one of the most favorable commodities to hedge against falling US dollar and terrorist scares.

While price volatility in the bullion market keeps attracting new clients into the arena, the Group's bullion trading division was unable to outpace what it managed to earn in the last interim period. In fact, its net profit was reduced by 61.4% on a year over year basis, attributable to trading loss and higher overhead to accommodate an increase of business volume.



## **BUSINESS REVIEW (*continued*)**

### **Base Metals**

During the period under review, the metal operations maintain its stability with Aluminium Smelter delivery of its contribution and mining operation becoming breakeven. The Group has decided to reduce its exposure to the volatile metal market and CAPEX pressure and hence has reduced its holdings in the mining operation for consideration slightly above HK\$30 million.

### **PROSPECT**

Aside from terrorist threats that may dampen the world investment community from time to time, record low interest rate, and the synchronous rebound of the world's three major economies, i.e. United States, Japan, and Europe are expected to benefit the world economy further in the second half of the fiscal year.

In addition, Beijing's decision in easing travel restriction of mainlanders to Hong Kong, Closer Economic Partnership Agreement initiative, establishing Hong Kong as an offshore Renminbi centre, and talk of permitting its residents to invest in the local stock market under the QDII scheme would also help to strengthen the local market sentiment. The division expects that more PRC companies would try to seek listing in the local exchange, as they must prepare themselves to compete with the world market under the WTO agreement, by way of Hong Kong's unique position as the prime gateway to access the international capital market. In return, hot money or long term investors are expected to join the cyclical rally, further invigorating the market at large.

The division anticipates its profitability would be further enhanced, if the above scenario could be realised in the near future. With proper risk management, and cost control, the division is confident that its professional team of staffers will make the best of the opportunity given, and be able to assert itself as one of the most reliable and consistent securities brokers in Hong Kong.

With respect to bullion trading, the Group remains very bullish about its future development. Among other things, commodity prices have to rise to offset US dollar depreciation, strong demand from India and China as well as central banks limiting their gold sales will continue to support bullion price. The Group expects trading activities would keep increasing as gold bug continues to arouse more public attentions.

For the period under review, incomes from commission and premium registered a hefty increase of over 80% over the same period last year, proofing that this business venture is ready for more upside surprises. To prepare for a better business prospect, the division is determined to exert better controls on trading exposures and will try to recruit more qualified staff to man the operation as business volumes keep expanding. The division trusts that its experienced traders and the rest of the team members aided by a more prudent risk control policy would be able to further strengthen its profitability in the years ahead.



## **PROSPECT (continued)**

Due to the market volatility, the Group will keep on the policy to streamline the metal operations. It is expected that the Group will gradually reduce its participation in metal trading. As a result, the turnover in shipment sale may be reduced substantially in future.

## **CORPORATE AND OTHERS**

This segment comprises the holding of investment properties and loan financing, together with other corporate income and expenses. Following the disposal of certain subsidiary and associates in the prior year, the related expenses/losses in this segment had reduced for about 50% as compared with the last period.

## **LIQUIDITY AND FINANCIAL RESOURCES**

Throughout the period under review, the Group is operating under a very tight financial environment. As at 31 October 2003, the current ratio of the Group was 92% compared to 87% at 30 April 2003. However, the financial health of the Group is substantially improved after the period ended by partial disposal of the interest in a subsidiary in January 2004 as detailed in note 13 to the financial statements.

## **CAPITAL STRUCTURE**

As at 31 October 2003, the Group has an outstanding convertible note for HK\$8 million bearing an interest rate of 2% and outstanding convertible bonds for HK\$150 million bearing an interest rate of 4.25%, which will be due for repayment in October 2004 and January 2006 respectively.

## **INVESTMENTS**

During the period under review, the Group did not acquire or dispose any significant investments, subsidiary or associate but the management will pursue the policy to dispose investment that only generate limited cash flow or even have negative contribution and acquire investments that can improve the Group's financial position.

## **GEARING**

The gearing ratio, which is derived by dividing the aggregate amount of bank borrowings, convertible bonds and other interest bearing loan by the amount of shareholders' equity, was increased from 131% at 30 April 2003 to 278% at 31 October 2003.

## 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 31 October 2003, the Group's total bank loans amounted to HK\$4,953,000 (30 April 2003: HK\$4,953,000), 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 31 October 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 the 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.

## CONTINGENT LIABILITIES

As at 31 October 2003, the Company had contingent liabilities not provided for in the condensed financial statements as follows:

HK\$'000	At 31 October 2003	At 30 April 2003
Guarantee for borrowing and guarantee facilities granted to subsidiaries	157,103	162,906

## OTHER INFORMATION

### INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 31 October 2003 (2002: Nil).



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

At 31 October 2003, the interests and short positions of the directors in the issued share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Interests in shares of the Company

Directors	Notes	Number of issued ordinary shares of HK\$0.01 each in the Company			Approximate % of shareholding
		Personal interest	Corporate interest	Total	
Mr. Cheung Yan Lung	(a)	–	4,000,000	4,000,000	0.97%
Mr. Haywood Cheung	(b)	–	61,370,000	61,370,000	14.88%
Mr. Felipe Tan	(c)	1,008,600	2,900,000	3,908,600	0.95%
Mr. So Pak Kwai		10,000	–	10,000	0.01%
Mr. Chan Ka Ling, Edmond	(d)	–	50,000	50,000	0.01%

#### Notes:

- (a) The shares under "Corporate interest", were held by Benton Shares Holding Limited, a company 99% owned by Mr. Cheung Yan Lung.
- (b) The shares under "Corporate interest", comprised:
- (i) 39,886,000 shares held by Haywood Shares Holding Limited, which is 99.99% owned by Mr. Haywood Cheung;
  - (ii) 8,684,000 shares held by Cheung's Enterprise Holdings Limited, which is 75% owned by Mr. Haywood Cheung; and
  - (iii) 12,800,000 shares held by iWin Limited, which is 75% owned by Mr. Haywood Cheung.
- (c) The shares under "Corporate interests" were owned by Mr. Felipe Tan through his personal investment company, Join Rich Investments Limited.
- (d) The shares under "Corporate interests" were owned by Mr. Chan Ka Ling, Edmond through his personal investment company, E-Source Holdings Limited.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES (continued)

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above and in the section under the heading "Directors' rights to acquire shares or debentures" below, as at 31 October 2003, none of the directors had any short positions in the equity or debt securities of the Company or its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 10(b) to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31 October 2003, the following persons (other than directors of the Company) had an interest in the shares and the underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of shareholder	Notes	Number of ordinary shares held	Potential shares under convertible bonds	% of total issued shares
Haywood Shares Holding Limited	a	39,886,000	–	9.67%
立億投資股份有限公司	b	60,000,000	–	14.54%
Helix Technology Inc.	b	60,000,000	–	14.54%
Industrial and Commercial Bank of China (Asia) Limited	c	–	600,000,000	145.43%
The Industrial and Commercial Bank of China	c	–	600,000,000	145.43%



## **SUBSTANTIAL SHAREHOLDERS (continued)**

*Notes:*

- a. These interests are also included as corporate interests of Mr. Haywood Cheung, as disclosed under the heading "Directors' interests and short positions in shares" above.
- b. 立億投資股份有限公司 is a subsidiary of Helix Technology Inc. and, accordingly, the interests of 立億投資股份有限公司 were included in the interests held by Helix Technology Inc.
- c. Industrial and Commercial Bank of China (Asia) Limited is a subsidiary of The Industrial and Commercial Bank of China and, accordingly, the interests of Industrial and Commercial Bank of China (Asia) Limited were included in the interests held by The Industrial and Commercial Bank of China.

Save as disclosed above, as at 31 October 2003, there was no person (other than the directors of the Company) who (i) had an interest or short position in the shares and underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein; or (ii) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of any other member of the Group (other than the Company) or any options in respect of such capital.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY**

The Company has not redeemed any of its securities during the period. Neither the Company nor any of its subsidiary companies has purchased or sold any of the Company's securities during the period.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 October 2003, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules, except that independent non-executive directors of the Company are not appointed for specific terms but they are subject to retirement by rotation in accordance with the Company's bye-laws.

## **AUDIT COMMITTEE**

The audit committee has discussed and reviewed with management the accounting principles and practices adopted by the Group and the financial reporting matters, including the review of the unaudited interim financial results for the six months ended 31 October 2003.

By Order of the Board  
**Haywood Cheung**  
*Managing Director*

Hong Kong, 15 January 2004