

MANAGEMENT DISCUSSION AND ANALYSIS



Business Review

For the financial year of 2003/04, the Group's turnover is about HK\$91,408,000, a increase of 13% when compared with the same of the last corresponding year. Loss attributable to shareholders decreased by HK\$97,179,000 to HK\$185,000. Management has confidence that the Group can be successfully turnaround in the year to come.

Financial Services

Hong Kong economy has recorded a V-shaped rebound following the end of the SARS outbreak since May 2003. Business sentiment has definitely recovered, spearheaded by a strong growth in tourism, export, retailing, and to a lesser degree, the property market and financial services as well. Deflationary pressure, which has been dogging global economic powerhouses, shows signs of receding. Hot money flowing both towards the red-hot market in China or to the local financial market was most notably evidenced during the mid-financial year of 2003/04.

The Group's stock broking division was quick to capitalize on this opportunity resulting in a much profitable return for the year under review. Both brokerage income and house investment have registered sizable gains, representing a combined increase of 115% over the same period of the last financial year. With respect to credit control, the division has strictly followed the risk control policy set by the management team. As a result, provisions to cover doubtful debts are quite negligible during the period under review.

For bullion trading, the division has suffered a trading loss of over HK\$1 million for the financial year ended 30 April 2004, reversing its gain of HK\$3.8 million in the previous year. Adverse market conditions coupled with a high leveraged trading attributed to such loss. The Group is determined to strengthen the division's dealing operation and may try to lower the level of leveraged position in order to reduce risk.

Base Metal

During the year under review, the Company followed the policy to reduce its exposure to the volatile metal market. The base metal division maintained only trading with selective clients while the Aluminium smelter contributed stably. The Group also disposed part of its investments in the mining operation during the year, realized a gain of about HK\$9,000,000.

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Prospects

The Group expects the bullish sentiment prevailing in the present financial service sector will carry over to the next year, though China's economic austerity measures, geopolitical threats, rising oil price and interest rate hike could be some of the negative variables affecting the market from time to time. However, the Group is of the opinion that a combination of market friendly factors is also at work here. Some of the factors, like the realization of CEPA (Closer Economic Partnership Arrangement), a reflatting local economy, continued influx of mainland tourists, robust economic recoveries in Japan and US markets can have more bullish and powerful bearings on the local financial market. Moreover, Hong Kong's eminent position as the hub for mainland firms looking for overseas listings and foreign capital are well established, promising a more healthy and vigorous Hong Kong stock market for the benefits for all its participants as well as the local economy.

Overall, the Group is cautiously optimistic that as most of the major economies of the world continue to rebound, Hong Kong will benefit as well. Market sentiment will remain strong as the year progresses. To seize the moment, the Group will try to provide more financial products and integrated services to the market. One of such attempts is to re-activate its futures operation while offering more diversified leveraged financial products to customers. The objective is to try to stabilize the profit or loss cycle often associated with the cyclical nature of the Group's core stock broking operation, in response to demands from different market segments at various time intervals.

Following the policy to streamline the metal operations, the Group is expected to participate in metal trading prudently and will further reduce its investment in the mining operation if a satisfactory bid can be located.

Other Segment

The corporate and other segment comprises the holding of investment properties and loan financing, together with corporate income and expense items. The results in this segment mainly comprised the revaluation surplus of about HK\$26 million for the investment properties, realized gain of about HK\$9 million on disposal of certain equity interest in subsidiaries, net of the corporate expenses of about HK\$20 million.

Capital Structure

As at 30 April 2004, the Group has an outstanding convertible note (the "Note") for HK\$8 million bearing an interest rate of 2% and outstanding convertible bonds (the "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.





Liquidity and Financial Resources

As at 30 April 2004, the current ratio of the Group was at approximately 111% and the net current assets were approximately HK\$8,113,000. The Group's gearing ratio, which was derived by dividing the aggregate amount of bank borrowings, convertible bonds and other interest-bearing loan by the amount of shareholder's equity, was approximately 251%.

Significant Investments, Material Acquisitions and Disposals

The management of the Company periodically reviews the return on all investment in order to adjust the investment portfolio by disposing investments that only generate limited cash flow or even have negative contribution and acquire investments that can improve the Group's financial position. During the year under review, certain equity interests of subsidiaries were disposed. The disposal of such equity interests resulted in a gain of about HK\$9,000,000.

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 year. Hence, there is no significant exchange risk.

Charges On Group Assets

As at 30 April 2004 all leasehold land and buildings and investment properties in Hong Kong with net book value of HK\$38,034,000 and \$135,366,000 respectively were pledged to secure banking facilities of the Group.

Employee and Remuneration Policy

As at 30 April 2004, 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.

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Contingent Liabilities

During the year under review, the Group disposed part of its interests of Alexis Resources Ltd. (“Alexis”) to Belmont Holdings Group Ltd. (“Belmont”) and the Company guarantees the payment of a dividend of not less than HK\$2,740,000 and HK\$913,000 of Alexis to Belmont for the years ending 30 April 2005 and 30 April 2006 respectively.

Haywood Cheung

Managing Director

Hong Kong, 25 August 2004